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Budget Must Be Cut Deeply

By Hon. JOS. W. MARTIN, Jr. *
Speaker of House of Representatives

Holding Federal budget can be trimmed without foregoing essential services and tremendous savings accomplished by many small economies, Speaker Martin urges total saving be distributed between debt and tax reduction. Wants a good neighbor policy in labor-management relations without power of any group to strangle economic progress.



Hon. J.W. Martin, Jr.

A new Congress, functioning under a complete new committee system, has been organized with dispatch. The committees have settled down speedily to the serious tasks of shaping new policies and programs designed to put our country back on the American track. Policies which have been built up under 14 years of the New Deal must be reconsidered, and in many instances, completely (Continued on page 753)

*A talk by Speaker Martin before Norfolk County Republican Club, Wellesley, Mass., Feb. 3, 1947.

Aspects of the Economics of Over-Full Employment

By Dr. BERTIL OHLIN*

Professor of Economics, University of Stockholm

Defining over-employment as a condition where vacancies in jobs exceeds unemployed workers, noted Swedish economist holds a situation of this kind arises from excessive demand for investment. Contends it is impossible to have over-employment without bottlenecks and maladjustments, and therefore advocates control of investment. Would have employment only high enough to stimulate business men into rationalization, and concludes a balanced economy can be maintained only when number employed equal jobs.

The Norwegian dramatist Ibsen has made the statement that a truth usually lasts about 20 years. Sometimes one gets the impression that a scientific truth which has been widely accepted in the social sciences does not last even so long as 20 years. However, it would probably be more correct to say that the fashion changes are rapid and radical at least in economic science. By this comparison I do not mean to imply that these changes are arbitrary or artificial. As we change clothes with the climate, so economists vary their problems when new economic situations make them relevant and important. But in economic science we all seem inclined to overemphasize the things that dif-



Dr. Bertil Ohlin

(Continued on page 760)

*An address by Dr. Bertil Ohlin, as the first of the 1947 series of Julius Beer lectures at Columbia University, Feb. 3, 1947. The series will include six lectures under the general title, "The Problem of Employment Stabilization."

Technical Background of the 1947 Stock Market

By JAMES F. HUGHES

Market analyst traces the historical background of recent market break. Sees less fundamental justification for the 1946 concentrated collapse, than for any previous abrupt telescoping of the price structure. Concludes that, similar to market behavior following previous "multiple-climax" collapses, we can now expect significant market.

People interested in the stock market were shocked and bewildered by the speed and violence of the early September decline.



James F. Hughes

A study of some of the technical facts back of this decline helps to explain why and how it occurred. Furthermore, some understanding of past technical history will prove helpful in attempting to project the probable future course of the market.

Thus, for the sake of the past and the future, it is desirable to have a thorough understanding of the following technical facts:

- 1. The big bull market of 1942-1946 was bigger than generally realized.

(Continued on page 759)

The Vanishing Paycheck

By HARLEY LUTZ

Professor Public Finance, Princeton University

Dr. Lutz attacks CIO brochure entitled "The Case of the Vanishing Paycheck," pointing out what he considers false or misleading statements. Says brochure pads tax payments which workers make and distorts figures. Contends opposition to flat percentage tax cut may lead to renewed Federal deficits and further monetary inflation, thus leading to reduced purchasing power of workers' dollar. Warns workers should not depend on CIO leaders for tax information.



Dr. Harley Lutz

The CIO has recently issued a brochure entitled "The Case of the Vanishing Paycheck." Since the title is in the best Earle Stanley Gardner manner, one naturally expects a "Who-dun-it." This expectation is borne out by an explanatory note which relates that it is a tale of robbery. The hero is being robbed by unfair taxes. The role of Perry Mason is taken by the shop steward.

The case of the vanishing paycheck is said to have been prepared by a "tax expert," but the author is not otherwise credited or identified. In view of the numerous errors, and the non sequitur which is offered as a conclusion, anonymity is merciful.

The tract deals with the experience of Johnny Poore who, upon returning from the army, took a wife and went back to his old job at a wage of \$45 a week, as against the \$32 a week he had been receiving when he joined up in 1940. We are told that the union had won a strike at Johnny's plant while he was away which, (Continued on page 775)

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The Good Economy and the Science of Economics

By WALTER E. SPAHR*

Professor of Economics, New York University

Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr, contending there is no justification for change in our economy, denounces movement toward more powerful central government and its interference with political and economic freedom. Upholds free and fair system of competitive economy and maintains no government can have efficiency or intelligence of whole people, who are free to vote their dollars as they think best. Holds government's function is to provide peace, and not permit "trial by battle" as exemplified by strikes and labor violence. Objects to compulsory arbitration or labor courts, and opposes government competition with private enterprise. Criticizes Keynesian and "pseudo economists" and concludes laws alone cannot solve economic problems.

In the 158 years since the adoption of our Constitution, the people of this country have reached the highest level of living of any nation on earth. They have accomplished more and have done it in less time than any other people in the history of the world.

This unprecedented accomplishment was launched in an atmosphere marked by a growing belief in individual freedom and the virtues of private enterprise, and at the end of a series of rebellions of people here, in England, and on the Continent against strong central autocratic governments.

The system of private enterprise and private capitalism, which made such progress possible, rested upon the corner stones of private property, freedom of contract, freedom of enterprise, and freedom of exchange. These basic freedoms were exercised amidst a widespread belief in the virtues of free and fair competition, the



Walter E. Spahr

generally-accepted theory and practice of government being that government should lay down and enforce such rules and regulations as were necessary to preserve and to insure such competition. Belief in the freedom and importance of the individual, regardless of inherited qualities or economic status, aside from the period and

area of negro slavery in this country, gradually spread and probably has attained the highest degree of acceptability ever reached in any country in the history of the world.

Yet, in the face of these great attainments—the greatest that the world probably has ever seen—

(Continued on page 762)

Money and the Security Markets

By DR. MELCHIOR PALYI*

Asserting there is no computable relationship between volume of money and prices, Dr. Palyi points out expectation of increased money volume is factor in raising price level. Holds there is parallel between decline in security loans and security quotations and rise of commodity prices and loans flowing into commodity markets. Says huge volume of liquid savings and accumulation of investment funds make "a cheap money policy tick." Maintains, in view of a balanced budget, stability of dollar's gold content is rock underlying all monetary considerations of our market place. Concludes inflation *per se* is no boon to stock market unless profits are inflated and says either a "bang" will come soon, or the market may again advance.

There is no mechanically fixed and computable relationship between the volume of money and the general price level. To fore-

cast an "equilibrium price level," whatever that means, on the basis of total money supply, as some analysts do, indicates a revival of the naive quantity theory which has been relegated long ago to the museum of economic fallacies. It ignores monetary velocity, i.e., the greater or lesser willingness of the public to spend and invest. It



Dr. Melchior Palyi

neglects such essential questions as the difference between an economy in full employment and one loaded with under-employed resources; between balanced and unbalanced budget; whether the economic machine operates on a narrow liquidity basis as in the 20's, or on the opposite pattern as at present; whether or not the currency is depreciating against gold; etc. It is just as naive as it is counterpart: that the price level is automatically determined by the gold content of the dollar (the Roosevelt-Morgenthau illusion underlying the devaluation).

What can be stated safely and in a general way is that monetary expansion stimulates spending especially so under conditions of a high level of employment and of liquidity. Under those circumstances, costs and prices tend to rise. Reduction of the monetary volume has the opposite effect. A mere stopping of the rise might do the trick, depending on the volume of speculative commitments. However, the impact of a change in the money-quantity up

(Continued on page 766)

*An article written for the "Chronicle" which is based on an address by Dr. Palyi before the Muskegon Chamber of Commerce, Muskegon, Mich., Feb. 4, 1947.

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Political and Monetary Aspects of Real Estate Situation

By THOMAS I. PARKINSON*

President, Equitable Life Assurance Society of New York

Mr. Parkinson traces insurance company experiences with real estate mortgage and equity investments, and cautions against extravagant use of recent authority given life insurance companies to make real estate investments. Holds Federal regimentation and interference has hindered housing development, and attacks its encroachment on state and local powers. Points out inflationary effects of Federal Fiscal Policy, and criticizes pattern of low interest rates. Sees danger of further inflation and another depression.



T. J. Parkinson

I thought in the early '20s that our Equitable activities in the real estate field were confined to investment in mortgages on property which other people bought and sold and managed. We used to emphasize the fact that we could not buy real estate; that is, could not buy the equity in real estate. We found, however, in the early 30s, when voluminous foreclosures became necessary, that we had really bought an awful lot of real estate when we thought we were investing in a limited mortgage interest. We learned that when mortgage investors become too optimistic or follow the advice of optimistic appraisers, they are in danger of becoming owners by indirection and accidentally incurring the responsibilities of man-

agement. But I do not want to give the impression that we suffered serious detriment. Certainly we experienced many new thrills as foreclosures put hundreds of million dollars worth of real estate into hands of life insurance companies and other mortgage investors and imposed upon us the problems of operation, management and ultimate sale. On the whole, we came through that experience without serious loss of

*An address by Mr. Parkinson before the Real Estate Board of New York, New York City, Feb. 1, 1947.

(Continued on page 778)

Letter to the Editor:

"Open the Door, Mr. Hanrahan, and We'll All Go to Never, Never, Land!"

Editor, Commercial & Financial Chronicle:

If I were an editor writing an article on the speech SEC Commissioner, Edmond M. Hanrahan, made last Wednesday before the Association of Customers' Brokers, I would choose as my title, "Open the Door, Mr. Hanrahan, and We'll All Go to Never, Never Land!" and it would read something like this:

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(Continued on page 776)

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Adjusting SEC Requirements To Business

By JAMES J. CAFFREY*

Chairman, Securities and Exchange Commission

Commissioner Caffrey, in pointing out need for mechanism to provide channel for flow of savings into production, holds aim should be to provide continued health, vitality and honesty in securities markets. Holds regulation is no bar to legitimate business and purpose should be implementation of responsibilities of corporate management to public. Outlines methods of securities registration and plans for streamlining registration statements and easing process of offerings. Calls for more protection of stockholder's rights.

One of the major functions of our financial mechanisms is to provide a channel between savings and production. The financial

process justifies itself only to the extent that it serves well the need of the investor to find profitable outlet for his savings and the need of industry to have access to the national pools of saving. That is easy to see when you are looking at underwriting, whose primary function is to effect the public distribution of new securities. But it is equally true of those parts of the financial mechanism which are concerned with trading in securities already issued; that is, the securities exchanges and the broad trading markets apart from the exchanges—the so-called over-the-counter markets. These markets have a direct and material effect on the financing of industry. The "tone," "temper" and



James J. Caffrey

"stability" of markets may determine whether a particular financing planned by a business management may be accomplished at a particular time and will have a direct bearing on the price of the issue.

In a broader sense the continued health, vitality, and honesty of the trading markets are essential to the continued financing of American industry by our traditional methods. As long as there are investors there will be securities markets. And as long as business continues to call upon investors' savings it will be necessary to keep up the American investor's confidence that he can buy his investments on the basis of adequate knowledge about the facts, trade them in markets free of manipulative influences, and hold them without fear that insiders are abusing their advantages.

Regulation No Bar to Legitimate Business

It is the short view that securities regulation is a bar to legitimate business. It is the long view that business and investors have a common interest in the maintenance of sound standards of corporate management.

(Continued on page 776)

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BUSINESS BUZZ



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Is CIO Demand for a Guaranteed Wage Practicable in Steel?

By ELISHA M. FRIEDMAN
Consulting Economist

Mr. Friedman holds that a guaranteed annual wage now demanded by steel union cannot work; that no guarantee has been successful except under very limited conditions and only in consumers' goods industry, and that steel industry is not the place to begin a wage guarantee. Asserts, however, more stable employment is possible and would benefit workers, employers and the entire economy, and that such experiments should be encouraged. Concludes whereas Russia stabilized employment at starvation wages and loss of liberty, America could stabilize employment at high wages under freedom.

I.

The CIO Demands a Guaranteed Annual Wage in the new steel contract now being negotiated. Is such a guarantee possible? Is stabilized em-

ployment a feasible alternative? What are the pros and cons?

ter. But industry is subject to violent fluctuations in orders and output. Therefore, wages fluctuate correspondingly. Herein lies the dilemma.

II.

Stabilized Employment Is Needed Both by Employees and Employers. The demand for stabilized employment is based on the requirements of the

worker's family budget. He has constant and continuing requirements for food, clothing and shelter. But even the employer needs stabilized employment. It helps him to keep his organization intact, to retain key men and efficient workers. Indeed, the entire economy needs stabilization. For every employer is affected by the discharge of the workers in other industries.

Stabilization of wages was first urged by employers. Indeed, practically all plans were undertaken at their initiative. The CIO demands are an encouraging sign that the workers are becoming in-

(Continued on page 764)



Elisha M. Friedman

worker's family budget. He has constant and continuing requirements for food, clothing and shel-

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

Atrophied since 1933, Republican congressional leadership finds itself today without mental—or muscular—coordination to function effectively in majority control. That explains the rash of self-appointed policy proclaimers, the conflicting public pronouncements which confuse the public. GOP steersmen lack toughness, persuasion, and cohesion. They'll be at the mercy of Democratic gadflies until they consolidate their ranks.

This Republican free wheeling is especially notable on three major issues: (1) tax revision, (2) labor reform, (3) tariffs. It will retard, may bend needed refurbishment of the national economy.

Reciprocal trade pact revision also finds Republican leadership awry. In fury, House Republicans can be expected to proceed with their scheme to pass a toothless resolution asking President Truman to postpone tariff reductions. They're without any pledge Senate Republicans will do likewise—and probably Senate Republicans won't. That stimulates State Department tariff negotiators to hah and continue their negotiations. Major change in the trade program looks unlikely.

Republican family brawl over tax reduction emphasizes the woeful weakness of House Re-

publican steersmen. This lack of leadership revenue unity makes scientific revision unlikely, strengthens the coalition demanding that tax rescheduling be a vehicle for social reform, may penalize the high bracket taxpayers and thereby discourage release of risk capital needed for industrial development. Right now that kind of reformer holds the tiller.

Labor legislation likewise highlights absence of Republican cohesion. Senate and House Republicans are competing for attention on this issue, are racing to be first on the floor with a labor bill. To date, Republican boss men have been unable or unwilling to caucus and concur on any primary approach to labor law alterations.

Notable is the fact that not even yet, two months after Congress convened, have those re-

(Continued on page 771)

Observations

By A. WILFRED MAY

THE MEETING SEASON IS ON The Minority Stockholder Has a Day in the Sun

The company "meeting season" once more is on in full bloom. And once more the annual gatherings of banks and corporations are being enlivened by the handful of protesting minority stockholders who are the self-styled protectors of the "downtrodden" American shareholder. Such enlivening has taken the form of dramatic events as the demand on the presiding officer of one of the world's largest banks that dividends be increased as a counterpart to employees' cost-of-living bonuses; a 32-minute delay occasioned by a motion for a two-week adjournment so that stockholders could read the annual report in advance of their session; protests against officers' salaries (with one bank president characterizing that talk as "cockeyed"); a suggestion that stockholders sit in on union contract negotiations; objection to election of a director accused of juggling expense accounts; and, conversely, extending praise of one institution's annual report.

While the existence and activities of these voluble attenders of meetings are not of themselves crucially important or effective, they are significant in highlighting the broad political and economic implications of the owner-stockholder relationship. Hence we shall first depict some of the activities and purposes of the most active of these gentlemen; and then weigh the significant elements composing the background thereof.



A. Wilfred May

Minority Stockholder Number One

The most aggressive and active of these individuals appears to be Lewis D. Gilbert, sometimes known as "America's Minority Stockholder Number One." This year he expects to attend between 90 and 100 meetings of leading companies of which he is the registered and beneficial holder of from 10 to 100 shares. If the time or locale of different meetings happens to conflict, he sends his younger brother John, or some other fellow-investor sympathetic to his cause and versed in his technique, to act in his place.

His past conduct at meetings has ranged all the way from a near fisticuff bout with the President of the Bethlehem Steel Company, to successful intercession with a utility company head on behalf of a housewife-stockholder who needed a new stove.

While Mr. Gilbert is still regarded as an eccentric nuisance in some quarters, with the passage of time his activities have become more directed and specific; and presiding corporate officials deem it good policy to answer his questions as fully and patiently as possible.

Gilbert reports to his group of small-stockholder clients (whom he serves without compensation) in several ways. After some meetings, particularly when management fails to issue an official report like Standard Oil Company of New Jersey, he issues his own summarized version of the proceedings. Additionally he and his brother distribute an annual report, "Our Activities At Stockholder Meetings" (consisting of six pages in 1946), in which are cited the most significant happenings encountered by them. These two kinds of report, together with the requests for proxies, are the only communications Gilbert has with his "proteges."

These attenders of meetings constitute an entirely different category of stockholder-protector than the former prevalent variety of "strike-suit" lawyers, most of whose efforts were devoted to court

(Continued on page 754)

Right and Wrong Ideas About Stocks

By L. O. HOOPER*

Market Analyst, W. E. Hutton & Co.

Analyst describes changed character of the stock market, mostly resulting from New Deal securities legislation; and offers practical suggestions regarding constructive attitude to be shown by investors. Notes long-term decrease in Stock Exchange turnover. Urges investors to improve their own psychological approach to their investment policy. Cites fault of overemphasizing non-recurrent factors in measuring value and prices, and cautions against too-frequent portfolio changes.

The essential character of the stock market has changed since the 1920s. We no longer have pools. Insider manipulation has been



L. O. Hooper

ways followed. The ethics of the business constantly have improved. The quality of the merchandise handled, taken on the average, is very much better than that in which our fathers and grandfathers dealt. The business formerly had a relatively small public; today probably at least 10% of the population is interested, either actually or potentially, from time to time in what is going on in the financial markets.

As a result of these changes, the

*Extracts from an address before Massachusetts University Extension Course at Boston Public Library, Jan. 15, 1947.

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Favorable Factors in Beet Sugar Shares

By R. H. BURTON

Asst. Sec'y and Asst. Treas., Edward L. Burton & Co., Salt Lake City

Writer cites as favorable developments in beet sugar industry: (1) perfection of pest resisting seed; (2) farm mechanization; and (3) improved processing. Holds beet sugar equities should sell on a higher price-earnings ratio.

It is believed that the present market appraisal of leading beet sugar equities does not take into account important developments which have taken place in the industry in recent years. These developments are: (1) the perfection of resistant beet seed, (2) the mechanization of sugar beet farming and, (3) improvements in sugar processing methods.

Several years ago, one of the greatest hazards in the beet sugar industry was the possibility of a crop failure. Crop failures were not primarily due to climatic conditions, but rather the result of pests which attack healthy beets during the growing season. The losses from the attacks of pests, particularly the white fly, became so serious in some areas, that sev-

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Current Conditions Affecting Investments

By MARCUS NADLER*

Professor of Finance, New York University
Consulting Economist, Central Hanover Bank and Trust Co.

Dr. Nadler, in calling attention to hardships created by inflation on pensioners and life tenants under trust funds, urges more interest in bringing an end to inflationary forces. Advocates among other things a balanced budget, high taxes, increased productivity and lower farm and commodity prices as well as more imports. Favors giving more discretion to trustees in matter of investments and recommends favoring life tenant rather than remainderman. Sees no hedge against inflation by individual and calls for better ways and means to stabilize our economy.

No group of people was harder hit during the past few years than the recipients of pensions and individuals dependent on income from



Dr. Marcus Nadler

fixed-income-bearing securities. This applies to a large number of beneficiaries of trusts, where the trustee is restricted in his investments to the purchase of legal obligations; namely, bonds and mortgages. The beneficiary of a trust was hit by the sharp decline in the purchasing power of the dollar, by the reduced return from high grade bonds, and by the substantial increase in taxes.

Since 1939 the purchasing power of the dollar has been cut in half. The index of the cost of living, as published by the Bureau of

*An address by Dr. Nadler before Mid-Winter Trust Conference of the American Bankers Association, New York City, Feb. 5, 1947.

Labor Statistics, rose from 98.6 in August, 1939, to about 152 at the present time. The return on AAA corporate bonds decreased from an average of 3.25% in September, 1939, to about 2.65% at the present time. Notwithstanding these developments and the drastic reduction in real income of trust beneficiaries, if during this period a trust company kept the value of the estate intact in terms of dollars, it fulfilled not only its obligations to the beneficiary but also the wishes of the testator or grantor. The only one not satisfied is the life tenant whose real income has been halved over a period of less than a decade.

Inflation, or a constant decrease in purchasing power of a currency, is the greatest menace to the beneficiary of a restricted trust fund, the pensioner and the individual who depends on a fixed income. His welfare depends to a very large extent on the purchasing power of the currency and yet how often does a testator or grantor consider this factor and

(Continued on page 773)

NYSE Weighing Desirability of Closing Down Saturdays and Lengthening Trading Hours

Many members of Exchange, particularly in New York, would want Exchange to close if the banks did. Opinion divided on question, however. Brokers in Middle West reported opposed to proposition.

The practically certain possibility that New York banks will close on Saturdays is, in effect, forcing the New York Stock Exchange

to weigh the desirability of Saturday closings for itself. Many members of the Exchange, it seems, would want the Exchange to close Saturdays if the banks did.

Informal discussions which have been held on the subject reveal that opinion on the question, even in New York, is by no means unanimous. A healthy difference of opinion exists. Consequently, the Exchange is moving slowly and cautiously in the matter. Emil Schram, President, who has been visiting different parts of the country on Exchange business has been discussing the subject, too, with those members of the Exchange in other cities with whom he has come in contact. The Middle West generally is rather cool to the proposition since Saturday is an important business day in that region but the West Coast is inclined to favor it, he has reported.

Closely allied with the subject of Saturday closing is another suggestion which the Exchange has advanced that perhaps trading hours should be extended—if the Exchange does close Saturdays—and on this suggestion, too, the Exchange is likewise seeking out opinion through numerous informal discussions with the various members.

The suggestion is that trading hours be extended a half hour or a whole hour each day. The half hour could come either at the beginning or at the end of the day, that is, the market could be kept open either from 9:30 a.m. to 3 p.m. or from 10 a.m. to 3:30 p.m. Were the market to be kept open an entire hour more, the trading

hours could be from 9:30 a.m. to 3:30 p.m. It is known now that brokers in the West are generally opposed to the earlier opening of the market since, in their opinion, they must commence working early enough as it is. Trading hours on the West Coast at present are from 7 a.m. to 2:30 p.m.

This Western opposition would tend to rule out the possibility of an earlier opening than now. In fact, in San Francisco this week, Mr. Schram did say the Exchange would not consider an earlier opening hour. That there are factors on the credit, if there are some on the debit side of the ledger on this issue so far as the West Coast brokers are concerned is indicated by Mr. Schram's further statement in San Francisco that the primary purpose of adding more time to the trading day is to benefit the West, as the securities business, with the population, appears to be moving westward.

It will be the Board of Governors of course which will have the final say on these matters. At the moment, it would seem that the Board won't even attempt to reach a decision on these questions immediately, perhaps not until June or so. One likely possibility is that, should the Board decide it that way, permanent Saturday closings may be initiated merely as an extension of summer closing on Saturdays, provided naturally the Exchange decided first to keep open only five days a week this coming summer as last.

Survey of Potential Municipal Issues

By FREDERICK TILNEY, JR.
Tilney & Company, New York City

Mr. Tilney reviews conditions which point to expanded state and municipal borrowings during the present and coming years and points out total emissions to the end of 1951 will approximate \$19 billion. Foresees large issues for housing and airports and almost 4 billion dollars for soldier bonuses. Breaks down analysis by states and concludes new municipal bond issues will greatly exceed maturities in next five years.

During the past five years the normal flotation of tax-free bonds was greatly curtailed. The reduction in the amount of such issues



Frederick Tilney, Jr.

was due primarily to shortages of materials and labor. During hostilities, population increased about 10% and all the public improvements completed up to the time of the war are now five years older. Maintenance was curtailed and the normal rate of obsolescence accelerated.

With the country once more returning to something like normal, the deficiencies in the municipal and state programs of building and improvement can be made up. In theory we will have to add 10% to our municipal and state plants

to equal our growth in population. At the same time we will have to take care of obsolescence and catch up on the maintenance work that was neglected during the war.

Costs have risen tremendously so that all municipal and state building programs will cost considerably more than in 1941.

During the years of the New Deal, many innovations were added to local, State and Federal Government activities. These new services are now accepted functions of Government and will continue to grow and increase even though the political climate has changed.

A survey of future potential issues was made recently by "The Daily Bond Buyer" as of Nov. 15, 1946. It indicated that a total of over 4½ billions of new bonds were soon to be issued. Since that time, a number of items have been

(Continued on page 756)

Haskell Reinstated as Customer's Broker

Returns to Former Job Tomorrow

Tomorrow William H. Haskell goes back to work for his old employers, E. F. Hutton & Co. at 61 Broadway. It will be recalled, Haskell's registration as a customer's broker was cancelled a month ago by the New York Stock Exchange because in General Sessions Court, where he had been called as a prospective juror in the trial of Alvin J. Paris charged then with attempt to bribe two professional football players, Haskell had referred to the securities industry as a "gambling business."

Now, apparently, all has been forgiven and Haskell becomes a customer's broker again. All this is as it should be and the New York Stock Exchange and E. F. Hutton & Co. are to be complimented for reversing their original position in the case. In the beginning, E. F. Hutton & Co. was reported inclined to agree with the justice of the action taken by the Exchange in the matter. It takes big-mindedness and statesmanship of a rare quality to admit error, especially one upon which public attention has been focused for some time. Haskell, too, very likely, pleaded his case well with Emil Schram, President of the Exchange, and the others and must have been willing to go at least half way in making such amends as the Exchange and his former employers thought necessary.

Since the entire Haskell incident is one which will probably not be forgotten immediately, it is fortunate that it has a happy ending. After all, Haskell was not guilty of any breach of the ethics of the business to which he has devoted the last ten years and more of his life. To have penalized him so severely for a mere expression of opinion would have been wrong, very wrong, indeed. All of Wall Street must find occasion for rejoicing that what was reported merely as a "rumor" in the "Chronicle" of two weeks ago—that Haskell would return to his old job on Feb. 7—is coming true.

Says Anglo-Canadian Wheat Pact Does Not Violate US-UK Loan

In reply to an inquiry, Secretary Snyder has written Representative Howard Buffett of Nebraska expressing the Administration's view that the Anglo-Canadian wheat agreement of last July does not involve violation of the US-UK Loan agreement.

Status of Aviation Industry

By HON. W. AVERELL HARRIMAN*
Secretary of Commerce

Secretary Harriman, though stressing importance of aviation and noting its growth, contends we are not yet in the Air Age. Scores "overselling" the public on status of industry, but maintains industry is on a sound basis. Blames airplane lines for advertising when facilities were inadequate. Poses as problems of aviation: (1) improvement of facilities and services; (2) new methods of control; (3) making possible consistent all-weather operation, and (4) increased safety.

As one of your public—as one of the millions of Americans who are deeply interested in aviation but who are not professional members of



W. Averell Harriman

its fraternity—I want to discuss with you in a realistic manner some aspects of the present status of aviation.

As Secretary of Commerce, I have my share of responsibility in these things I am about to say.

First, I want to make it clear that I share with you all an implicit faith in the present and the future of aviation. Aside from my vital interest in aviation as a part of official responsibilities, I am an enthusiastic advocate of it for personal and business uses. Long before the war, I was using the airways to facilitate my work, and during the war I could not have carried on my job had I not been able to travel by air. Time would not have permitted most of the some 30 trans-Atlantic crossings that I made if I had been forced to travel by slower means, and today, whenever it is possible, I am still using the airlines on every trip I make. My family, also, travels by air—with my full approval.

From the national economic standpoint, aviation is already a vital necessity, and it will every year become more so. By the speed with which businessmen

can make necessary trips and by the speed of mail and cargo deliveries, industrial efficiency is substantially increased. On this latter aspect, I can speak with some knowledge as I have seen from close range the industrial effects of improvements in rail deliveries of freight. In the years following the first World War, the increase in the speed and precision of railroad freight deliveries had a revolutionary effect on the size of stocks which manufacturers and distributors had to maintain. Air shipments of special or emergency freight will make an additional contribution to the efficient functioning of the nation's assembly lines and distribution system.

Also, in international relations, both commercial and political, the speed of air travel has proven of paramount importance. In fact, aviation is not merely an important convenience to international relations—it has become an absolute necessity without which the United Nations itself could hardly function.

In the all-important expansion of world commerce aviation is making its contribution. However, by comparison with other forms of transportation, aviation is still an infant. True, it has been a precious infant. Yet in actual numbers of people directly affected, excluding military aspects, aviation is just beginning to glimpse at its almost unlimited future possibilities.

Growth of Aviation

It is impossible, of course, to compare aviation with other forms of transportation in many ways. But I was interested to note that

(Continued on page 767)

Interest Rates May Be Lower

By M. M. MATTISON
With Montgomery, Scott & Co.

Writer contends fast growing funds of savings banks and insurance companies, combined with refunding of bonds into stocks creates a larger demand for bonds in relation to supply and forces interest rates down.

For many years the large financial institutions throughout the country and Wall Street in general have been expecting an up-turn in interest rates. That opinion would seem based not on reason but upon wishful thinking.

Many institutions including life insurance companies and savings banks, with enormous investment demands depend largely on bonds for investment. Many wills and trust funds specify bonds and bonds only for investment. All of the above-mentioned funds are growing fast. When an issue is refunded, and most issues are a refund of old bonds, the bondholders are seldom able to purchase as many new bonds as held of the old. When the issue is wholly retired the bondholders must look elsewhere for investment.

When new money is needed the sale of stocks rather than bonds is favored. For years there has been a tendency to reduce bonded debt whenever surplus funds are available.

The Government has been credited with lowering the interest rates. It really has been swimming with the current.

If the Government continues to reduce its funded debt and corporations do likewise, investors will be compelled to go into the

market and thereby raise the price of bonds.

For several years the supply of bonds, except Government Bonds, has been less each month and funds seeking investment has been greater. That, rather than the Government has brought the interest rate down; and the Government, with its huge debt is not likely to discourage that drift. It would therefore appear that we are subject to an important law of nature, one that cannot be legislated; namely, the law of supply and demand. It is obvious that bond prices will continue to advance, except where hindered by call prices, and interest rates decline, unless new moneys are raised by the sale of bonds rather than stocks, which seems unlikely, and unless the large investing institutions are permitted to invest in preferred and common stocks.

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Public Utility Securities

Oklahoma Gas & Electric

Standard Gas & Electric is required under the Holding Company Act and SEC orders to dispose of its entire equity interests in certain subsidiaries, the proceeds to be devoted to retirement of the bank loan incurred some time ago in connection with retirement of the bond issues. The company has proposed to sell Oklahoma Gas & Electric, California Oregon Power, and Mountain States Power.

Oklahoma was registered earlier this year, and sale was first anticipated for early February but has apparently been postponed until the latter part of the month. It seems possible, in fact, that the order of sale might be changed, with one of the other issues appearing first.

Oklahoma G. & E. needs new capital and the public offering when it makes its appearance will include both the 750,000 shares held by Standard Gas and 140,000 shares of new stock. About half the proceeds of the latter will be used to reduce the issue of serial bank notes and about half for new construction. On completion of the present financing, the capital structure will consist of \$35,000,000 1st 2 3/4s due 1975, \$7,000,000 serial 1 1/2% notes, (due in equal semi-annual instalments to 1953), \$13,500,000 4% preferred stock (par \$20) and 890,000 shares of common stock.

The company has enjoyed a better-than-average growth record with revenues increasing from \$13,272,000 in 1938 to \$18,281,000 in the 12 months ended Sept. 30, 1946. Share earnings during 1938-45 averaged between \$2.00 and \$2.50 but increased sharply in 1946, the figure for the September period being \$3.43. These figures are based on the total number of shares to be outstanding, including the new money stock; based on the old number of shares earnings would run about 40-60 cents higher (\$4.07 for the 1946 period).

Regarding the all-important matter of dividend payments, in an earlier red herring prospectus (amendment No. 1 to the registration statement) payments for 1947 were estimated at \$2 per share. However, amendment No. 2 omitted this statement, leaving the matter indefinite. Quarterly payments for the last half of 1946 were at the annual rate of \$1.75, and considering the substantial increase in earnings, \$2 would appear to be a reasonable rate. However, it is understood that special charges to surplus account, in-

cluding amortization of plant acquisition adjustments, etc., may be taken into account in determining dividend policy. Dividend payments have been made since 1908.

The company furnishes electric service (only) in 224 communities and suburban areas in Oklahoma and Western Arkansas, and also does some wholesale business. About 92% of the business is in Oklahoma. Some of the more important cities served are Oklahoma City, Fort Smith and Muskogee.

While the state is well known for oil production, its farm income is more than twice the income from oil. Manufacturing is largely related to oil and farming, some of the principal industries being petroleum refining, meat packing, flour milling, cotton seed oil milling, metal smelting, vegetable canning, glass, machinery, and dairy products. Electric revenues are about 31% residential, 6% rural, 30% commercial, 21% industrial, and 12% wholesale and miscellaneous.

Franchises expire at various dates from 1948 to 1971 (Fort Smith is unlimited). Oklahoma City (the most important) expires in 1955 and Muskogee in 1951.

The company makes rate reductions on a voluntary basis at frequent intervals; the estimated reduction in 1946 amounted to \$834,000. In the 12 months ended Nov. 30, 1946, the average price per kwh for residential service was 3.97¢, and the average annual usage was 954 kwh. It is impossible to state the exact return which the company is earning on its rate base. However, on the basis of the available data the company appears to be earning about 8% on net plant account (omitting intangibles and including some estimated allowance for working capital). Plant account has been written down to original cost with the exception of an item of less than \$4,000,000 which is being amortized.

Trade Agreement Hearings End

Committee hearings were amicable. U. S. demanded unusual number of concessions.

WASHINGTON, Feb. 5 (Special to the "Chronicle")—The hearings of the Committee on Reciprocity Information to determine the views of American business and other interests for the government's guidance in negotiating the trade agreements with 18 other governments at Geneva next Spring came to an end on Jan. 31. Officials found the hearings generally much pleasanter than they had anticipated. Unlike some recent Congressional pronouncements on the subject, the CRI hearings generated very little heat, the "Chronicle" is told. Last week Senator Hugh Butler (R., Neb.) wrote the Chairman of the CRI for statistics on the number of witnesses who appeared for and against the program. Such "nose counting" would be misleading, Administration officials feel, for while many individual companies voiced opposition, numerous trade associations which represent a much larger fraction of American foreign trade appeared before the CRI to ask for concessions from other countries. Also, it is learned by the "Chronicle," the American interest in obtaining concessions from other countries this time exceeds that of any previous trade-agreement occasion.

While officials are most sympathetic to the idea of suspending, or even removing, the excise tax on copper imports, there is some regret in Administration circles that the move in that direction comes with such a plea of urgency, for this would be a very useful bargaining counter for the American delegation to use at Geneva.

Copper Excise Tax Suspension, Seen Near

Senate expected to remove tax to relieve emergency shortage.

WASHINGTON, Feb. 5.—(Special to the "Chronicle")—Usually well-informed quarters here appear hopeful that the import excise tax on copper will be suspended for the period of the present shortage. The move, said to have the backing of important consuming and producing interests, is looked for in the Senate, the House already having extended the life of all existing excise taxes. On Feb. 3 Representative James T. Patterson (R., Conn.), introduced a bill to remove the excise tax on imported copper. As told the "Chronicle" by Representative Patterson, some action is imperative by the week of February 17th, if drastic effects on industry and business are to be avoided. By that date, he stated, the stock of copper will have been exhausted. "Already GI electric shops are failing at the rate of 5% a month, the Library of Congress informs me," said Mr. Patterson. "The auto industry is another being hit by the copper shortage."

Ralph Herget Joins Staff of Denault & Co.

(Special to THE FINANCIAL CHRONICLE)
SAN FRANCISCO, CALIF.—Ralph W. Herget has become associated with Denault & Co., Russ Building. Mr. Herget was formerly sales manager for the first California Co. and prior thereto was in charge of the San Francisco office of George H. Grant & Co.

What Business Wants In the Tax System

By ROSWELL MAGILL*
Former Under-Secretary of the Treasury

Eminent tax authority, terming particularly important income levies' impact on individuals, calls for drastic revision of surtax rates. Recommends ending of double tax on corporate dividends; continuance and perfection of excise taxes; improved bureau administration; reversal of undistributed profits tax philosophy; and other miscellaneous reforms. Urges drastic trimming of Federal budget, with annual expenditure of \$20-\$25 billions as ultimate goal.

The title of this luncheon address gave me an initial shock. On further reflection, however, the title seemed to me to be very well



Roswell Magill

chosen. Ex-Treasury officials are accustomed to speak on The Federal Budget or The Federal Tax System, with a certain assumed omniscience, as if the address were being broadcast from the summit of Mount Olympus. Actually, Treasury officials and ex-Treasury officials, like members of the American Management Association, each carry with them their individual likes and dislikes, their education and their prejudices, their experience and their hopes for the future. It is as refreshing as it is sensible to approach a great modern problem, like the tax system, with first a clear statement of the speaker's premises. For in matters like this, in which

*An address by Mr. Magill before the Finance Conference of the American Management Association, New York City, Feb. 5, 1947.

opinions and judgments differ, the premises are almost as important as the conclusions.

While I am not a business man, I work for business men. I expect my premises are much the same as yours. Here they are, at least the major ones.

We are living in a disorganized world. The war cost this country great losses, but most of them were not obvious losses. In general, we came through the war amazingly well. Employment today is unusually high, there is a demand for more than we can produce, national income has reached unprecedented heights. All of us are living pretty well.

Our economy operates on the free enterprise system; ours is certainly the most important free enterprise economy in the world today. Indeed, it is one of the few that is left, for Great Britain is working on a socialistic State; and Russia, of course, is communistic. My first and major premise is that, since we believe in free enterprise, we must do all we can to make it work. I believe it is by all odds the best system for us; and I believe we can prove it to the world. But we won't do it without leadership, and leadership in fiscal affairs as well as in business.

(Continued on page 769)

Insurance Company "Private Lending"

By WM. W. BODINE*

Financial Vice-President, Penn Mutual Life Insurance Co.

Mr. Bodine recounts progress of life insurance companies in direct corporate lending under private negotiation. Says leading influence has been need by insurance companies to expand their industrial investments. Points out methods of negotiation and debt contracts are similar to those used generally by underwriters, and stresses importance of supervision and follow-up after loans are made. Cites chief advantage to borrower is service insurance company offers, and chief advantage to insurance company is additional investment outlet with higher income return.

The analogy that I am going to make with respect to investing life insurance funds in corporate securities may startle you. I can

only hope that it will clarify itself as we go along.

Just as the human body needs proper food, care and attention if it is to remain in a sound condition and operate at peak efficiency, so does the corporate body. In the one case let us call it health;



William W. Bodine

in the other, capital. Without good health on the one hand and adequate capital on the other, neither can prosper. The first is maintained in our daily activities, in our homes, or in our hospitals; the

*An address of Mr. Bodine at the annual meeting of the American Association of University Teachers of Insurance, Philadelphia, Pa., Jan. 24, 1947.

second through internal financing, or through resort to the market place, which I am going to liken to the hospitals' ward, semi-private, or private services, the last of which is the subject of our discussion.

The standardized war service represents the more or less impersonal public offering of securities through underwriters in a form which meets the general requirements of the investors. This is particularly true of public offerings involving competitive bidding where the underwriting fraternity cannot possibly be expected to know intimately the affairs and the managements of the great number of companies whose securities they are called upon to evaluate.

Then let the semi-private services represent so-called private offerings where an investment house acts as financial adviser to the corporation and in turn places its securities with a limited number of institutional purchasers. In that

(Continued on page 755)

Trading Markets in Common Stocks

*Bates Manufacturing Co.	Liberty Aircraft Products
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Paramount Railroad Problems

By ROY B. WHITE*
President, Baltimore & Ohio Railroad Co.

Leading rail executive, holding our economic well-being depends on lasting settlement of pending domestic problems, lists as matters effecting railroads: (1) conflicts of labor and management and impending increased wage demands; (2) insufficiency of rail rate increases and declining earnings; and (3) government subsidization of airlines and other carriers competing with railroads. Holds railroads have no equality in bargaining with labor and calls for an understanding between labor and management so each may share fruits of industry without disrupting the economy.

It was rail transportation in the beginning, meagre as it was, that made the great development and extension of domestic commerce possible, and



R. B. White

it was the development of commerce that made the extension of rail lines possible. Pittsburgh and rail transportation are mutually dependent, for out of the well-being of the one must spring the well-being of the other. Down through the years that have passed, they have grown and shared their welfare side by side. In like manner

*An address by Mr. White at the Annual Dinner of the Traffic Club of Pittsburgh, Pittsburgh, Pa., Jan. 28, 1947.

I am confident that on through the years that lie ahead they will mutually prosper and fulfill their respective destinies in the proportion that there is between them a mutual understanding of the essential interests of each other and a continuation of the spirit of good will.

Mutual understanding and good will is a great and pressing need today in effecting the adjustments in individual, in national, and in internationally relationships if our future well-being as citizens and as a country is to continue.

During and since the cessation of hostilities of World War II, the public consciousness has recognized as never before that the welfare—indeed the very safety—of all people everywhere depends upon mutual understanding and good will in adjusting interna-

(Continued on page 768)

A Challenge to Management Labor and Capital

By ODY H. LAMBORN*
President, Lamborn & Co., Inc.

Mr. Lamborn points out U. S. today, as "only island of freedom," is beset by ideologies which threaten freedom. Urges Labor, Capital and Management cooperate to preserve our freedom and way of life, and holds task of businessmen is to foster it by advertising and educational work and not leave unopposed propaganda of government bureaucrats and subversive organizations. Warns results of recent election may mean only a "respite" and should not lead to relaxation of opposition to forces of discord.

A few years ago the expression "One World" was brought forth as a new concept in our lives. It is well that it was, for it undoubtedly stimulated the thought processes of those whose idea of the business of life ended at the outskirts of their own little communities and their own circumscribed interests.

But the idea was hardly new, for obviously the two billions of people of this particular planet are of one world—spiritually, realistically and economically. Spiritually this is the case, for under our religious teachings we are all brothers; realistically, because it is the indisputable fact; economically, because the actions of producer and consumer in one area affect producer and consumer in another—as individuals or as groups in the human society of the world. If any illustration were needed to prove that the world fabric is all of one piece, the recent war provided it with a vengeance and in indelible colors that will not soon fade out.

It has ever been the hope, ambition and basic problem of the hu-



Ody H. Lamborn

man species to find the formula by which men might gain freedom and dwell and work together peaceably for their mutual ad-

(Continued on page 772)

*An address by Mr. Lamborn before 31st Annual Convention of the Potomac States Bakers Association, Baltimore, Md. Jan. 28, 1947.

Business Man's Bookshelf

Manual of Laws Relating to Loans and Investments By National Banks — Fourth Edition — American Bankers Association, 12 East 36th Street, New York 16, N. Y.

Maximum Employment in a Free Society—Committee Report of the International Chamber of Commerce — International Chamber of Commerce, Inc., 590 Madison Avenue, New York 22, N. Y. —paper.

Opportunities in Finance—Sam Shulsky — Vocational Guidance Manuals, Inc., 45 West 45th Street, New York 19, N. Y.—paper—\$1.00.

Wages and Prices—Jules Backman — Foundation for Economic Education, Inc., Irvington on Hudson, New York—paper—75¢ for single copy, 10 copies, \$7.00; 50 copies, \$32.50; 100 copies, \$60.00.

Now With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)
KANSAS CITY, MO.—Leroy L. Lichliter is now affiliated with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue. In the past he was with James A. Ross & Co. and A. E. Weltner & Co.

Dempsey-Tegeler Adds

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—Frank E. Flotron and Rolla J. Gittins have been added to the staff of Dempsey-Tegeler & Co., 407 North Eighth St., members of the New York and St. Louis Stock Exchanges.

With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—Edmund H. Calkins is now affiliated with Herrick, Waddell & Co., Inc., 418 Locust St.

With Inv. Service Corp.

(Special to THE FINANCIAL CHRONICLE)
DENVER, COLO.—Leonard Wigton is now with Investment Service Corp., Security Building. Mr. Wigton was previously with Boettcher & Co.

With A. G. Edwards & Sons

(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—Richard C. Stickney has joined the staff of A. G. Edwards & Sons, 409 North Eighth St., members of the New York and St. Louis Stock Exchanges.

At Friedman, Brokaw

ST. LOUIS, MO.—Herman H. Reinhard has become associated with Friedman, Brokaw & Samish, 711 St. Charles St., members of the New York and St. Louis Stock Exchanges. Mr. Reinhard was formerly with Mercantile-Commerce Bank & Trust Co.

With Link, Gorman & Co.

(Special to THE FINANCIAL CHRONICLE)
CHICAGO, ILL.—Irving B. Phillips has become affiliated with Link, Gorman & Co., 208 South La Salle St. Mr. Phillips was formerly with Paul H. Davis & Co. and Blyth & Co., Inc.

Norris & Kenly Add

(Special to THE FINANCIAL CHRONICLE)
CHICAGO, ILL.—Clarence A. Reihmer has become connected with Norris & Kenly, 209 South La Salle St., members of the New York and Chicago Stock Exchanges. He was previously with Shields & Co.

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

Bond Prices As A Stock Market Forecaster—Study—Jacques Coe & Co., 39 Broadway, New York 6, N. Y.

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

Financing of Stock Issues With Preemptive Rights—A critical analysis in brochure form—including a summary of 47 "Stand-by" offerings of common stock 1943-1946—Shields & Company, 44 Wall Street, New York 5, N. Y.

Government Bond Portfolios and Sources of Income—Breakdown for 19 New York City Bank Stocks 1946—Laird, Bissell & Meeds, 120 Broadway, 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.

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

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

Railroad Equipment Certificates—Valuation and appraisal—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

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Securities Outlook—Discussion of topics of interest to the investor and business executive—G. H. Walker & Co., 1 Wall 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 Fresno Company.

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

American Gas & Electric Company—Analysis indicating attractive possibilities—Newburger & Hano, 61 Broadway, New York 6, N. Y.

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 Wharfton Iron & Steel; Purolator Products; Upson Corp.; Alabama Mills; Diebold, Inc.; Pfaunder Corp.; United Artists.

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.

California Cotton Mills—Special report—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available are special reports on Divo Corporation, Federal Motor Truck, MacFadden Publications, Glenn L. Martin Co., and Pfaunder Company.

Central Public Utility 5 1/2's 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.

Colorado Milling and Elev. Co.—Memorandum—Buckley Broth-

ers, 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.

Foremost Dairies, Inc.—Detailed memorandum—Cohu & Torrey, 1 Wall Street, New York 5, N. Y.

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.

Hoe & Company—Study of current situation in "The Adams Journal"—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.

Illinois Zinc Company—Comprehensive analysis—Brady & Co., 49 Wall Street, New York 5, N. Y.

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

Maryland Casualty Company—Analysis—Sills, Minton & Company, Inc., 209 South La Salle Street, Chicago 4, Ill.

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

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.

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

United Public Utilities Corp.—Memorandum—L. H. Rothchild & Co., 52 Wall Street, New York 5, N. Y.

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

Virginia Electric and Power Company—Analytical circular—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is an interesting leaflet of Trade Suggestions.

Sen. Taft Explains Position on Taxes and Labor

Supports proposed 20% tax cut but does not think it will be "across the board." Opposes closed shop for undemocratic unions.

In the radio broadcast, "Meet the Press," over the Mutual Broadcasting System on Jan. 31, Senator Robert A. Taft of Ohio, leading



Robert A. Taft

Republican spokesman, when interviewed by reporters, expounded briefly his views on tax reduction and labor legislation. When questioned whether the promised Republican 20% income tax cut would be kept, Senator Taft replied:

"I think so. We're making a more detailed study at the present moment, but I see no reason to change our previous belief that you can cut out of the budget probably three and a half billion dollars which is necessary if you're going to get a 20% cut in the income tax—personal income tax."

"Where do you think it's coming from? Where's the cut coming from?" Sen. Taft was then asked.

"I think from nearly every item except the interest on the public debt, and I have some doubt about the veterans' bill and the armed services, but I'm inclined to think that both of them can also be cut," he replied.

"Is that going to be an across-the-boards tax reduction?" he was next asked.

"No," was the answer. "I don't think so. It will have to be different, have different features; I mean, 10% on one, 15% on another, 20% on another, and none on another. It will have to be a fairly general policy rather than a final determination."

In order to further clarify his position on income tax reduction, Senator Taft, almost immediately after the broadcast, issued the following statement:

"At one point in the broadcast I mentioned the figure 10%, 15%, 20% and no per cent, in referring to the possibility of cuts in separate items of the over-all budget.

"It was reported in some cases that I meant income tax reduction of 10, 15, 20 or no per cent in different levels of income. That obviously could not be the basis of a sound tax reduction policy."

"I pointed out that a 20% cut in income taxes would have to be based on a reduction of \$3,500,000,000 in the budget and said this could be accomplished by cutting individual items of the budget. I emphasized that a reduction of the budget would have to precede any cut in income tax."

Regarding outlawing the "closed shop," Senator Taft, in answer to a query, as to his idea of the closed shop and union democracy, stated:

"If you admit that a closed shop is legal and that no man can work for company A unless he's a member of the union, then we must see that in that union he has his rights, that he can't be thrown out of the union and thereby his job without some fair treatment, that he has a right to a secret ballot, to elect the officers, to determine its policy. You might—I say you may—go about it by prohibiting the closed shop in which a man can leave and union and go on with his work if he's agreed. But if you're going to say a closed shop is proper and he must stay in that union, then I think we have some responsibility to see that he has fair treatment in that union."

When questioned further as to whether "the United States Government can order one citizen to work for another citizen against his will," the Senator replied:

"It's a broad statement to say that they can't order him if he's—for instance, if he's contracted to do so the question of specific performance is a question before the court. As a general policy I would say that the United States Government should not be able to make a man work for another man unless he wants to work for him."

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Foreign Demand for Dollars Grows

By HERBERT M. BRATTER

Correspondent reports while articles of agreement provide for obtaining views of other international economic bodies, institution reserves its complete independence in loan decisions. Contradiction between political and economic considerations reported to split NAC officials.

Repeatedly in meetings of international organizations dealing with economic matters one hears expressions of hope that the World Bank will



Herbert M. Bratter

bring its resources to bear on this or that situation. At the London meetings of the preparatory committee for a world conference on trade and employment, for example, as reported in the "Chronicle" at the time, various delegations disclosed their expectation that the World Bank would make loans to facilitate the work of the proposed ITO. In the recent meetings of the FAO's preparatory commission in Washington some of the speakers placed great emphasis on the role they expect the Bank to play in FAO affairs. Likewise one hears that the European Coal Commission expects the Bank to finance shipments of American coal to Europe.

A good many of these hopes are doomed to disappointment, being predicated on an erroneous conception of the World Bank's resources and assigned functions. This week the writer had an opportunity to discuss with an official of the Bank the likelihood of its financing coal shipments. The official commented as follows: "It is true that the Bank has considerable leeway in granting credits in special circumstances" as well as currency-stabilization loans, and coal shipments could be financed under either of these headings. But I do not expect the Bank will do that. Much more likely is the financing of coal shipments under a specific project. Just to take a hypothetical example or two, let us assume that the Bank is undertaking to help finance the rehabilitation of Danish agriculture as a project. That would involve in part financing imports of feedstuffs and presumably fuel as well. Or we might allow for some coal in connection with a steel project in Luxemburg.

"Actually," the officer continued, "coal production is a more likely project for a World Bank loan. Probably as promising a self-liquidating project as any would be the mining of coal in Poland.

"As for the desires of other international bodies for Bank help, the Bank's articles of agreement call for obtaining the views of the other international bodies concerned with economic purposes, but the Bank of course always reserves full independence of loan judgment."

In accordance with the provisions of the Bretton Woods Agreements Act, which created the National Advisory Council, the lat-

ter recently submitted a second report covering the period through Oct. 31, 1946. The report, which was issued without publicity, was sent to the Congress by President Truman on Jan. 13 and has been printed as House Document No. 53. Persons interested in what goes on behind the closed doors of NAC when it considers its agenda labeled, perhaps anachronously, "Top Secret," will look in vain through the recent report for light. Although the NAC's work has been related predominantly to the activities of the Export-Import Bank, its latest report is confined to the scope of its title, Report on Participation of the United States in the Fund and Bank to Oct. 31, 1946.

Trend Toward 5-Day Week for Office Help

A substantial growth of the 5-day week for office workers since V-J Day is revealed in a survey of 437 industrial and commercial companies in 20 cities which was released on Jan. 27 by the National Industrial Conference Board. The survey showed that:

"During the war, the office staffs of only 141 of the companies reporting worked five days per week. Now 346, or 80%, report that their office workers are on the five-day week.

"The trend toward shorter hours is noted both among firms which were on wartime 5½- and 6-day work weeks.

"Nearly two-thirds of the number which worked 5½ days during the war report they have dropped the "Saturday morning" work week. Of the firms surveyed, 154 reported their wartime schedule called for 5½ days. Since V-J Day, only 54 continue on the basis of the "Saturday morning" work week.

An even sharper decline was noted in the case of the 6-day week. During the war, 84 of the reporting companies stated their office forces worked "daily except Sunday." Since V-J Day, however, five-sixths dropped the longer work-week so that only 14 of the 437 now work "all day Saturday."

With Woolfolk, Huggins

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Wilbur E. Figueira has been added to the staff of Woolfolk, Huggins & Shober, 839 Gravier St., members of the New Orleans Stock Exchange.

Two With Slayton

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Will A. Denvir and John J. Scherrer have become connected with Slayton & Co., Inc., 408 Olive Street.

A Plan to Reduce Underwriting "Standby" Losses

Eugene P. Barry, of Shields & Co., recommends adoption of system for reducing cost to corporations and avoiding substantial losses to underwriters in their commitments.

A plan for common stock financing where preemptive rights are involved is set forth in a study of the subject just made public by Shields & Company, members of the New York Stock Exchange.

The study, written by Eugene P. Barry, partner of Shields & Company, recommends adoption of the plan as a means of reducing the cost to corporations undertaking financing of this character and of safeguarding underwriting firms against substantial losses in "standby" commitments such as many of them suffered during the summer and fall of 1946.

As a consequence of last year's experience, several investment firms, according to the study, have established a definite policy against further "standby" commitments. Describing this form of financing as an essential and valuable means of obtaining corporate expansion, the study declares "it is high time to review the present outmoded method and to attempt to devise a new and modern system which will work at a fair profit for the underwriters, commensurate with the risk involved."

Under the plan, underwriters would buy rights aggressively during the period of offering to stockholders, exercise these rights and, from time to time prior to their expiration, sell the security being underwritten at a price that would be in line with the prevailing market. The plan differs from the present method in that normally the underwriters merely stabilize the stock or the rights or both without aggressively purchasing rights for the purpose of exercising them and making a distribution prior to the expiration date. The custom among underwriters now is not to make any offering of the securities except at the issue price.

"The proposed method," the study finds, "answers the principal objection to the present system, which is that the powerful distribution machinery of the underwriters is immobilized for a period of ten days to three weeks while their capital is committed and at the mercy of a sharp break in security prices which is difficult, if not impossible, to foresee. At the same time, it preserves intact the right of the stockholders to make up their minds and decide whether to sell or exercise their rights." The view is expressed that certain technical details such as revising the present system of compensating underwriters can readily be worked out once the new method is put into effect.

The study contains an analysis of the 47 offerings of common stock to existing common stockholders on the New York Stock

Exchange which were made from February, 1943, to October, 1946, a period of advancing security prices. This shows that in almost three-quarters of the offerings the stock declined to within 10% of the price at which it would theoretically sell if presented to the stockholders gratis instead of being sold, little or no value being placed on the earnings and dividends potential of the new capital.

Emphasis is placed on the delayed productivity of new capital in all these underwritings. "In most cases," the study finds, "the new money cannot be put to work in toto at once. There will, therefore, be a certain period of sterility for the new capital or, at best, a period in which the new capital will not be employed at its maximum potential productivity. This factor is of considerable importance during the 'standby period'."

In over half the underwritings reviewed, the underwriters allowed themselves less than 10% margin of safety below the theoretical dilution point to which the stock was expected to decline. The risk of the offering from the time the purchase agreement is signed becomes the underwriters', and one unsuccessful offering is enough to wipe out their gross profits on five or six successful ones, without considering overhead expenses and interest on the capital employed in making these commitments.

The new plan was discussed with the Securities and Exchange Commission and with two leading New York law firms and, it is stated, no practical or legal objection to its application was found.

B. G. Cantor Incorporates

B. G. Cantor & Co., 61 Broadway, New York City, is now doing business as a corporation. Officers are B. Gerald Cantor, President; Louis G. Behr, Vice-President; John J. Fitzgerald, Executive Vice-President; and Jack J. Bernstein, Secretary-Treasurer. Mr. Cantor was a partner in the predecessor firm, with which Mr. Bernstein was also associated. Mr. Behr was with Coburn & Middlebrook.

With Jones, Holman & Co.

(Special to THE FINANCIAL CHRONICLE)
PORTLAND, MAINE.—Richard P. Knight has become associated with Jones, Holman & Co., 57 Exchange Street. Mr. Knight was formerly with Townsend, Dabney & Tyson and Harry A. Rounds & Co.

H. J. Lavery Now With Walston, Hoffman Co.

SAN FRANCISCO, CALIF.—

Henry J. Lavery has become associated with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges.



Henry J. Lavery

Mr. Lavery was previously manager of the trading department of the San Francisco office of E. H. Rollins & Sons, Inc. and prior thereto was with Dean Witter & Co. in a similar capacity.

Gustav Klein Now With Mead, Miller & Co.

BALTIMORE, MD.—Mead, Miller & Co., First National Bank Building, members of the New

York and Baltimore Stock Exchanges, announce the opening of a municipal bond department under the management of Gustav Klein. Mr. Klein was formerly with Mackubin, Legg & Co., and prior thereto was with W. W. Lanahan & Co. and Alex. Brown & Sons.



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Pennsylvania Brevities

Pennsy's 1946 Net Loss, \$9,500,000

Unofficial estimates indicate that the Pennsylvania Railroad, for the first time in the 100 years of its history, will report a net loss from operations.

The tentative deficit has been set at \$9,500,000, after taxes and charges and after carry back credits of over \$19,000,000.

This will compare with net income of \$49,008,238 in 1945, equivalent to about \$3.72 per common share.

Moderate emergency freight increases, effective July 1, 1946, were insufficient to offset sharply higher wages and other increased costs.

President M. W. Clement has estimated that the freight increases granted by the Interstate Commerce Commission, effective January 1, may produce approximately \$100,000,000 additional revenue in 1947, based upon 1945 volume, but that this might not be enough to cover increased costs since incurred.

Gross revenues in 1946 were reported at \$822,007,584, a decline of \$114,445,826 from the 1945 figure. Net railway operating income was \$25,917,224, a decrease of \$61,263,315 from the preceding year.

Philadelphia Debt Cut 22% In Past 12 Years

Gross bonded debt of the City of Philadelphia has been reduced by \$129,100,000 during the past 12 years and on Jan. 1, 1947 stood at \$439,700,000. This is one of a number of striking facts set forth in an analysis of the city's finances just completed by the Philadelphia investment firm of Yarnall & Co. Net bonded debt of \$334,000,000 at the beginning of the present year represented a reduction of \$103,000,000 during that period.

Through reduction in size of debts, and also through lowered interest rates, annual interest charges of the city have also been substantially reduced. Whereas interest charges on the city's debt in 1934 amounted to \$24,000,000 they were \$17,000,000 in 1946 and

are expected to amount to only \$16,000,000 in 1947, the analysis shows.

Discussing the prospects for further reduction of the city's interest charges the analysis states: "Of the gross bonded debt of \$439,700,000 outstanding Jan. 1, 1947, over 60% (or \$267,912,000) bore coupons ranging from 4% to 5½%. About \$164,000,000 gross of 4-4¼-4½-4¾ and 5% bonds mature or are callable between Jan. 2, 1947 and Feb. 16, 1955. Annual interest on these short-term bonds amounts to \$7,175,000. Assuming they were all refunded at 2%, the yearly saving would amount to about \$3,884,000, or about 24% of the total estimated interest charges for 1947. It therefore seems reasonable to assume that greatly lowered interest charges, above outlined, will be considerably reduced through refunding."

Bankers Securities Corp.

The 1946 earnings of Bankers Securities Corp. were the largest in the history of the corporation, as shown by the annual report transmitted to stockholders last week by Albert M. Greenfield, Chairman of the board. Before taxes 1946 income was \$7,607,740, compared with \$3,684,059 in 1945. After taxes, per share earnings were equivalent to \$21.88 on the 162,987 shares of participating preferred stock outstanding and to \$37.19 per share on 60,000 shares of common.

As of Dec. 31, 1946, accumulated dividends amounted to \$20.25 per preferred share and \$47.25 per share on the common.

It is reliably reported that Bankers Securities Corp. is considering the purchase of the Cramp Shipbuilding plant in Philadelphia from the U. S. Navy. During the war, the Navy invested some \$22,000,000 in the properties, which are now idle. While the Navy has indicated its willingness to sell to an approved purchaser, it wants guarantees that the yard's essential facilities will be maintained for any possible future emergency.

Block Builders

Philadelphia & Reading Coal & Iron Co. has formed a subsidiary company to manufacture cinder blocks from piles of ashes accumulated by the parent company

over a period of years. The Berks Building Block Corp., Reading, Penna., has been incorporated with a capitalization of 1,500 common shares, par \$100, all owned by Philadelphia & Reading Coal & Iron.

Pittsburgh Brewing Co.

Labor troubles, stoppages, slow-downs and such incidental maladjustments apparently served only to whet the thirsts of customers of Pittsburgh Brewing Co., which reports net income of \$929,272, equal to \$7.72 per share on the 120,302 shares of preferred stock, for the fiscal year ended Oct. 31, 1946. This compares with \$5.58 per share in the preceding fiscal year. President Carl G. Vilsack told stockholders that prospects for the current year were particularly good in view of the re-appearance of imported grains and lifting of many domestic restrictions. The company has embarked upon a \$1,000,000 betterment and expansion program.

Warner Co. Sales at 15-Year High

Reflecting a flying attack on the huge backlog of building and construction business existent in the Philadelphia area, preliminary figures for 1946 released by Warner Co., indicate gross sales of approximately \$11,700,000. This figure has been exceeded only once in the company's history, in 1930, when sales topped \$12,000,000.

Subject to audit, net profit for 1946 is calculated at \$1,388,984, after depreciation, depletion, all interest and ground rents and after provision of \$899,600 for income taxes. This is equivalent to \$2.92 per share on the 475,284 common shares outstanding. The comparable figure for 1945 was net of \$551,206, after provision of \$440,000 for income taxes, equivalent to \$1.16 per common share.

P.T.C. Fare Hike Delayed

A last ditch effort on the part of the City of Philadelphia to block a general increase in street-car fares in Philadelphia, which would automatically have gone into effect yesterday, has met with at least temporary success. Superior Court Judge Chester H. Rhodes has signed a temporary writ ordering a stay until arguments on an appeal by the City are heard February 15.

Tacony Palmyra Bridge

Reflecting the complete lifting of all restrictions on motoring, favorable driving conditions, and, to some extent, the increasing trickle of new automobiles reaching the highways, traffic over this important North Philadelphia to Southern New Jersey link exceeded all past records in 1946. A total of 3,355,451 vehicles crossing the span left \$1,057,993 at the toll gates. After preferred dividends, net profit was equivalent to \$5.11 per share on the combined 41,528 Class A and 24,000 common shares. The company has doubled the 1945 dividend rate of \$1.75 per share on the Class A and common stocks.

Phila. Bond Club Committees Named

PHILADELPHIA, PA.—William K. Barclay, Jr., partner of Stein Bros. & Boyce, President of the



Wm. K. Barclay, Jr.



Edward M. Fitch, Jr. R. Conover Miller

Bond Club of Philadelphia, announces the appointment of club committees for 1947 as follows:

Arrangement Committee—Edward M. Fitch, Jr., E. M. Fitch & Co., Chairman; John F. Bunn, Jr., Bioren & Co.; L. Paul Close, Rambo, Close & Kerner; William L. Day, Drexel & Co.; Paul Denckla, Stone & Webster Securities Corporation; Raymond H. Gage, Jr., Paine, Webber, Jackson & Curtis; Norbert W. Markus, Smith, Barney & Co.; Samuel K. Phillips, Jr., Samuel K. Phillips & Co.; Alfred Rauch, Kidder, Peabody & Co.; and Bertram M. Wilde, Janney & Co.

Attendance Committee—R. Conover Miller, E. W. & R. C. Miller & Co., Chairman; Eugene Arnold, Harriman Ripley & Co.; John H. Blye, Jr., Wurts, Dulles & Co.; Willard S. Boothby, E. H. Rollins & Sons; Walter W. Buckley, Buckley Brothers; J. B. Clement, Jr., W. E. Hutton & Co.; Leo M. Dolphin, Dolphin & Co.; Henry R. Hallowell, Hallowell, Sulzberger & Co.; George L. Morris, Hornblower & Weeks; and William Jenks Wright, Blyth & Co.

Elective Committee—James D. Winsor, 3rd, Biddle, Whelen & Co., Chairman; Winthrop H. Battles, Battles & Company; Herbert V. B. Gallager, Yarnall & Co.; Harley L. Rankin, First Boston Corporation; and Charles A. Schaufler, Moncure Biddle & Co.

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London As Banking Center

By PAUL EINZIG

Dr. Einzig, in commenting on a recent loan by London banks to French woolen industry, points out this does not mean that London will or wants to resume its former role as world banker. Contend Britain does not profit from international banking, though nation possesses the machinery and technique for the transactions.

The granting of a large banking credit to the French woolen industry by a London banking group headed by Hambros Bank has drawn attention to the question of London's role as an international banking center. After the first World War there was not the slightest doubt in the minds of most Britons that London would resume the leading position it had occupied in world banking before 1914. It was for the sake of that end that the American war debt was settled on terms that compared very unfavorably, from the debtors' point of view, with the debt settlements concluded by the United States with other countries or with those concluded by Britain with its own debtors. It was for the sake of resuming London's lead that Britain returned to the gold standard at the prewar parity, "in order that the pound should look the dollar in the face." Britain was still a large creditor nation with a favorable trade balance, and even though its position compared unfavorably in this respect with that of the United States there was no doubt in the minds of Britons that this was more than offset by London's superior experience and technical organization.



Dr. Paul Einzig

Experience and technical organization still constitute London's assets. But there is very little else left after the sacrifices of the Second World War. The foreign investments Britain still owns are considerably more than offset by the foreign liabilities incurred since 1939. And the trade balance is decidedly adverse. How, it may well be asked, could London be expected in such circumstances to resume its prewar role as an international banking center, even as a second center after New York?

The present Government is not nearly as enthusiastic about restoring to London its old role as one of the international banking centers as Mr. Baldwin's Conservative Government was 20 years ago. For in the meantime it has been discovered that to act as a banking center is not nearly as profitable a proposition as it was generally assumed. Even with the interest rates prevailing during the inter-war period the margins of profit were very narrow. On its acceptance business London made in a good year a profit of a few hundreds of thousands of pounds. In a bad year such as 1931 or 1939, it lost the profit of decades of good years. The profit was really earned on re-lending on long-term the money borrowed on short-term, which was decidedly unsound banking. And even that profit only amounted to a few millions of pounds per annum. In any case, capital losses in defaulted foreign loans wiped out the commission and interest earned on long-term loans.

Those who realize these facts are not in the least sorry to see the role of the world's banker transferred to New York. Indeed, the view is held that it would be worth Britain's while to pay the United States an annual contribution of many millions of dollars in return for having relieved London of the burden and nuisance of having to act as the world's

periodical wholesale defaults. It is not without reason that Hambros Bank figures prominently in the revived postwar activity. It was one of the few London banks which was not caught in 1931 in the German Standstill Agreement leading to the complete freezing of the large credits granted during the '20's.

The question is, does the French transaction indicate a resumption of the prewar activity? There were only a few smaller transactions before it, and there is no indication for the resumption of systematic granting of credits abroad on a prewar scale. One thing is certain. Every single transaction must now meet the Treasury's full approval. Presumably it was in accordance with the official policy to assist France, hence the permission given to Hambros Bank to go ahead with its large credit deal. There is no

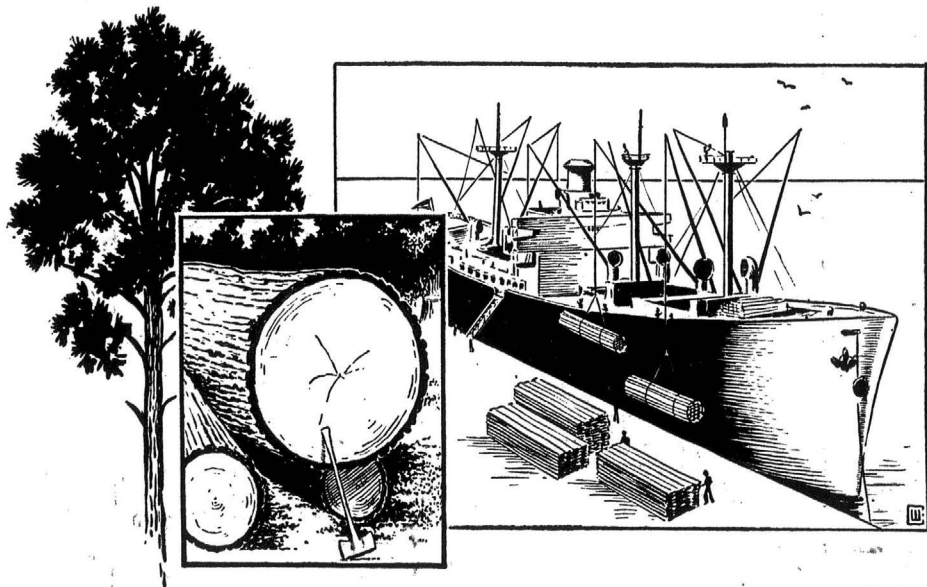
objection to credits within the Sterling Area. Nor are the authorities likely to make difficulties to genuine self-liquidating acceptance credits outside the Sterling Area, once they liquidate themselves in three or six months and do not involve loss of foreign exchange. This, at any rate, is the theoretical position. It is well to remember, however, that before 1931 the acceptance credits granted to Germany were supposed to be self-liquidating.

Evidently there is likely to be a certain amount of international banking activity, enough to prevent London's highly developed technical apparatus from becoming too rusty. Vague hopes are entertained in various quarters, especially in the City, that sooner or later, somehow London may find its international banking organization once more useful.

John Tobias Now With Westheimer & Company

CINCINNATI, OHIO—Westheimer & Company, 322 Walnut Street, members of the New York Stock Exchange, announce that John E. Tobias has become associated with them as a Registered Representative. Mr. Tobias is the son of Charles H. Tobias, present partner of the firm. He was born in Cincinnati and went to the Phillips Exeter Academy Preparatory School and Dartmouth College. He served three years in the U. S. Marine Corp and was with the Second Marine Division in the South Pacific and in the occupation of Japan.

Mr. Tobias will serve as assistant in the Unlisted Trading Department.



Southern Lumber for World Markets

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and Alabama and an associated plant in Bellingham, Washington. Principal products are hardwood lumber, cypress, Southern pine, plywood, veneers, poles and piling. Building materials are manufactured and sold through a subsidiary, Georgia International Corporation, which also distributes roofing, wallboard, paint, builders' hardware, insulation and other similar products. Another subsidiary, a retail stores division, handles general merchandise and building equipment.

The Company maintains offices in New York, Washington, Houston and Portland, as well as in Buenos Aires, Havana, Belfast, Cairo and Cape Town.

Another advertisement in the series by Equitable Securities Corporation featuring Southern industrial development. Equitable has helped to finance many Southern industries, is ready to do its part in supplying others with capital funds.

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Real Estate Securities

Sources on Wall Street close to some of the innermost circles of top-ranking politicians in Washington contend that ceilings on housing rents will be lifted only gradually and in a progressive fashion, starting with the higher types of luxury accommodations first and dropping down in successive steps to other, less pretentious, classes of living quarters later.

The informed on Wall Street, in fact, no longer look to any extensive lifting of the ceilings on the low-rent dwellings. The best which proprietors of the typical six-floor old-fashioned type of non-fireproof structures which abound in so many of the residential sections of New York, for instance, can ever expect to receive is a 5% relief in the amount of rents which they can charge, it is thought.

Ceilings will be lifted on hotel transient rooms a week from this coming Saturday, according to the official announcements. The ceilings will probably be lifted next from other classes of hotel rooms. After that, it is thought, the ceilings will be lifted from apartments which rent for \$300 or more a room per year. Somewhere in this progression, it is felt, too, ceilings will be lifted from newly-constructed dwellings. Last on the list to receive consideration, it is believed, will be the sort of low-rent housing mentioned above.

Washington rental authorities are beginning to realize that, though they may be able to keep rents down artificially by government edict, low rents do not stimulate the construction of the new homes necessary really to solve the problem posed by the housing shortage. It is not low rents but new construction—and a lot of it—which will take the American people out of the housing dilemma in which they now find themselves.

Lifting the ceilings from the luxury apartments would impose no hardship upon the tenants but it would provide much-needed impetus to the construction of new dwellings. How necessary it is to give some encouragement to the building industry to build by removing restrictions on the amount of rents which can be charged on new structures is demonstrated by recent experiences of the builders themselves. Two new apartment houses in the process of construction on choice residential sites on Manhattan Island, it is revealed, are costing 50% more to put up than was originally estimated as necessary. It so happens that in these particular ventures plenty of capital is available but had the promoters

relied on borrowed funds to carry out their projects and had they based their calculations on a 10% margin of profit they would have found themselves in financial hot water long ago.

Demand for space in commercial buildings is very heavy and new construction to take care of this demand must of necessity be very slow in going up. There probably isn't a chain store of any kind that isn't looking for more space, stores everywhere are expanding or want to expand in size, but it will be from five to seven years or more before there can be enough new construction of commercial buildings to meet the demands for space of this character, it is said. Before this new construction can even commence, sites must be acquired (and this isn't the easiest part of the process) and leases must be allowed to run out on the structures now standing on those sites. Moreover, the New York zoning laws, too, impose such limitations on size of the upper floors, in the interests of adequate lighting, as to make some of these top floors comparatively unproductive of revenue. Difficulties of many types and descriptions stand in the way of the construction of new commercial buildings.

However, once OPA limitations on rents are removed from newly-constructed dwellings, new homes of all types will commence going up in great numbers, it is believed. Sites are plentiful for new apartment houses, for instance, and no delay in building should be occasioned by anyone's inability to find a suitable location for the structure he wants to erect. The housing needs of the great bulk of the population has ever been met in this way, it is said. As the wealthier move into the newer, more expensive, quarters, it is explained, the middle-income and lower-income groups themselves move into lodgings a notch higher in excellence, acquiring homes for themselves better than anything they have ever had before. People as a whole do not object to moving into space previously occupied by someone else. Even the wealthiest do not hesitate to move into apartments, for instance, where

others have lived before them. The sooner the OPA or Congress removes ceilings from new dwellings, it is believed, the sooner will an effective dent be made in the housing shortage.

Wide-scale investments in new buildings—investments that can not in the nature of things seriously detract from the values of present structures—must be made before people generally can get any genuine relief from the inconveniences and annoyances of the present housing situation.

Philadelphia Exchange Contest for Governors

PHILADELPHIA, PA.—The Philadelphia Stock Exchange, for the second year in a row, will have a contest for the board of governors at the annual meeting March 3, with 11 nominees running for 10 vacancies on the board. Nominated for governorships were: William K. Barclay, Jr., Stein Bros. & Boyce; Harry C. Dackerman, Dackerman & Waber; Robert Y. Guarnieri, R. Y. Guarnieri & Co.; Ralph E. Pendergast, Paul & Co., Inc.; John A. Murphy, Reynolds & Co.; Charles Sheridan, Sheridan, Bogan & Co.; Edward B. Smith, Jr., Smith, Barney & Co.; George E. Snyder, Jr., Geo. E. Snyder & Co.; Harold P. Woodcock, Woodcock, McLearn & Co.; Spencer D. Wright, Jr., Wright, Wood & Co.; and John S. Wynn, J. W. Sparks & Co.

Frank E. Baker, Baker, Weeks & Harden, was renominated for President.

James Ryan Now V.-P. Of Lobdell & Company

James J. Ryan has been elected a Vice-President of Lobdell & Company, Inc., 20 Exchange Place, New York City, specialists in U. S. Government and municipal bonds. Mr. Ryan has been with the firm for some time in charge of the trading department.

Charles Litzel With Hill & Co. in New York

Hill & Co. announces that Chas. M. Litzel is now associated with the firm in the institutional department of the New York sales office, 61 Broadway. Mr. Litzel was formerly with Hardy & Co.

Tax Revisions for Small Business

By JAMES F. NEWCOMB*
President, Printing Industry of America, Inc.

Printing trade executive proposes a tax program to aid small business providing for: (1) graduated reduced tax rates on earnings up to \$100,000 to permit accumulation of tax-free reserves; (2) a carry-forward provision for small businesses to make them more depression proof; and (3) accelerated depreciation allowances for small business within closely defined limits. Holds without small business there would be no free enterprise.

I am coming to you today as the representative of an industry—the printing industry—which is made up principally of small enter-

prises. But the problems I want to discuss with you go far beyond those of my industry or of any single industry. They are problems, I believe, which have a direct bearing on every branch of our economy: be it manufacturing, distribution, or the service industries—be it big business or small business—be it management or labor.



James F. Newcomb

I am going to discuss "Small Business" with you, not only because the problems of my industry are typical small business problems—but more important because the problem of small business today is one of vital importance for the whole economy. It affects every industrialist—regardless of the size of his enterprise—and it affects each wage earner regardless of whether he is employed by one of your giant

*An address by Mr. Newcomb before The Economic Club of Detroit, Detroit, Mich., Jan. 27, 1947.

automobile companies or by the smallest printing shop tucked away in an obscure side street of your great city.

The Weak Link

Small business truly concerns all of us. If it is true that a chain is only as strong as its weakest link, then it is equally true that an economy is only as sound as its small business.

Small business is an evasive term. It is not a happy term. The word is often used in a patronizing manner. Hence many small business men resent being classified as such.

They should be proud instead. Without small business there would be no free enterprise in these United States. Small business is the core of free competition. Without small business this land of ours would not be the land of opportunity it still is. "Nothing ventured, nothing gained," is the true motto of small business. That makes small business the proving ground for big business. Here business initiative is being developed, experience gained.

It may be true that two-thirds of our economic wealth is produced by big business; by a com-

(Continued on page 770)

Britain's Reassurance to U. S. on Loan Agreement

Chancellor Dalton writes Secretary Snyder that seeming violation of US-UK pact arising from Anglo-Argentine agreement is hypothetical and remote, which explanation is termed irrelevant. Briton accedes to Mr. Snyder's demand that similar objectionable clauses be omitted from future agreements about sterling balances, and that in event of Argentine deficit respecting sterling area, UK make appropriate adjustment.

WASHINGTON, Feb. 5 (Special to the "Chronicle")—Secretary of the Treasury Snyder today released the texts of two exchanges of letters between himself and Chancellor of the Exchequer Hugh Dalton concerning the Anglo-Argentine Agreement.



John W. Snyder

In his first letter, Mr. Snyder expressed concern that section B (6) of that Agreement violates the terms of the US-UK Loan Agreement, which requires sterling to be made freely available for current transactions in any currency area. (This matter has been discussed in previous issues of the "Chronicle.")



Sir Hugh Dalton

Replying to Mr. Snyder's first letter of Oct. 31, Mr. Dalton on Dec. 17 advised the Secretary that the probability of the Argentine Agreement resulting in a violation of the loan agreement was hypothetical and suggested that further consideration of the question be deferred. He expressed his mindfulness of Britain's obligation under the Loan Agreement.

Secretary Snyder Writes Again

On Jan. 27 Secretary Snyder wrote Mr. Dalton again as follows: I have read with Great interest and care your letter of Dec. 17, 1946. In response to my letter of Oct. 31, 1946, with reference to the Agreement signed by the Governments of the United Kingdom and Argentina on Sept. 17, 1946. I am pleased to have assurance of your understanding that Section 10 (11) of the Financial Agreement of Dec. 6, 1945, provides that one year after the effective date of

the Agreement any sterling balances released will be freely available for current transactions in any currency area.

May I now advert to two points in your letter which give me especial concern.

You suggest, first, that "it is not possible to separate the terms of any agreement . . . in this difficult field from the circumstances of the negotiations, or the facts of the trade with the country (concerned)." I assure you that I appreciate fully the difficulties involved in the negotiation of the

(Continued on page 785)



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Universal Military Training "A Must"

By HON. ROBERT P. PATTERSON*
Secretary of War

Secretary Patterson, in noting three basic requirements of an army for this day and age, viz: (1) universal military training; (2) a volunteer regular army; and (3) adequate funds, contends universal training is "a must." Cites need in case of war to go into action immediately with trained men. Wants volunteer army of over one million men and analysis allocation of \$6.7 billions Army budget. Pleads for public support and greater interest in the soldier.

Today the community of nations which make up this world are in a position analogous to a pioneer community of early American



Robert P. Patterson

history. This international community has just delivered a stunning defeat to the hostile savages who threatened our civilization. Now we are seeking to set up an international police force and system of justice through the United Nations, to remove forever from mankind the threat of war.

In and about every community there are forces of evil, that would use power ruthlessly if they dared. To the pioneer community of settlers, those dangers were warlike tribes, desperadoes, road agents, bank robbers and plain frontier bullies. To the international community, they are totalitarians, dictators, schemers. All have the

*An address by Secretary Patterson before the Women's Patriotic Conference of National Defense, Washington, D. C., Jan. 26, 1947.

same base purpose—to seize the property and dominate the lives of the decent folk of the community.

These forces of evil, in the international community as in the pioneer community, are restrained only by the strength of the honest, peace-loving people of the community. When there are competent courts and adequate police, we delegate to them the task of maintaining law and order. When the community has not yet developed sufficiently to have adequate police protection, law and order must be upheld by the law-abiding members of the community, individually or in concert.

In the pioneer community, anyone who advocated that the individual relinquish his private means of defense before sufficient police protection was available would be looked upon as a fool or a suspect. So, in the community of nations, America must retain her national defenses in sound condition until a competent international police force and system of justice are established firmly.

The Army is an instrument of our national defense. It has been, since the time of George Washington (Continued on page 752)

Wants World to Abandon Peacetime Conscription

Rep. Landis offers House resolution calling on President and U. S. delegate to United Nations to work for international agreement to abolish compulsory military training.

On Jan. 27, Representative Gerald W. Landis (R.-Ind.) offered a Resolution (H. Res. 73) in the House of Representatives directing the President, the Secretary of State and the United States delegation to the United Nations Organization to



Gerald W. Landis

"work unceasingly for an international agreement for the elimination of compulsory military training from the policies and practices of nations." The text of this Resolution is as follows:

RESOLUTION

Whereas the first concern of every American is the security of the Nation; and

Whereas the American people are determined that their Government shall henceforth make proper provision for the continuous maintenance of such security; and

Whereas, in accordance with this firm determination, it has become necessary to consider a system of compulsory military service in the United States as a permanent part of our insurance against unpreparedness in the event of sudden war; and

Whereas compulsory military service would result in greater restrictions over the lives and activities of our people, would impose heavy burdens on them, causing greater taxes and profound changes in their way of life; and

Whereas compulsory military service has long been customary in many European states and elsewhere, but has been con-

trary to American tradition since the founding of our Republic; and

Whereas compulsory military service has never prevented war in Europe or elsewhere but, on the contrary, causes suspicion and fears to grow between nations and inclines the rulers of men to war rather than to peace; and

Whereas most of the nations of the world have expressed their desire for peace, and resolved to make greater efforts than ever before to abate the fear and likelihood of war in the years to come; and

Whereas the United States has become a member of the United Nations and all the people of the United States desire our President to take a leading part in fulfilling the great purposes for which the United Nations organization was formed; and

Whereas there will never be a better time than the present period following the cessation of hostilities in World War II to secure international agreement looking to permanent peace; and

Whereas an agreement between the nations of the world to eliminate systems of compulsory military service would itself be greatly conducive to that restoration of peace which is so profoundly desired by all the plain peoples of the world, and would release their energies and resources for rebuilding their war-devastated countries; and

Whereas world-wide abolition of compulsory military service in no way precludes the maintenance of national or international

military forces adequate for safeguarding national or collective security; Therefore be it

Resolved, That, before the United States adopts compulsory military service, the President of the United States, the Secretary of State, and the United States Delegate to the United Nations organization, Warren R. Austin, be, and hereby are, urged to work unceasingly for an immediate international agreement whereby compulsory military service shall be wholly eliminated from the policies and practices of all nations.

Hess, Blizzard & Co. Open Municipal Dept.

PHILADELPHIA, PA.—Hess, Blizzard & Co., 123 South Broad Street, announce the opening of a Municipal Bond Department and the association with them of Russell M. Dotts as manager of the department. The firm, which has membership on the Philadelphia Stock Exchange, was formed early



Russell M. Dotts

this year by Arleigh P. Hess, formerly a partner of Boenning & Co. and the partners of Herbert H. Blizzard & Co.

Theodore H. Joffe & Co.

HOBOKEN, N. J.—Theodore H. Joffe has formed Theodore H. Joffe & Co. with offices at 706 Bloomfield Street to engage in the securities business.



NSTA Notes

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago held its twentieth anniversary midwinter dinner on Jan. 28. Total attendance was 490, with 90 out-of-town guests. Special guests of honor were Thomas Hart, Regional Administrator of the Securities and Exchange Commission and officers of the National Security Traders Association, including R. Victor Mosley of Stroud & Co., Philadelphia, President of the National Association.

The main ceremony of the evening was the introduction to the membership of the new officers who will assume office on March 1. These are Lawrence Marr, E. H. Rollins & Sons, Inc., President; John C. Rogers, Hickey & Co., Vice-President; Stanley Dawson-Smith, Straus & Blosser, Secretary; and Paul Eax, Kidder, Peabody & Co., Treasurer.

25 valuable prizes were awarded, and a convertible station wagon, fully equipped, costing about \$2,500, was awarded to Roy Reed of E. H. Rollins & Sons, Inc., Chicago.

(Pictures taken at the Chicago Bond Traders Club dinner appear in the Pictorial Insert.)

NATIONAL SECURITY TRADERS ASSOCIATION

The National Security Traders Association held its annual midwinter meeting in Chicago, followed by local meetings in Kansas City and Minneapolis. The Eastern group was headed by R. V. Mosley of Stroud & Co., Philadelphia, National President.

No. of RR. Employees Declines to 1,353,389

Employees of Class I railroads of the United States, as of the middle of December, 1946, totaled 1,353,389, a decrease of 3.12% compared with the corresponding month in 1945, and 2.07% under November, 1946, according to a report issued by the Bureau of Transport Economics and Statistics of the Interstate Commerce Commission.

A decline under December, 1945, is shown in the number of employees for every reporting group with the exception of trans-

portation (other than train, engine, and yard), which shows an increase of 2.12%. The percentages of decreases are:

Executives, officials, and staff assistants, 0.36; professional, clerical and general, 1.22; maintenance of way and structures, 8.63; maintenance of equipment and stores, 4.36; transportation (yardmasters, switchtenders, and hostlers), 4.06, and transportation (train and engine service), 0.92.

A. A. Harmet Teletype

CHICAGO, ILL.—A. A. Harmet & Company, 208 South La Salle Street, announces that their teletype number is CG 301.

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February 6, 1947.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

The operating ratios of New York City commercial banks were somewhat higher in 1946 than in 1945, and their profit margins lower, according to an analysis of the operating statements of 15 leading institutions. The average operating ratio of these banks was 64.9% in 1945 and 66.7% in 1946, and average profit margins were 35.1% and 33.3%, respectively. This difference results from higher operating costs in 1946, mainly in the category of pay-rolls.

How individual banks fared, is shown in the accompanying tabulation, as follows:

	—Operating Ratio—		—Profit Margin—	
	1945	1946	1945	1946
Bank of Manhattan	66.9%	74.9%	33.1%	25.1%
Bank of New York	70.2	75.6	29.5	24.4
Bankers Trust	65.9	67.9	34.1	32.1
Central Hanover	63.0	64.8	37.0	35.2
Chase National	59.1	63.2	29.2	29.8
Chemical Bank & Trust	59.1	63.2	40.9	36.8
Corn Exchange	66.6	69.4	33.4	30.6
First National	45.3	40.4	54.7	59.6
Guaranty Trust	63.3	61.2	36.7	38.8
Irving Trust	63.7	65.2	36.3	34.8
Manufacturers Trust	68.1	70.7	31.9	29.3
National City	74.0	75.5	26.0	24.5
New York Trust	61.1	62.3	38.9	37.7
Public National	76.3	75.6	23.7	24.4
U. S. Trust	59.3	63.6	40.7	36.4
Average	64.9%	66.7%	35.1%	33.3%

*Including City Bank Farmers Trust.

Four banks, viz.: Chase, First National, Guaranty Trust and Public, show lower operating ratios in 1946 than in 1945 and consequently higher profit margins.

It will be observed that First National has the lowest operating ratio and the highest margin of profits in bank operations, while Bank of New York and Public have the highest operating ratios and the lowest profit margins. Offhand, one might suppose that this would indicate that First National's earnings on capital funds would be higher than in the case of the other two banks, while Bank of New York and Public would be about on a par with each other. However, this is not so, for in 1946 First National's net operating profits represented a return of 6.9% on capital funds, as measured by book value at the mid-year point, while Public's net operating profits yielded 9.6% on book value, and Bank of New York's only 5.9%. It is evident, therefore, that operating ratios of themselves can be misleading and that the character of the business done by a bank must be taken into account. Bank of New York, First National and Public National, as banking institutions, are

not strictly comparable, one with the other, and it seems evident that the rate of turnover of capital by Public National is approximately 70% greater than that of the Bank of New York and 40% greater than of First National.

An interesting comparison is that of Chase National with National City, for these two institutions are rather similar in character. Chase has a moderately lower operating ratio than City, and a moderately higher profit margin on business transacted. But National City's net operating earnings in 1946 yielded 6.6% on book value against Chase's 6.2%.

Corn Exchange, Manufacturers Trust and Public National form another interesting set of comparisons. It will be noted that Corn's operating ratio of 69.4% is the lowest of the three, and its earning yield on book value of 10.0% is highest of the three. Manufacturer's operating ratio is somewhat better than that of Public, but the latter earns fractionally more on book value.

The amount earned on book value by net operating profits, exclusive of security profits and recoveries, in the years 1945 and 1946, for the 15 banks under review is shown in the accompanying tabulation:

	1945		1946	
	Bk. Val. 6-30-45	Net Oper. 1945	Bk. Val. 6-30-46	Net Oper. 1946
Bank of Manhattan	29.45	3.12	30.96	2.56
Bank of New York	425.83	33.11	441.65	25.97
Bankers Trust	46.89	3.39	48.38	3.10
Central Hanover	105.96	8.79	113.63	8.04
Chase National	39.50	2.36	41.81	2.59
Chemical	36.90	3.07	40.91	2.87
Corn Exchange	52.10	5.43	54.79	5.50
First National	1,310.40	98.65	1,349.24	92.54
Guaranty Trust	341.53	19.06	352.75	20.08
Irving Trust	21.94	1.32	22.41	1.35
Manufacturers Trust	46.39	4.90	56.29	5.26
National City	42.37	2.84	45.60	3.03
New York Trust	90.65	7.94	103.11	7.40
Public National	48.13	4.76	50.30	4.85
U. S. Trust	764.59	46.42	768.62	44.07

Average 7.9% 7.3%
 *Including City Bank Farmers Trust. †Book value in 1945 adjusted to 25% stock dividend; earnings on 2,500,000 shares. ‡440,000 shares in 1945; 550,000 shares in 1946.

It will be noted that the average return was 7.3% in 1946 compared with 7.9% in 1945. However, Chase National, Guaranty Trust, and Public National improved their rate in 1946, while Irving's rate remained unchanged at 6.0%.

Nation's Expanded Money Supply Called Major Problem

Reduction of national debt from budget surplus, and increased sales of U. S. Savings Bonds to investors, is urged in Committee study. Notes strength of banking system, and desire manifested by institutions to increase lending to private enterprise.

Inflationary forces arising from a great expansion in the nation's money supply, can best be curbed at source by reducing the Federal debt and inducing non-bank investors to buy more bonds and thus reduce the 89 billion dollars in Government bonds now held by commercial banks, according to a study of our national debt and the banks made public yesterday (Wednesday) by the Committee on Public Debt Policy, headed by W. Randolph Burgess.



W. R. Burgess



Roy L. Reiersen

The study was drafted by Roy L. Reiersen, economist of Bankers Trust Co., New York, and has been reviewed and approved by the Committee. It describes the expanded money supply as the major economic problem arising out of war financing, the solution of which "is largely a matter of Government fiscal policy and Federal Reserve policy and not a matter of bank management."

"Never before in the nation's history," the study finds, "has the money supply been so large either in terms of its absolute size or in relation to national income. During the six defense and war years the amount of money in circulation increased almost fourfold, from 7.6 billion dollars at the end of 1939 to 28.5 billions at the end of 1945.

"During the same period, demand deposits of commercial banks increased almost threefold, from 29 billions to 75 billions. If time deposits and Government deposits are included, total deposits of commercial banks increased from 45 billions at the end of 1939 to 128 billions at the end of 1945, almost a threefold growth." The increases in deposits during the war years reflect large purchases of Government securities by the banks to support the war financing program. The banks were in effect underwriters of the great war loans—ready to take what could not be sold to other investors.

Bank Holdings of Debt Must Be Reduced

The Committee believes the only effective method for restoring a more normal balance between the supply of money and the volume of business, is to reverse the process by which the money supply was increased during the war; in short, to follow policies that will reduce bank holdings of the Federal debt. This means reducing the national debt out of a budget surplus and selling more bonds to investors largely through continued and increased distribution of savings bonds.

The great increase in bank holdings made necessary by war financing, the study finds, has transformed the banks largely into institutions investing in Government securities rather than institutions lending to private

enterprise. This development is described as a matter of concern to many bankers, a great majority of whom "have had, and still have, an active desire to increase their lending to commerce, industry, agriculture and individuals." As an indication of this desire, an expansion of their loans and a reduction of their holdings of Government securities since the Victory Loan of 1945 is cited.

The commercial banks at the beginning of 1940 held \$15.6 billions of the Government debt; six years later they held \$88.9 billions, but so great was the increase in Federal borrowing during that period, the study finds, the percentage of the banks' holdings of the Government debt actually was reduced from 33 to 32%. While this expansion of more than \$73 billions in the banks' holdings of the Government debt was occurring, their loans were increased by less than nine billions, a large part of this increase being attributed to the banks' contribution to the defense and war effort through extension of loans to industry and to enable others to purchase Government bonds.

Successful war financing, requiring purchase of large amounts of Government securities by the banks and the writing up of deposit credits for the Government's use, "blows up the (banking) system far beyond its natural size," according to the study. The process, it adds, "changes the structure of banking. It affects profoundly the problems of both commercial and central banking and requires establishment of new relationships between commercial and central banks. In all these changes the public interest is greatly involved. Inflation of the banking system inflates the money supply. The influence of the vast increase in the money supply

permeates the whole economic structure and affects all our economic life."

Quality of Bank Asset Rated High

While bank capital is now about 13% higher than it was in 1929, deposits are nearly 250% larger and loans and investments about 200% higher. However, because of a substantial improvement in recent years in the quality of bank assets, the study views the decline in the capital cushion as not so serious as the ratio of these percentages might imply, adding that "the condition of bank assets, on the average, has probably never been better than it is today." The study concludes that "The war has left the banking system and commercial banks strong and in a good position to meet the demands of their customers."

Governmental fiscal policies, Federal Reserve policies and other phases of the debt problem, the Committee on Public Debt Policy indicated, will be discussed in subsequent studies to be made public during the next few months.

Colonial Sand Shares Publicly Offered

Emanuel, Deetjen & Co. and Allen & Co. on Feb. 4 offered 250,000 shares of \$1 par value common stock of Colonial Sand & Stone Co. Inc., to the public at \$5 per share. The issue has been oversubscribed.

Proceeds from the sale of 125,000 shares of the stock will be used by the company to retire outstanding bank loans and to purchase new equipment. The balance of 125,000 shares is being sold for the account of Generoso Pope, President of the company.

After giving effect to this financing, the sole outstanding capitalization will consist of 775,000 shares of \$1 par value common stock out of a total authorized issue of 1,000,000 shares.

The company, organized in 1911, and its wholly owned subsidiary, North Shore Sand & Gravel Corp., supply construction materials to contractors in the New York metropolitan area and parts of Westchester, Nassau and Suffolk Counties.

Consolidated net profit of the company and subsidiaries for 11 months ended Nov. 30, 1946 amounted to \$474,398, which compares with a net profit of \$129,053 for 12 months ended Dec. 31, 1945.

Buckley Bros Announce Appointments in Phila.

PHILADELPHIA, PA.—Buckley Brothers, 1420 Walnut Street, members of the New York and Philadelphia Stock Exchanges, announce the appointment of Walter D. Fixter, heretofore manager of their municipal department, as general sales manager in charge of both the municipal and corporate departments.



Walter D. Fixter

Announcement was made also of the appointment of Ford Ryerson Jennings as assistant sales manager of the corporate department.

The firm, whose principal office is in Philadelphia, has offices in New York, Los Angeles, Pittsburgh and seven other cities.

Percentage Breakdowns on Gov't Bond Portfolios and Sources of Income 19 New York City Bank Stocks 1946

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Switzerland and Bretton Woods

Calling attention to Switzerland's failure to join Bretton Woods, correspondent points out reasons, as: (1) Swiss fear of excessive gold imports and consequent price inflation; (2) Swiss adherence to bilateralism and objections to restrictions on its international trade or monetary policies; and (3) the small role compared with large nations Switzerland could have both in the International Bank and International Monetary Fund. Holds, despite objections, Switzerland will eventually join Bretton Woods institutions.

BASLE, SWITZERLAND—The time has come for Switzerland to decide whether to apply for membership in the International Monetary Fund and the International Bank for Reconstruction and Development. Switzerland is naturally anxious to participate in all organizations set up, or to be set up, by the United Nations. There are, however, two opinions about the wisdom of joining the Bretton Woods plan. While other countries which hesitate whether to join are worried about the disadvantages that might arise through their weakness, Switzerland's hesitation is due to fear of disadvantages that might arise through its financial strength.

Australia and some other countries are reluctant to join the International Monetary Fund, for fear that application of the Bretton Woods plan would deprive them of the means of defending their trade balance and internal economies, and would force them to deflate and pursue a policy leading to unemployment and depression. Switzerland is reluctant to join the Fund for fear of totally different consequences. The Swiss opponents to Bretton Woods use mainly two arguments: (1) to join Bretton Woods would result in a heavy influx of gold, causing inflationary effects; (2) as the Swiss franc is one of the scarcest currencies, before very long the "scarce currency clause" would be applied against Switzerland.

Swiss Gold Holdings

Switzerland is suffering from an *embarras de richesse* as a result of the substantial increase of its gold stock during and after the war. It has led to a considerable increase of the note circulation. To counteract it, the Swiss National Bank has been selling gold bars and coins, even though in doing so it has encouraged hoarding, and has been feeding the black market of the continent. Towards the end of 1946 further encouragement was given to the withdrawals of gold. Until then only authorized dealers were allowed to withdraw, but now this restriction has been considerably relaxed, in the hope that an increased demand for gold would mop up some of the note circulation.

At the same time, the Federal Government has relieved the National Bank of some of its gold holdings, even though it had to borrow money to that end, at the cost of a by no means negligible increase of the burden of the public debt.

In the circumstances it is no wonder that an influx of gold is viewed with disfavor in Berne, and is discouraged as far as possible. In order to prevent a sharp appreciation of the franc against practically all currencies, the Swiss National Bank had to buy up the dollars, and other hard currencies offered for sale, even though it means an increase of the gold reserve. It also accepted gold from Britain in payment for the francs supplied to British tourists in Switzerland. On the other hand, the Swiss negotiators put up a strong fight against the acceptance of gold from the Argentine in repayment of the Swiss tranche of the Roca Loan. Eventually they had to give way, but not until they had received assurance from the Argentine Government that the gold to be paid over would eventually be "redeemed" through an Argentine export surplus to Switzerland.

Under prevailing conditions it is no wonder that the clause of the

Bretton Woods Plan under which members can be compelled to sell gold to the International Monetary Fund against their national currencies is viewed with disfavor in Switzerland. Fears are entertained that the application of this clause might result in the dumping of large quantities of unwanted gold on the country, and that, as a result, the Swiss authorities might lose control over the country's monetary policy. As things are at present, Switzerland accepts gold from other countries as a result of specially concluded payments agreements. Under the Bretton Woods Plan the initiative would be taken out of its hand.

It is widely felt that Switzerland would relinquish a considerable part of its sovereignty in matters of monetary policy in return for participation in the Bretton Woods institutions, in which its influence would be quite negligible. Many other small countries are in the same position. But while they join the Bretton Woods institutions for the sake of the financial facilities they can get from them, this consideration does not arise as far as Switzerland is concerned. On the contrary, it would have to relinquish its sovereignty in return for being allowed to provide some of the financial facilities needed by others, without even retaining the control over granting such facilities. It is felt that Switzerland would get the worst of both sides of the bargain.

Switzerland and Bilateralism

Admittedly, in this respect Switzerland's position is similar to that of the other financially strong countries, including the United States. While, however, the United States can exercise a high degree of control over the policy of the Fund and the Bank, Switzerland's vote would count for nothing. What is perhaps even more important, the American policy in favor of multilateral free trade, for the sake of which the United States was prepared to hand over to the Bretton Woods institutions the control of considerable amounts of dollars, is not favored in many Swiss quarters. It ought to be recalled that the first two exchange clearing agreements were concluded in 1931 by Switzerland, with Hungary and Austria, so that it is justified to regard Switzerland as the originator of the policy of bilateralism. Even now Swiss foreign trade is largely based on bilateral agreements which produce, on the whole, satisfactory results. The country is therefore far from enthusiastic about the prospects of plunging into the uncertainties of multilateral free trade.

Nor is Switzerland keen on exposing itself to the application of the scarce currency clause. Such is the demand for Swiss francs that it would almost certainly be declared scarce if Switzerland joined the Fund, unless it were prepared to grant large loans abroad, which is contrary to its present policy. Otherwise adherence to the Fund would almost certainly entail discriminatory measures against Switzerland. Indeed the chances are that Switzerland would be the first

country against which the scarce currency clause would come into operation.

Switzerland Will Eventually Join

In spite of the strength of the case against joining Bretton Woods, it seems certain that Switzerland will eventually decide in its favor. Like other neutrals, Switzerland is anxious that any surviving differentiation between Allies and neutrals should be removed. Nor is it keen on remaining in isolation. On the other hand, Switzerland would like to know exactly what it stands to gain through full economic cooperation with the United Nations. That will only become evident after the Geneva trade conference in April. If the outcome is the establishment of various important international economic organizations which would have something to offer to Switzerland in return for the sacrifices entailed in joining Bretton Woods, then the Federal Government will decide to take the rough with the smooth and put up with the disadvantages of Bretton Woods for the sake of benefits from other directions. But the vague hopes that *laissez-faire* in international trade would work out to the advantage of all would in themselves be not sufficient inducement for the Swiss to accept a curtailment of their economic sovereignty.

Joseph R. Neuhaus Joins Neuhaus & Co.

HOUSTON, TEXAS—Joseph Rice Neuhaus becomes associated with Neuhaus & Co., Union National Bank Building, underwriters and distributors of Municipal and Corporate Securities. This firm was organized by his father, Hugo V. Neuhaus, who continues to be the head thereof, in 1907.

Joseph Rice Neuhaus graduated from St. Paul's School, Concord, New Hampshire, and Yale University 1940; he also spent a year in the Graduate School of the University of Texas. He served as a Major of Infantry with the 76th Infantry Division in the invasion of Germany. Prior to returning to Houston, he spent a seven months' training period with Smith, Barney & Co. in New York.

Retires From Partnership

David C. Moss withdrew from partnership in Andre De Saint-Phalle & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, on Feb. 1.

Wants Free Market for New Gold

Rep. Clair Engle introduced bill to permit sale and circulation of newly mined gold in U. S. Says it will help mining industry.

Representative Clair Engle (R.-Cal.) on Jan. 27 introduced a bill in Congress to permit the purchase, sale and trading in gold "for any purpose whatsoever" within the territorial limits of the United States and thus abolish present ban on gold trading in the United States. According to Rep. Engle the measure has a two-fold purpose:



Clair Engle

1. To help free the gold mining industry from crippling Federal regulations.
2. To provide a possible outlet for investment purposes and thus stimulate the industry through an increased demand for gold.

"It is not generally realized but gold mining is the only industry in the United States that is required to sell its product to one customer, the Federal Treasury, at a fixed price which is often less than the cost of production," Engle asserted.

"By getting rid of present regulations that prohibit the possession and circulation of gold, the mining industry will be placed on a par with other industries and the gold miner can sell his product domestically, when and where he wants to," the Congressman added.

Engle said he believed if gold is restored to circulation, many persons will "snap it up, even at premium prices."

"There never has been a more stable commodity on earth, and as a guard against inflation or deflation gold has no equal," Engle said.

The Congressman said if his bill received favorable action he probably would follow up with a measure to permit the sale of newly mined U. S. gold anywhere in the world.

The text of the bill follows:

A BILL

To permit the sale of gold within the United States, its Territories and possessions, including Alaska.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, notwithstanding any law or Executive or-

der, gold in any form, mined subsequent to the enactment of this Act within the United States, its Territories and possessions, including Alaska, may be bought, sold, or traded upon the open market within the United States, its Territories and possessions, including Alaska, for any purpose whatsoever.

Roosevelt & Son Is 150 Years Old

Roosevelt & Son is this year celebrating its 150th year. The history of the firm from its founding in 1797 by James I. Roosevelt to deal in hardware down to its current activities in the management of investment funds, estates and trusts, is a chronicle of the family's activities since the American Revolution and a commentary on the expansion of New York City and the United States. It moved from hardware to building supplies, to the importation of Dutch plate glass, and after the Civil War, to investment banking, a natural departure in view of the firm's close association with foreign and domestic banks and with the leaders of American industry.

In the early part of the 20th century, Roosevelt & Son, under the leadership of William Emlen Roosevelt, turned to the financial sponsorship of communications companies. However, after World War I, when it became evident that American business and finance were undergoing great change, the members of the firm, realizing that scientific investment management would be as important in the new era as investment banking in the old, made conservation of invested capital its primary concern. In 1933, Roosevelt & Son completely abandoned its investment banking activities to confine itself to the management of funds and trusts in its care. Investment Managers Co., formed under the sponsorship of Roosevelt & Son, acquired the management contract of Fundamental Investors, Inc. As a result, Roosevelt & Son is today trustee for or manages funds believed to be in excess of \$100,000,000.

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Emanuel, Deetjen & Co.

Allen & Company

February 4, 1947

Railroad Securities

The purchase by Alleghany Corporation of a substantial block of New York Central common stock has captured the public imagination and there has been widespread speculation as to just what may be the ultimate objective. Presumably the shares will be sold to Chesapeake & Ohio, the latter already having asked for tenders of the stock. In many quarters it is apparently considered likely that the Alleghany-Chesapeake & Ohio

group eventually contemplates actual control of New York Central. Control by these new interests does not appear in near-term prospect. For one thing, the stock purchased so far represents less than 5% of the total amount of stock outstanding. Also, all stock purchased must, by order of the Interstate Commerce Commission, be deposited with the Chase National Bank as voting trustee. At least for the time being, then, the Alleghany-Chesapeake & Ohio group will have no direct voice. Whatever may be expected along the line of a shift in control over the longer term has not so far had any particular market influence on New York Central securities.

In view of the policies followed by Pere Marquette and New York, Chicago & St. Louis under control of Chesapeake & Ohio there are many who feel that if New York Central is to come under the same control the debt retirement program might be accelerated materially. Basically this would be highly constructive although it would probably seriously modify any thought there may be of continuing dividends on the stock. From a traffic standpoint, also, there might be some eventual benefit to New York Central from affiliation with the Chesapeake & Ohio but any possible benefits would almost certainly be modest in relation to Central's size and normal traffic levels.

In the meantime the present operations of Central and the near and intermediate term prospects are far more potent market influences than the question of

any possible long-term implications in the question of control. From this standpoint there is little that Central security holders can find to be happy about. The road has turned in one of the poorest postwar performances to be found among the major carriers of the country. What is even more discouraging than the bare earnings figures is that the road has displayed no trend towards a gradual better control over expenses as have most other roads.

In the final month of 1946 the road's gross was just nominally higher than it had been a year earlier. The year-to-year gain in freight revenue was not quite offset by the drop in passenger business and there was a sharp percentage rise in the relatively unimportant express business. The rise in transportation costs far outstripped the modest gain in revenues. The transportation ratio for the month climbed to 52.3%. This was almost four points higher than for December, 1945 when inefficient operations were to be expected as a result of the initial impact of the war's end.

Obviously it is dangerous to point to operations for one month as a measure of the status of a railroad. What is discouraging about the situation is that December was not an exception, it merely marked the continuation of a trend apparent since VJ-Day. For the year as a whole, New York Central's transportation ratio was above 47%. Traffic and general expenses absorbed about 7% of gross, taxes other than Federal income taxes required 7.7%, and net equipment and joint facility rents 3.1%. Exclusive of maintenance items the charges to gross in arriving at net operating income absorbed some 65% of the revenues.

Recent press statements indicate that maintenance outlays may be curtailed. Unless the other items, which absorbed 65% of last year's gross, can also be cut fairly drastically, however, it is difficult to see how Central will be able to show much, if anything, in the way of profits even under anticipated prosperity conditions. Analysts will be watching carefully to see if the road can make any progress with respect to transportation costs in particular.

Light, Wofsey & Benesch

BALTIMORE, MD.—Light, Wofsey & Benesch, Inc. has been formed with offices at 225 East Redwood Street. Officers are Abraham A. Light, Chairman of the board; Herbert I. Benesch, Treasurer; Marvin M. Wofsey, Secretary, and Leo N. Light, Vice-President. Messrs. Light and Wofsey were formerly partners in Light, Wofsey & Co.

NASD Announces New Committee Appointments

WASHINGTON, D. C.—Herbert F. Boynton, Chairman of the National Association of Securities Dealers, Inc., and head of H. F. Boynton & Co., Inc., New York, has announced appointment of Governors of the Association of Executive, Finance and National Business Conduct Committees. The following were appointed to the Executive Committee, with Mr. Boynton as Chairman: Wm. K. Barclay, Jr., Philadelphia; L. Raymond Billett, Chicago; Harlan Herrick, Wichita; Robert C. Kirchofer, Raleigh; John B. Shober, New Orleans; J. Robert Shuman, San Francisco. Named to the Finance Committee in addition to Mr. Shober and Mr. Shuman were: Irving D. Fish, New York, Chairman; T. Jerrold Bryce, New York and G. M. Phillips, St. Paul.

Wallace H. Fulton, Executive Director, serves as an ex-officio member of the Executive and Finance Committees.

Mr. Kirchofer was named Chairman of the Business Conduct Committee of NASD by Mr. Boynton and the following were named to the committee: W. Rex Cromwell, Dallas; Wilbur G. Hoyer, New Haven; Walter E. Kistner, Chicago; Joseph L. Ryons, Los Angeles; Burdick Simons, Denver and John O. Stubbs, Boston.

Heads Stock Exchange Quarter Century Club

Fred A. Knobel, employed 30 years ago by the New York Quotation Co., subsidiary of the New York Stock Exchange, and now Plant Manager of that company, was on Jan. 23 elected President of the Quarter Century Club of the Exchange, succeeding William H. Kennedy, a Supervisor on the trading floor. Mr. Knobel became associated with the Quotation Co. in January 1917, after being graduated from the Edison Technical School. The Quarter Century Club comprises an active membership of 135 employees and 35 retired employees.

John S. Grogan, a reporter on the floor, employed 28 years ago, first as a telegrapher, was elected Vice-President. To the office of Secretary of the Club elected Arthur Rundt, a Floor Supervisor, employed in 1915. Otto Schumm, a veteran of 26 years, also a Floor Supervisor, was elected Treasurer. Oscar Lassen, head carpenter of the Exchange, is the senior member of the club in age and employment. He is 85 years old and, in May, will complete 52 years of continuous service. Guest of honor at a dinner two years ago when he was awarded the diamond service pin, Mr. Lassen has always refused to take a vacation. He is the eighth employee of the Exchange or its affiliated companies to complete a half century of service.

The annual dinner of the club was held on Jan. 23 at Whyte's Restaurant.

Leo Gottlieb, Inc.

Leo Gottlieb, Inc., 40 Exchange Place, New York City, is engaging in the securities business.

Calls Budget Record of Extravagance

National City Bank of New York blames pressures on President to spend more money and warns people must see futility of railing at government for reckless spending while clamoring for Treasury funds for pet projects.

The February issue of the "Monthly Bank Letter" of the National City Bank of New York contains an analysis of the President's Budget recently submitted to Congress and though calling it "a record of extravagance," lays the cause to momentum of spending programs which got their legislative start in past years as well as to propensity of voters to clamor for Treasury funds for their own pet projects. Says the "Letter": "What the whole budget situation reveals is the discouraging outcome of 15 years of spendthrift legislation by Congress, directed and urged on by the Administration. It is a good illustration of what happens when money comes easy, and people go on the Micawber philosophy that it is always possible to put off balancing the budget until tomorrow.

"In justice to the President, it should be said that the budget gives many evidences of a sincere effort to keep expenditures down. The pressures from all quarters to spend more money are terrific. Moreover, the President, in seeking to reduce costs, is hampered by all sorts of legislative commitments which limit his discretion. To get expenditures down enough to provide real relief to the taxpayer many of these will have to be repealed, shaved down, or allowed to expire.

"The President calls attention to various priority and preference provisions which have slowed up the disposal of surplus government property. He recommends gradual reduction of soil conservation payments to farmers, estimated at \$311 million for fiscal '48, pointing out that 60% of such payments go to about one-eighth of the nation's farmers who, he asserts, because of their strong position in American agriculture, would undoubtedly continue the best farm management practices anyhow. He suggests examination of the possibilities of making charges to cover the cost of certain government services now rendered free, including a reasonable share of the cost of providing specialized transportation facilities, such as airways. We have already referred to his recommended unification of national defense as a measure for economy and efficiency in the armed services.

"In calling for an extension of the Reconstruction Finance Corporation beyond its June 30, 1947 expiration date, the President recommends the repeal of 'all powers not required for peacetime activities' and a reduction of \$2.5 billion in its unused borrowing authority. But it should be possible to go a good deal farther than this. There is no reason why, with the present ample supply of credit, the RFC should be planning to lend next year hundreds of millions of dollars and to put its guarantees on some thousands of loans besides. To do so on the scale projected in the budget will not only use up the substantial proceeds from the liquidation of wartime activities but involve a further drain on the taxpayers' money.

"The momentum of programs which got their legislative start in past years is strikingly revealed by the President when he points out that even though no initial appropriations for any new flood control, navigation and reclamation projects are contemplated, expenditures for these purposes will be on the rise through fiscal 1949. An uptrend in civil public works generally has been set in motion by past legislation, some of it in anticipation of a postwar slump. The total figure (spread over a number of the functional classifications) is \$1.7 billion for fiscal 1947 and \$2.1 billion for fiscal 1948. This uptrend is some-

thing that, in the President's words, 'deserves careful consideration by the Congress.'

"All suggestions looking towards removal of legislative barriers to economy, or proposing new avenues of saving, should have the careful consideration of Congress. To be effective, however, measures for economy must have the support of the voters back home. People must see the futility of railing at the Government for 'reckless spending' while at the same time clamoring for funds from the Treasury for pet projects of their own. What happened last summer when local pressures forced modification of a cutback in the public works program is an example of how not to make progress in reducing Government expenditures."

Marx Admits Feuer and Jemison; Opens Branch in Birmingham, Ala.

Marx & Co., 37 Wall Street, New York City, members of the New York Stock Exchange, announce the admission of John S.



Abram J. Feuer John S. Jemison, Jr.

Jemison, Jr. and Abram J. Feuer to general partnership in the firm, effective Feb. 1. Mr. Jemison will be resident partner in the firm's Birmingham, Ala. office, and Mr. Feuer will be located in New York. The Birmingham office, in the Brown-Marx Building, is successor to Marx & Co., Inc., which was established in 1900. Cullom Walker and Robert B. Fore are Co-Managers of the Birmingham branch.

Since 1941 Mr. Jemison was associated with Goldman, Sachs & Co., in charge of that firm's southern underwriting and commercial paper. For 10 years prior to that he was an assistant cashier at the Bank of the Manhattan Company. During the war Mr. Jemison served for 3½ years in the Navy, and was discharged from active service as a commander.

Mr. Feuer has been associated with Marx & Co. since its inception and has under his supervision the firm's research and trading departments. Previously he was with J. R. Williston & Co.

Morris Heads Govt. Security Dealers

R. C. Morris, Vice-President of the Bankers Trust Co. of New York, has been elected Chairman of the Government Security Dealer Group, succeeding Robert A. Love of Charles E. Quincey & Co.

The Government Security Dealer Group was formed in 1939 and since that time has worked in close cooperation with the Federal Reserve Bank of New York in its operations for the account of the Open Market Committee.

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Foresees Renewal of Upward Trend in Bank Deposits and Assets

Northern Trust Company of Chicago points out increases in commercial, real estate and consumer loans may reverse downward trend of last year.

The February issue of "Business Comment," published by The Northern Trust Company of Chicago, contains an item calling attention to factors tending to reverse the downward trend of earnings, assets and deposit liabilities of banks in the coming months. According to the article, the chief factors making for the decline—the withdrawal of government deposits for debt retirement and repayment of loans made to purchase government securities—are virtually at an end, the article said, while expansive factors such as increases in commercial, real estate and consumer loans are now gaining the ascendancy.

Taking the weekly condition statements of reporting member banks in 101 cities as fairly representative of the banking system as a whole, the Bank said that changes in commercial, real estate and other (chiefly consumer) loans are the most significant factors tending to expand assets and liabilities. The total as well as the percentage expansion in these loans dwarf all previous experience of record, the article pointed out.

As of Dec. 31, 1946, the reporting banks had a total of \$14,201 millions in this form of assets, a 40% increase for the year. Real estate loans showed the greatest percentage rise, up 42.7% over a year ago, a gain of \$468 million. Commercial, industrial and agricultural loans totalled \$10,269 million, a rise of \$3,020 million or 41.6%. Other loans, including those to consumers, gained \$572 million, or 32%, to reach \$2,369 million.

Another factor operating to expand earnings assets and deposits in the financing of production and trade was bank purchases of government and other securities from business firms and other holders, the Bank noted.

"The extent of this influence is obscured by other changes," the article said, "but instances where business firms have had to sell substantial amounts of treasury securities to meet financial needs are numerous. Such sales, as well as the rise in commercial borrowing from banks, will continue as long as the dollar volume of business expands, and bank deposits will go up correspondingly."

The rising tendency in demand deposits adjusted was dampened by the substantial repayment of loans previously incurred to purchase government bonds. According to the Bank, insurance companies and other investors used accumulating cash to pay off these loans, or to purchase from borrowers securities which the latter were carrying with these loans.

An estimated \$5 billion received by non-bank holders of maturing Treasury issues tended to raise private demand deposits in 1946, a factor which will not be present to the same degree in 1947, the article said. Practically all of these funds were deposited initially in the commercial banks and, except to the extent that these funds were reinvested in securities held by the banks, the net effect was a shift from government deposits to private de-

Adams & Peck Admit Three New Partners

Adams & Peck, 63 Wall Street, New York City, announce that W. Wayne Battelle, Francis M. Durkee and Leland H. Wiley have become partners in the firm. Asa B. Carmichael has become associated with the firm in its sales department.

posits and an increase in required bank reserves.

The growth of time or savings deposits has slackened off, with only a 7% increase noted in the last half of 1946, the Bank said. Such a decline is ascribable not to any reduction in aggregate incomes, but to the greater availability of goods and the increase in the cost of living. However, the article pointed out, time deposits are still growing in substantial amount as compared with prewar years.

Fitzgerald Incorporates Opens New Branches

Fitzgerald & Company, a partnership, announces a change in the firm name to Fitzgerald & Company, Incorporated. Officers of the corporation are Vincent Fitzgerald, President; J. George Frings, Vice-President; John T. Nicholson, Jr., Vice-President; W. F. Fitzgerald, Secretary, and Fred Stein, Treasurer.

The following have become associated with the company in its New York office: Kendall Stearns, sales manager; George J. Addy, Raymond T. Bauer, Dorrance Davies, Fred G. Kuhlman, Eli Urdang, and A. v. K. Rose, trader.

The firm also announces the opening of offices at 1500 Walnut Street, Philadelphia, and in Allentown, Pa.; Easton, Pa.; Harrisburg, Pa.; Wilkes-Barre, Pa.; and Atlantic City, N. J.

In charge of the Philadelphia office will be Wharton B. Carroll, formerly an officer of W. H. Bell & Co.; Benjamin A. Brooks; Randolph C. Fernon and Charles L. Wallingford. The sales force, clerical staff and trading department of W. H. Bell & Co. have been absorbed by Fitzgerald & Co.

C. F. Anderson With Carter H. Corbrey & Co.

(Special to THE FINANCIAL CHRONICLE)
LOS ANGELES, CALIF.—Clarence F. Anderson has become associated with Carter H. Corbrey & Co., 650 South Spring Street. Mr. Anderson was previously with Fewel & Co., Gross, Van Court & Co. and O'Melveny-Wagenseller & Durst. In the past he was manager of the trading department for Searl-Merrick Co. and Banks, Huntley & Co.

J. J. Majewski With Corbrey in Chicago

CHICAGO, ILL.—Joseph J. Majewski has joined the trading department of Carter H. Corbrey & Co., 135 South La Salle Street. Mr. Majewski has been associated with various investment houses on La Salle Street for many years and for the past six years has been with Straus & Blosser.

Wellington Bull Dead

Wellington E. Bull, former Wall Street broker and director of the Linotype Machine Corp., died at his winter home in Mesa, Ariz., at the age of 67. He had been a partner in the brokerage house of Wellington E. Bull & Co. and President of the United States Securities Corp.

Kuhn, Loeb & Co. Celebrating 80th Anniversary; Firm Founded in New York in 1867

Kuhn, Loeb & Co. celebrated its 80th anniversary Feb. 1. Abraham Kuhn and Solomon Loeb, merchants from Cincinnati, organized the firm in New York City on Feb. 1, 1867. During the years some of the key partners in the firm were:



George W. Bovenizer

Jacob H. Schiff, (1875-1920, Died); Abraham L. Wolff, (1875-1900, Died); Felix M. Warburg, (1897-1937, Died); Otto H. Kahn, (1897-1934, Died); Mortimer L. Schiff, (1900-1931, Died); Paul M. Warburg, (1902-1914, Resigned—Now on Federal Reserve Board); Jerome J. Hanauer, (1911-1932, Resigned); Lewis L. Strauss, (1929-1946, Resigned—Now on Atomic Energy Commission).



Sir Wm. Wiseman

The present partners of the firm are: George W. Bovenizer, Sir William Wiseman, John M. Schiff, Gilbert W. Kahn, Frederick M. Warburg, Benjamin J. Bottenwieser, Hugh Knowlton, Elisha Walker, Percy M. Stewart, Robert F. Brown.

In 1875, Jacob H. Schiff, a son-in-law of Solomon Loeb, was admitted to the partnership, and it has been said that through his guiding genius the firm of Kuhn, Loeb & Co. reached its important position in the banking world.

The Warburg name became associated with Kuhn, Loeb & Co. in 1897 when Felix M. Warburg became a partner, and in 1902 Paul M. Warburg, a brother of Felix Warburg, was admitted to the firm. Felix Warburg, in addition to his interest in civic and philanthropic affairs, was very active until his death in 1937. Paul Warburg resigned in 1914 to become Vice-Chairman of the Federal Reserve Board. His resignation was a great loss to the firm.

Mortimer L. Schiff, son of Jacob H. Schiff, was admitted to the firm in 1900 and continued until his death in 1931. Mr. Schiff inherited much of his father's financial ability and is also remembered for his leadership in youth movements. At the time of his death, he was President of the Boy Scouts of America.

Otto H. Kahn, a son-in-law of Abraham Wolff, was admitted in 1897 and continued until his death

in 1934. Mr. Kahn was noted not only as an outstanding financier but also as a patron of the arts.

John M. Schiff, son of Mortimer L. Schiff, and Frederick M. Warburg, son of Felix M. Warburg, are direct descendants of Solomon Loeb, and Gilbert W. Kahn is the son of Otto H. Kahn and grandson of Abraham Wolff.

The firm has long been identified with the railroad history of this country and has had a continuous banking relationship with many of the major systems, including Pennsylvania; Union Pacific; Southern Pacific; Illinois Central; Baltimore & Ohio; Chicago & North Western; Chicago, Milwaukee, St. Paul & Pacific; Missouri Pacific and Delaware & Hudson. The successful reorganization of the Union Pacific in 1897 gave the firm its eminent position in the field of railroad finance.

From railroad banking into other fields of transportation, communications and heavy indus-

try was a natural transition. Some of the other transportation companies for which Kuhn, Loeb & Co. have acted as bankers are Eastern Air Lines, Pan-American Airways, Douglas Aircraft, Moore McCormack Steamship Lines and General American Transportation.

In the field of communications Western Union is the most outstanding, whereas among the heavy industry corporations for which this firm has been banker are Bethlehem Steel, Inland Steel, National Steel, Wheeling Steel, Youngstown Sheet & Tube, M. A. Hanna and Westinghouse Electric. Other industrial concerns financed by Kuhn, Loeb include Armour and Co., CIT Financial, Sinclair Oil, Tide Water Associated Oil and U. S. Rubber Co.

In international finance, Kuhn, Loeb & Co. have been identified with financial operations on every continent; to mention a few, the Governments of Sweden, Norway, Holland, Argentine and Japan, the Mortgage Bank of Chile, and the municipalities of Paris, Bordeaux, Lyons, Marseilles, Oslo and Copenhagen.

Kuhn, Loeb & Co. were instrumental in placing securities of many of our large railroads with European investors, as well as pioneering the introduction of shares of large foreign corporations in this market, notably, Royal Dutch and Shell Transport & Trading.

During World War II, five of Kuhn, Loeb's partners volunteered for service in the armed forces. Lewis L. Strauss, who resigned as partner in November, 1946, to become a member of the Atomic Energy Commission, went on active duty in the Navy in 1941 and rose to the rank of a Rear Admiral; John M. Schiff and Benjamin J. Bottenwieser were likewise in the Navy, ending their active duty as Commanders, and Gilbert W. Kahn as a Lieutenant. Frederick M. Warburg was a Colonel in the Army, and Hugh Knowlton was Vice-President of the United States Commercial Co., an affiliate of the Reconstruction Finance Corp. The other partners, under the leadership of Elisha Walker, conducted the firm's business and took an important part in War Bond and War Fund Drives, as well as other similar activities.

Clayton Governor of Federal Reserve Board

Lawrence Clayton of Massachusetts has been named to be a member of the board of governors of the Federal Reserve System by President Truman. His term would expire Feb. 1, 1952. The nomination will fill the seventh post on the board for the first time in seven years.

Mr. Clayton was Assistant to Marriner S. Eccles, Chairman of the board, from December 1934 until he resigned in January 1945 to become President of the Clayton Securities Corp., of Boston.

Bass in New Quarters

NASHVILLE, TENN.—Jack M. Bass & Co., Inc. announce their removal into the Lobby Floor of their own office building at 315 Fourth Avenue, North (Chamber of Commerce Building). This building, one of the larger office buildings of the city, has been purchased by the firm.

Now Proprietorship

HOUSTON, TEXAS—Alva W. Snyder is now sole proprietor of A. W. Snyder & Co., Bankers Mortgage Building Fred P. Hamill having withdrawn from membership in the firm.



John M. Schiff



Gilbert W. Kahn



Fred M. Warburg



B. J. Bottenwieser



Hugh Knowlton



Elisha Walker



Percy M. Stewart



Robert F. Brown

Mutual Funds

By JOHN DEAN

Results Over A Term of Years Are Test of Management

The Broad Street Corporation shows a dramatic rise in the value of its shares and an increase in its dividends. These results have been achieved by thoughtful selection of securities and continuous supervision of portfolio purchases, in addition to careful economical management. A large staff of research students who serve both the Broad Street Corporation and the Union Service Corporation make carrying charges less but this in no way cuts the amount of work at the disposal of either fund; it merely is another indication of thrifty planning.

Copies of "Steel—Pacemaker for Peacetime" Still on-Hand.

Hugh W. Long, whose research staff knows good reports announce that there are still some copies of "Steel—Pacemaker for Peacetime" to be had. The story in this brochure of the magnitude of steel operations, and the dependence of other industries upon steel output is well done. Steel is used in making most things one buys so that the aim of steel producers is to maintain low selling prices which is of importance both to American industry as a whole and to the individual consumer. The capital investment in this business is \$4,696,000,000. Mills have pro-

duced at the rate of more than 80,000,000 tons a year. It may surprise some to learn that wages "are highest in peacetime history" while "for the past 10 years steel profits have averaged less than five cents per dollar of sales."

Special Distribution of 70¢ Per Share!

Extensive research to determine the soundest and wisest channels in which to put savings permitted the Massachusetts Investors Trust to pay \$1.10 a share in 1946, or a total of \$8,029,582.15. This their 22nd annual report proudly relates, plus the reminder that this exceeded last year's disbursements. Shareholders were given the choice of receiving the special distribution from realized capital gains in either full shares of the Trust with cash adjustments for fractions or entirely in cash. 67% elected to take new shares rather than cash, a remarkable tribute to the management, whose fine record deserves this evidence of appreciation.

Value of Growth Stocks

Massachusetts Investors Second Fund places emphasis on the selection of common stocks of companies with definite growth prospects. The 14th annual report indicates holdings in 55 companies in 12 different industries such as natural gas, chain stores oils, chemicals, building materials and drugs. Their portfolio contains many of the country's leading companies' offerings. It is an impressive list.

Investment Policies Based on Realism

Investors are served efficiently and economically by the Eaton & Howard Balanced Fund says their 15th annual report. Common sense realism and research guide their policies. In placing savings emotion must be avoided and factors weighed with knowledge so that a balanced diversification may be obtained. The report contains an unusual table of investments and holdings; bonds are 19.82% of the fund's resources, preferred stocks 25% and common stocks 53.47%. The common stock list is made up of building, oil, advertising, aviation, drugs, food products, chemicals and other excellent shares. All this is set forth in the table.

National Securities & Research Now 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.

A Yard Stick of Market Velocity

The First Mutual Trust Fund of the National Securities Series has a chart based on percentage advance from '46 lows to '46 highs. The factor of market velocity is of considerable importance since it indicates the volatility of the underlying portfolios, and its meaning varies in bear and bull markets.

The Nation's Earnings and Stock Prices

"Keynotes" of the Keystone Company of Boston issued a chart illustrating the movements of the Dow-Jones Averages and the national income. By study of this chart which runs back to 1910 it is illuminating to note that the wars increased the national income and stock prices. If the past is a pattern of the future it is not likely that the national income will recede to the prewar levels. The Keystone Plan provides a supervisory service in securities by classes, thus the investor is able to select that class of securities most appropriate for his special needs.

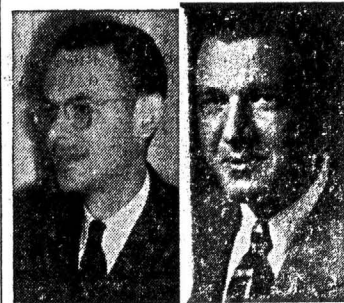
A Living Wage for Investors

This is advocated by the George Putnam Fund of Boston who consider one of the major objectives of a prudent investment program is to secure a living income. They seek to make certain of giving holders of their shares a reasonably steady annual income. This they have done for the past nine years.

[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.]

Gayne, Robbins & Co. Formed in Cleveland

CLEVELAND, OHIO—Gayne, Robbins & Co. has been formed with offices in the Union Com-



Morton A. Gayne Wm. T. Robbins

merce Building. Partners will be Morton A. Gayne, member of the Cleveland Stock Exchange; William T. Robbins, and Ralph M. Bloom. Mr. Bloom will be in charge of the firm's office in Chicago at 39 South La Salle Street.

Mr. Gayne was formerly partner in Gayne & Co. Mr. Robbins was with Ball, Burge & Kraus in the trading department, and Mr. Bloom was in charge of the Chicago office of J. F. Reilly Co.

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THE ELECTION OF

JOSEPH E. WELCH
VICE-PRESIDENT AND TREASURER

RAWSON LLOYD
VICE-PRESIDENT AND SECRETARY



A MUTUAL INVESTMENT FUND—PHILADELPHIA 7, PA.

Universal Military Training "A Must"

(Continued from page 747)

ton, the servant of the people, subordinate at all times to the civil power. It never has set policy, although its existence has been a factor in international policy. Unfortunately, in the past, the weakness of the Army in peacetime has been a source of strength to our enemies. It is time that we try making our national might a source of strength to our friends and to ourselves.

In peace, as in war, the Army's sense of organization has been a bulwark to the nation. We have used that organization to open our frontiers, to construct our railroads, to build the Panama Canal, to develop our rivers and harbors, to control floods. Today we are using it to establish democratic, responsible governments in Germany and Japan.

There are three basic requirements for an Army sufficient for this day and age, adequate to safeguard the nation until such time as the community of nations can guarantee peace. Those requirements are: Universal Military Training, a volunteer Regular Army, and funds with which to operate at the minimum demanded by safety.

Universal Training a "Must"

Universal Military Training is a must. The obligation of every citizen to bear arms in defense of his country long has been a recognized principle of our democratic way of life. In the past there has been—or we have been able to take—time to train those men between the hour when the war cloud first loomed on the horizon and the hour when the storm hit us. In the future there will be no time lag during which we can prepare. Our first inkling of actual hostilities may be bombs and guided missiles crashing into our cities.

In such a crisis, our military defense must be able to go into action immediately. Even while our Regular Army is launching the counter-attack necessary to halt the enemy and our National Guard and Organized Reserves are mobilizing to crush the aggressor, the able bodied citizens of the stricken communities may have to go into action to repel enemy paratroopers, to restore communications and transportation, to care for the victims of the attack. Only trained men, disciplined to co-operative effort in an emergency, can meet the need of that hour. The time to train those men is now; the means, Universal Military Training.

By that program, too, we shall have the men needed for a reservoir of trained strength to meet the conditions of a prolonged or wide-spread war.

Regular Army of Over a Million

A volunteer Regular Army also is in line with our historic national policy. For the coming year we need an Army of 1,370,000 men, three-fourths of whom will be required for occupation duty or for the support of the troops on that duty. As a contribution to world peace today and in the future, the successful occupation of Germany and Japan is beyond comparison. How we succeed in that task will determine the fate of the next generation of Americans.

To carry out the occupation duties in the best possible manner requires volunteers. Only if our recruiting campaign fails will we have recourse to Selective Service. Whether recruiting can succeed should be determined by the reports of our Recruiting Service at the end of this month.

When our occupation duties end, we shall still need a Regular Army of volunteers. Only volunteers

can and will make a career of the Army. And only an Army that offers an honorable, interesting and profitable career can attract the intelligent, capable men needed to use the weapons and equipment that American science and industry are giving us. Those weapons and equipment guarantee America's place in the world. We shall lose that place if we lack men capable of using them in the defense of the nation.

Army Budget, \$6.7 Billions

To maintain our Army in the fiscal year beginning July 1, 1947, there has been submitted to Congress a budget of \$6.7 billions. Of that total, \$1 billion is for civil functions of the War Department—Alaskan Communications System, the Panama Canal, flood control—and, more important, for relief and military government in the occupied areas. Unless we have those 725 millions for the occupied areas, our occupation, at the worst is threatened with failure; at best, will become a long-time and costlier drain on the American pocketbook.

Of the remaining \$5.7 billions, something over \$3 billions will be for the Air Forces. This includes \$850 millions specifically provided for airplanes, fuel and equipment solely for the Air Forces, plus \$2 billions for food, clothing, pay, transportation and other services provided by Army service forces for the Air Forces. This amount for the arm which is our principal protection against surprise attack allows for a 70-group Air Force, only 55 of which groups would be at even 80% strength.

The entire bill for pay and allowances of the Army is \$2.65 billions; for food, clothing and essential Quartermaster supplies, \$728 millions, and for transportation of troops and supplies, \$400 millions.

This budget is the result of long and careful consideration by the War Department. It has been cut to fit the minimum, basic needs of the Army in carrying out the assignments given to us by the American people. If it is reduced further, we will not be able to carry out these assignments effectively.

These, then, are the tangible needs of the Army—A competent reserve of trained men sufficient for an emergency, a volunteer Regular Army of career soldiers capable of handling the intricate weapons of war, and a sufficient sum of money to carry out the missions assigned to us in 1947-1948.

But there is an intangible required by the Army on which its entire success depends. That is the appreciative support of the American people. Without it, administration, personnel and finances will be wasted. With it, the American Army will be respected in peace, invincible in war.

Wants Public Support

It is in filling this requirement that you and the organizations you represent can be of the greatest help to the Army, for public support is largely a matter of community interest and enterprise. In the communities, you wield a powerful influence.

I have referred to public support as an intangible, but it is manifested by tangible actions. During the war, the morale and enthusiasm of the soldier were upheld considerably by his personal patriotism, by his hatred of the enemy who was threatening his country, by the knowledge that he was the fighting representative of a nation aroused to war and united to back up its fighting men.

Every community tried to do itself in demonstrating to the soldier how strongly it was back-

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ing him. There were canteens at the railroad and bus stations for the soldiers passing through town; there were organized recreation centers, reading rooms and writing lounges there were civic and church entertainments at which he could meet wholesome young people of his own age; there were letters from schoolmates, fellow workers or business associates. There was a friendly word, a feeling that "nothing is too good for the soldier."

Today's soldier has an assignment fully as important, if not as dangerous, as that of the wartime soldier—safeguarding the peace won at such tremendous cost in battle. If today's soldier were to fail, the lives and wealth expended in 1941-1945 would have been sacrificed in vain.

Today's military assignment whether carried out in the occupied areas or in the United States, lacks the excitement and uplift of wartime service. But today's soldiers become lonely and homesick, just as did the men in 1941-1945. They have a longing to know that they are appreciated, especially in their home towns, that they are not forgotten, that their fellow Americans respect the uniform they wear.

Yet, unfortunately, in too many communities the attitude has changed since V-J Day. War is something people want to forget. Instead of virtually every family's having one or more members in service, only a few have a man in the Army and he is most likely to be a volunteer. Those in service are not in any apparent danger. The headlines are not filled with their gallant exploits.

And so, the community forgets. The canteens are closed. The recreation centers are dark. The civic groups and churches turn to other activities. The flow of letters overseas dwindles. The young recruit, returning home for a visit, is likely to be treated as just another man with a job. If he is in a strange community, no civilian seems to care particularly whether he finds clean entertainment, no entertainment—or evil entertainment.

I know that the American people are not callous or indifferent. I know they have the same pride in their Army and its soldiers that they always have had. And I am certain that if the proper impetus is applied in a community by individuals or organizations who know the need, that there will be a re-awakened, personalized interest in our soldiers, at home and abroad.

The importance of community support of the Army is illustrated by this report of a wartime incident.

An outfit in training was on desert maneuvers near Los Angeles. The nearest community available to the troops was a small town, into which the GI's, many of them small town boys away from home for the first time, flocked whenever they could. There were no facilities to entertain them and none were forthcoming from the community. Instead, the citizens, disturbed by the soldiers' efforts to find their own amusement, showed resentment. The soldiers, hurt and bewildered, in turn reflected that resentment by their behavior in camp and in the field. Morale sank lower and lower.

Finally, Special Services officers, desperate or inspired, turned to the civilian agencies in Los Angeles. There they found co-operation. Army trucks took the soldiers into Los Angeles over the weekends for well-planned recreation sponsored by the community. The men returned to camp on Mondays with a new outlook. The tempo of the maneuvers speeded up. Morale soared. Soldiers who were needed for victory regained that spirit without which victory is impossible.

It was recognition of the great military value of civilian commu-

nity interest in the soldier, first extolled by Dr. Raymond Fosdick, civilian aide to General Pershing in World War I, that led to the establishment of the Special Services Division in the Army, to cooperate with and supplement the work of civilian agencies.

The American community supported the soldier in superior fashion to win the war. If it will support him equally well now, we can win the peace. We need sup-

port for our Universal Military Training program, for our recruiting campaign; for our budgetary needs. We shall receive that backing if we have support for the soldier as an individual serving his country. The Army, which is composed of individual soldiers working together, will repay that support by safeguarding the peace as thoroughly as it did its part for victory in the war.

Budget Must Be Cut Deeply

(Continued from first page)

reversed. This cannot be done in a day. But it will be done. It will be done swiftly and effectively. The future we are trying to design for America is a sound, prosperous, progressive future. We must build it on a solid foundation. We intend to move as fast as efficiency permits, but we do not intend to be stampeded into hasty, ill-conceived or ill-considered action of any kind. What we do now means too much to America and the world.

This Congress is beset by many serious and far-reaching problems. There are the immediate and pressing problems of effecting economies in the Federal government so as to reduce the burden of debt and to lighten the rigors of taxes, of encouraging full production through the achievement of industrial harmony.

Upon these subjects—budgets, debt, taxes, and labor—public attention has been primarily centered in recent days. It would be a mistake to consider these questions only as problems of the present. Therefore, what we propose to do about these problems today we shall consider in the light of the future. This is the long-range plan of the Congress.

Americans are not alone workers, or managers, or farmers, but citizens with broader needs and greater aims than the restricted purposes of any narrow economic group. Progress will be achieved in America by us all drawing together in the spirit of community action and community cooperation on common problems.

A Common Sense Approach

The approach to the Federal Budget must be one of common sense combined with proper consideration for the fiscal and economic problems left over from the war. Common sense would dictate that we lighten the burden of debt and taxes so as to free American citizens to enjoy more of the fruits of their labor. We must cut down the Federal budget and so find in those economies the savings which will permit the lowering of taxes, balancing the budget, and the beginning of a program of debt reduction.

Everyone must realize that in a Federal budget which amounts to \$37 billion there are many places where we can accomplish economy. We need not forego any essential governmental services, but this budget must be cut and cut deeply. The achievement of many small economies will add up to a tremendous total saving.

This saving must be distributed with wisdom and fairness between debt reduction and tax reduction.

We must begin to put the finances of the Federal government back on a sound basis and encourage the individual initiative of all Americans to bring about healthy business expansion, full employment, and better real incomes and wages for all.

Proposed Labor Legislation

In this same attitude we can approach the problems of management and labor. Industrial harmony will be achieved in a spirit of mutual fairness and tolerance. What we need is a good neighbor policy in labor-management relations. Good neighbors respect each other, are equally responsible to each other, and work together for their mutual improve-

ment. Good management and wise labor leadership recognizes a basic and common interest in the fruits of the job both in wages and in production.

Toward this essential goal, Congress is now engaged in the preparation of legislation to achieve equal justice and equal responsibility in labor-management relations. No special group or groups can be permitted to enjoy a monopoly of power to strangle the economic or social progress of the people of America.

In the face of the greatest national debt in the history of any country, we cannot risk pitfalls which would cause our economy to collapse like a house of cards. We must struggle to avoid depressions at all costs. We must give private enterprise the green light to make the American way succeed. Private enterprise should have our full encouragement to create full employment for our millions of veterans, war workers and all the people who need to work.

No one can disagree with these aims—no one would wish these aims to fail—unless he wishes America to fall. We recognize that there is a very small, but a very powerful and strategically placed minority in our country which seeks to destroy our American system and set up in its place a system of Communism or some closely related form of Fascism. That is their way of attempting to climb to personal power.

They are the enemy within our gates, but we must defeat them. They do not work in the open. They have wormed their way into posts of power from which they try to shape government policies and influence public opinion. Our task is to find them and remove them. That is what we propose to do.

With all the economic opportunities that lie before us, with all the scientific advancements and technical improvements, with all the potentials of atomic power and electronics, and agricultural research, we need only to determine to work together in freedom and in justice to achieve a fuller life and a new age of abundance for all Americans.

Wm. Lockwood Honored By New York Curb Exch.

William A. Lockwood was guest of honor at a luncheon held at the Lawyers Club in celebration of his 25th anniversary as general counsel of the New York Curb Exchange.

The luncheon was tendered by Edwin Posner, Chairman of the board and President pro tem of the Curb Exchange, and was attended by Francis Adams Trustlow, who will assume the Presidency of the Curb on March 1.

Among the other guests were Edward C. Werle, recently nominated for the Chairmanship of the Board of Governors of the Curb Exchange, and Fred C. Moffatt, President of the Curb Exchange Securities Clearing Corp.

Colonel Lockwood, as he is known to his associates, assumed the post of chief legal adviser to the Curb Exchange at this time in 1922, not long after the Curb moved into its present quarters to become an indoor securities mar-

NY Security Dealers Association to Hold Twenty First Annual Dinner March 7

The 21st annual dinner of the New York Security Dealers Association is scheduled to take place in the Grand Ballroom of the Hotel Waldorf-Astoria on March 7, according to announcement today by George Geyer of Geyer & Co., Inc., Chairman of the Dinner Committee.

Wellington Hunter of Hunter & Co., has been appointed to handle hotel reservations for out-of-town guests. Chester E. deWillers



John J. O'Kane, Jr.



George Geyer



Wellington Hunter



Bertram Seligman



Chester E. deWillers

of C. E. deWillers & Co. is in charge of the Ticket Committee. Bertram Seligman of Ward & Co., is head of the Advertising Committee.

The Ticket Committee comprises: Chester E. deWillers, Chairman; Richard M. Barnes of A. M. Kidder & Co.; Otto Berwald, of Berwald & Co.; George L. Collins of Geyer & Co., Inc.; Tracy R. Engel of Buckley Brothers; Irving L. Feltman of Mitchell & Company; Herbert D. Knox of H. D. Knox & Co.; Frank H. Koller, Jr., of F. H. Koller & Co., Inc.; Stanley L. Roggenburg of Roggenburg & Co.; Herbert Singer of Luckhurst & Co.

The Advertising Committee comprises: Bertram Seligman, Ward & Co., Chairman; Harry R. Amott of Amott, Baker & Co., Inc.; James Currie, Jr. of Troster, Currie & Summers; Frederick D. Gearhart, Gearhart & Co., Inc.; Leo J. Goldwater, of Goldwater, Frank & Ogden; Hanns Kuehner of Joyce, Kuehner & Co.; T. Reid Rankin of R. H. Johnson & Co.; John F. Sammon of J. F. Sammon & Co.; George A. Searight of Aetna Securities Corp.; Erwin Stugard of Bond & Goodwin, Inc.; Melvin S. Wien of M. S. Wien & Co.

John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., is Chairman of the Entertainment Committee; Frank Ginberg, Strauss Bros., Inc., is Editor of the Year Book; Wellington Hunter will be in charge of room reservations for out-of-town guests.

Joint FTC-SEC Business Survey Planned

One of the first instances of President Truman's plan for closer teamwork between government agencies which compile statistics is the working out between the Federal Trade Commission and the Securities and Exchange Commission, with the aid of the Budget Bureau, of the most complete business condition reporting systems yet devised, according to Associated Press advices of Jan. 20 from Washington. Under the plan the Trade Commission is embarking on a three-way figure-keeping project, viz:

"An analysis of OPA records to supply a picture of wartime business profits; a survey of industry's 1946 financial position, and similar surveys for 1947 and future years made in abbreviated quarterly statements followed up by comprehensive annual reports.

"The OPA records already have been transferred to the Trade Commission. The FTC collected somewhat similar data before the war but let OPA do the job beginning in 1942."

The result is expected to be a general over-all report on what happens in the nation's industrial economy. The Associated Press also had the following to say:

"The SEC will share in the job with FTC in collecting data from approximately 10,000 concerns in 532 different types of industry. Both agencies have powers to require answers to their questionnaires. First forms, due to be mailed out in the next few weeks, will seek data on 17 different cost items rather than two as did the FTC's prewar form."

Officials have expressed the

hope that when these detailed figures on industrial costs and profits become available they may serve to eliminate some argument between employers and unions and lead to smoother collective bargaining.

Harry Fahrig Back At Trading Desk

PHILADELPHIA, PA.—Harry H. ("Happy") Fahrig, Jr., manager trading department, Reynolds & Co., 1500 Walnut Street, has curtailed his vacation at Fort Myers, Fla., to assume his duties as Chairman of the Special Events Committee of the Investment Traders Association of Philadelphia. Preceding the Association's annual dinner at the Benjamin Franklin Hotel Friday, Feb. 21, the local bowlers are hosts to the New York legions on Thursday evening. Aside from the preparation for the Special Events noted above, Mr. Fahrig has resumed his task of laying out the floor plans of Reynolds' new offices at 1528 Walnut Street.

Canadian Securities

By WILLIAM J. MCKAY

The part played by Canada in the initial stages of the Atomic Age is truly symbolical of the Dominion's future world position. The U. S. A., by virtue of its resources, its size and population, its initiative in the field of technology, and its natural genius for leadership has no immediate rival in world preeminence. Disregarding the incalculable potential of Russia, the only other country which gives promise of maintaining the modern pace of progress is Canada.

Even today despite its lack of population, its immature development and its youthfulness as a world power, the Dominion is pressing close on the heels of this country. Canadian science, technology, and industry have wisely avoided the mistake of striving for Canadian individuality and have taken advantage of the practical experience of this country and of Britain.

In the case of the development of the atom bomb, Canada was not only a partner with this country and Britain in the scientific research but it was also the Dominion that supplied the essential material. In the field of aviation our northern neighbors made no attempt to evolve an original design, but have achieved a notable success in adopting the best commercial air-frame produced here to which they added the best available British motor.

Following in the path of this country the Dominion is in course of attracting within its borders the cream of the world's industry. In some cases, such as the industrial flow from Britain, the migration is the result of dire necessity. In others it is the natural consequence of the unrivaled ability of the Dominion to provide the best available factory sites backed by a wealth of virgin natural resources.

As this situation develops it will not be long before Canada will be compelled to adopt a policy for planned immigration. An inflow of skilled artisans will lead to growth of new industrial cities.

This in its turn will tend to stimulate farm production and a greater capacity to absorb agricultural and forestry labor. Finally the greatest of the Canadian economic handicaps will be overcome by the establishment of a broad domestic market for the Dominion's prolific production. Thus the shape of things to come in the world of tomorrow casts a Canadian shadow of rapidly growing proportions.

During the week the market for external bonds continued firm but activity was still limited by the dearth of supply. The internal section was again the center of interest and sustained demand carried the price level of the Dominions through par. At one point the supply of "arbitrage" bonds was over-absorbed and purchases were made over the free rate. As a consequence there was a strong rally in free funds and the rate moved up sharply to 4% discount. It is interesting to note that with the rapidly growing interest in internal Dominions, which still afford the attractive return for this high-grade form of investment of 3%, there is the distinct possibility of the free rate moving into line with the official quotation. It would appear that we are nearing the end of the transition period following the revaluation of the Canadian dollar, and with the waning of the bearish sentiment in both the New York and Toronto stock markets, the liquidation of Canadian stocks by holders in this country is likely appreciably to diminish. As a result the flow of "arbitrage" bonds brought down from Canada in exchange is likely to come to an abrupt halt.

Internal stocks developed a sudden flurry of activity reminiscent of the gold boom days of the Toronto exchange. On this occasion the move was provoked by important new discoveries of copper-nickel deposits at Lynn Lake in Northern Manitoba. In consequence the shares of mining companies in this area, notably Sherritt Gordon, registered wide advances.

Hugo Marx & Co. Is Formed in Birmingham

BIRMINGHAM, ALA.—V. Hugo Marx and V. Hugo Marx, Jr. have formed Hugo Marx & Co. with offices in the Brown-Marx Building to engage in the securities business. Mr. Marx, Sr. since 1911 had been a principal of Marx & Co., with which his son was also associated in charge of the bond department.

Drexel & Co. Admits Steel and Barlow

Walter H. Steel and Clarence W. Bartow have been admitted as general partners of Drexel & Co.,



Clarence W. Bartow Walter H. Steel

it is announced. The two new partners will be resident at the 14 Wall Street, New York City office.

Mr. Steel became associated with Drexel & Co. in February, 1946, as resident manager of their New York Office, having previously been associated with Lazard Freres & Co., Inc. since 1935. Following his graduation from the University of Chicago in 1925, Mr. Steel started his business career with Halsey Stuart & Co., Inc. In 1932 he joined the National City Company and two years later became associated with Brown Harriman & Co. In June 1946, Mr. Steel was elected President of the Municipal Bond Club of New York for the year 1946-47.

Mr. Bartow is resuming an association begun in 1932 when he entered the employ of Drexel & Co. following his graduation from Williams College. On Sept. 1, 1938, he transferred to J. P. Morgan & Co. which was at that time affiliated with Drexel & Co. He entered the United States Army in December, 1941, as a private and was released from active duty as a captain on July 2, 1946, at which time he returned to J. P. Morgan & Co., Incorporated, as Assistant Vice-President.

N. W. Edson Returns To Doremus & Co.

After four years' service as Commander in the U. S. Naval Reserve, Nathan W. Edson has returned to the Boston general advertising division of Doremus & Company as account executive and director of research, it is announced by William H. Long Jr., President.

Mr. Edson was for three years in the Bureau of Ships in Washington as assistant to the head of the Shipbuilding Division during the time of rapidly expanding ship construction. He received a citation for the development and maintenance of production charts showing the status of the entire Naval Shipbuilding Program.

Following V-J Day, he was sent to Japan for four months with the Naval Technical Mission, and then spent six months in the Pacific in connection with the atomic bomb test at Bikini.

Observations

(Continued from page 737)

actions. The current group of non-professional individuals expends almost all its efforts "speechifying" at meetings; often even praising as well as criticizing.

Investor Lacks Pressure Group Backing

Wholly apart from detailing the colorful individual activities of such one-man committees, as well as those of several "protective" organizations such as the Investors' League and the American Investors' Union, the background motivating their very existence must be understood. This background consists of the fact that the investor as an exception in our American political structure, which is brimful of blocs and pressure groups, is wholly disorganized and hence without political or economic power.

In his relationship vis-a-vis the government, remarkably little has been done toward organization. For example, it would seem logical to expect some of the investment industry's trade associations to have taken the lead in combating Federal encroachment. Witness for example the unheeded call to action uttered last October by W. Wymond Cabell, outgoing President of the Association of Stock Exchange Firms: "If we, members of the exchanges, the Investment Bankers Association, the National Association of Securities Dealers, as well as the American Bankers Association, who possess the closest contact with both management and stockholders, will properly organize for the task, the original economic and political fundamentals of our country can be preserved." But action in those quarters remains non-existent.

The basic difficulty lies in the intrinsic separation of the functions of corporate management from ownership. As pointed out a decade ago by Messrs Berle and Means, the major financial decisions and policies of our publicly held companies, no less than their routine administrative acts, are determined by officers and directors who, even as an aggregate group, usually own less than 10% of the outstanding shares. Hence permanent conformity of directors' policies and actions with the genuine interests of the owning shareholders still remains a basic goal.

It seems that while the corporate technique has been extensively developed on the financial side, it has remained stunted in its social and political phases, as an affirmative instrument of democracy. Not so much as a matter of legal right for the individual stockholder, as for the constructive benefit of the corporate capitalistic system as a whole, genuine enfranchisement of the small investor would make the electorate realize that "big business" is also its business. Surely this would be enhanced by providing a system for all stockholders making effective their will regarding all important questions in the same way as they exercise their political rights and obligations; in lieu of merely using the proxy system as a means of getting over the nuisance of electing directors periodically, and of preserving the legal amenities with the minimum of trouble.

Pending the formation of some trade association, group or other body that will be really effective in protecting the stockholder against government and rival pressure groups, and until some mutually fair technique for adjustment of the stockholder-management relationship is arrived at, the protective legislation residing with the SEC must be relied on. But, efficient and fair overall corporate control by a Washington agency is prevented by the United States Constitution's bar against a federal corporation law. Hence in a large area our main reliance must meanwhile continue to be placed on the instrument of full publicity as a preventative of inequitable situations.

Favorable Factors in Beet Sugar Shares

(Continued from page 738)

terially reduce farmers' costs and greatly stimulate the raising of sugar beets in future years.

Another major development, which is just now being pioneered in the industry, is the ion-exchange or organolite process of making sugar from sugar beets. This is the first major improvement in the method of making beet sugar in more than 100 years. Synthetic resin is used to eliminate non-sugars in place of the former lime and sulphur treatment. The Amalgamated Sugar Co. is the first manufacturer to install this new process on a factory-wide basis. The full significance of this new method is not yet known, since it is still in the development stage. However, production, to date, is sufficiently advanced to reasonably expect greater sugar recovery, better quality sugar, and a reduced cost of production. The new process simplifies the manufacturing operation and eliminates some of the costly machinery now being used. Also, the residue product, after sugar recovery, can be made into an edible high-quality syrup, in place of the former inedible molasses, which had been used only in livestock feed and the fermentation industry. There have been several other improvements, in recent years, in beet sugar processing which have increased plant capacity and reduced the cost of production.

In past years, beet sugar equities have always sold on a low price-earnings ratio because of the inherent hazards of the industry. The risks resulted not only from the uncertainty of the volume of production and the

price of sugar, but also from political factors of a "protected" industry. It is believed that the previously enumerated three important developments are of far-reaching significance in intrenching the beet sugar industry more firmly than ever as a basic part of our national economy. The lowered cost of production, both in beet farming and sugar processing, should enable the beet sugar manufacturers to more effectively compete with foreign off-shore cane sugar. The beet sugar industry should have more stability so that earnings may be predicted with greater certainty. As time goes on, and the public becomes more aware of the dynamic advancements which have been made, it is believed that beet sugar equities will sell on a higher price-earnings ratio than they have in former years.

Ralston Steel Car Pays Off Outstand'g Bank Loans

Ralston Steel Car Co., as of Sept. 15, 1946 had outstanding bank loans to the amount of \$1,100,000 as of Jan. 15, 1947, the total amount was paid off. Apparently the freight rate decision has had a favorable effect on orders, as the company has, since the decision, received several large orders and is bidding for many others.

Edw. Sellers in Oneonta

ONEONTA, N. Y.—Edward L. Sellers is engaging in the securities business from offices at 1 Taft Avenue. In the past he was with H. C. Wainwright & Co.

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Incorporated

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Insurance Company "Private Lending"

(Continued from page 740)
 case the company selects its own "physician" who knows the habits, medical history and idiosyncrasies of the client, and where there is somewhat greater opportunity to balance his preconceived ideas of treatment with those which experience has shown to be effective.

Finally we come to the private service. Here, whether the "patient" be brought in by his family doctor or not (and in my opinion he should be), he has the benefit of the objective and diversified services of a hospital clinic to evaluate his present condition based on the past health records of each part of his corporate body and activities. This is not to suggest that anything is wrong and a cure necessary, but to determine on a sound procedure to meet existing conditions and provide what would appear to be a healthy program for the future. Right here it is important to keep in mind that while we can analyze the present based on past history (or think we can), estimates of the future are just that, and no program can be static. Periodic check-ups are desirable and there must be flexibility for changes in conditions and future requirements.

Corporate Private Lending Not New

Private lending is nothing new. It has long been one of the prime purposes of commercial banks. From its beginnings it was a personalized service and a continuing relationship, but based on the short-term turnover of inventories and the seasonal requirements of business, fixed capital requirements having been provided through equity or long-term obligations. With the rapid development of industry in the 1920s, followed by the depression and the industrial revival of the '30s, and nurtured by public regulation, the banking system gradually adopted the practice of granting credits for more than the customary 60-90 days or one year, extending out to three or five years (often ten years). Parenthetically, the borrowers, forced by circumstances, honored short-term credit more in the letter than in the spirit, renewals or switches having become the order of the day.

During the late '30s life insurance companies, or some of them, pricked up their ears. It may have been because life insurance assets were growing apace; farm and urban mortgages were understandably out of favor; policy loans were decreasing; Federal debt had not yet moved into high gear; municipal securities were no longer attractive due to tax policies; tired mortgages that had become real estate were being liquidated; the railroads were heavy with debt, in red figures and facing receivership; the banks were buying longer-term securities and lengthening out their lending into the field of institutional investors.

These were no doubt some of the factors inducing life insurance companies to take up private lending. In the case of my own company, there was another important inducement. We had in the course of years acquired a very large volume of Governments, Rails and Utilities, but our industrial investments as late as 1943 represented little more than 3% of our assets, and were concentrated in a handful of large national and international units. It appeared to us that if this country was going to continue its expansion in the future as it had in the past under a so-called free enterprise system, it was going to be largely in diversified industrial developments, many of which were accentuated by war requirements and inventions (i.e., chemicals, oil, electronics, etc.). Further, that these developments would not be restricted necessarily to the very

large units of capital but would extend through numerous smaller ones, many of which received their impetus in the war period but were strong enough to stand on their own financial feet come depression times, and large enough to command good management and to support adequate research in their field.

Limitations of Private Negotiation

Obviously private negotiation does not lend itself to Government financing, nor to the railroads where competitive bidding is the order of the day, nor to a lesser extent to public utilities where that procedure is required for the great majority subject to the jurisdiction of the Securities and Exchange Commission, the Federal Power Commission, and in some cases State Commissions. But here was a fertile field for private lending and for an increase in our industrial investments.

So much for the background of need and opportunity. Now a few words as to the procedure of private lending, the type of agreements and their provisions, supervision and follow-up, and advantages versus disadvantages.

Procedure

Enough has been said of the evolution of private lending by the commercial banks to indicate that they had no great difficulty in gradually acquiring medium and longer-term loans, at least so far as existing clients were concerned. The market was at hand in their business depositors and short-term borrowers. Nevertheless, they have in recent years carried on extensive advertising, principally in the local newspapers and trade journals, as an aid in expanding their lending and banking activities.

As to life insurance companies, I must assume there is no general pattern. The companies vary in size, in organization, in investment policies and in general thinking, and I do not know that anybody has as yet undertaken the job of studying and documenting the practices and methods of those life insurance companies engaged in private lending to a greater or lesser extent. I can only offer my company and our thinking as one example.

Until about three years ago Penn Mutual had generally limited its security investing to public offerings and open market purchases. When we undertook "private lending," without diving in head first, we let it be known to our friends in business, in the commercial banks, and in investment houses, principally in the Philadelphia metropolitan area, that we had equipped ourselves to enter this field on a modest scale. It seemed to us that while some managements might prefer to discuss their entire financing direct with one lending institution, there were others who would consider it desirable to combine their short and long-term borrowings with their normal commercial banking connections, and finally, that there were many companies of moderate size to whom private borrowing might be more advantageous than public offering of securities through underwriters but who would want to be represented by an investment house.

As we have gone along it is only natural that an increasing number of inquiries come to us direct as it becomes more generally known that we are making such loans. We have done no direct advertising nor have we "traveled the country," nor do we have branch investment offices. We have, however, spread the gospel through those of our real estate mortgage supervisors and correspondents whom we deem qualified to "open the way," and we have pointed out to our Gen-

eral Agents in industrial areas the desirability of interchange of information and contacts between the two departments to the extent that it may be proper.

With the decrease in volume of the smaller residential and business mortgages and the growth of larger mortgage loans to industrial and commercial enterprises where the prosperity of the business is just as important as the real estate security, we have felt that mortgage and corporate lending activities could well be correlated. To this end we are training some of our mortgage loan men in the details of corporate loans with a view to their acting as field supervisors in both capacities.

Enough as to Penn Mutual procedure in acquiring loans. There is plenty of business for all of us and we are moving slowly, and I hope, soundly. Over-aggressive solicitation may entail problems of public relations. We are quite selective and our screening prompt and thorough. We should not hold ourselves out as lenders and then fail to lend. If the answer must be "no," we try to make it "early in the game, and if possible, frankly to state our reasons. We do not take the time of the prospective client unless the answer is a tentative "yes," after which examination is thorough both with respect to the business, past, present and prospective, the management, and the financial position of the company.

Types of Agreements and Their Provisions

While there are no doubt variations as between insurance companies, and within companies to meet each particular situation, there is a general pattern of indentures or agreements coming down to us from the time-tested practices of investment underwriters and bank lenders. The security may be the conventional corporate mortgage, or it may be a loan collateralized, secured, or it may be an unsecured note—the most customary form of term loan. It is the last that I will discuss in terms of my own company, keeping in mind that the great majority of such loans are to industrial companies for the purposes of refinancing, or for plant expansion, or for additions to working capital.

First we describe the note (i.e., the amount, date, maturity, installment payments, interest rate, and very often the purpose of the borrowing), the form of note being attached to the agreement as "Exhibit A"; then the details of delivery of the note and the "closing" or settlement; provisions for repayment whether annual, semi-annual, or less often quarterly; the mandatory amount, any contingent amortization and any prepayment privileges to the borrower, all without premium; then the premium provisions for other retirement.

Then we have what we call affirmative covenants with respect to net working capital (less often current ratios, generally limited to the payment of dividends); application of proceeds from property sales over a certain amount; taxes or liens; insurance, compliance with laws and regulations; maintenance of properties; financial statements and other information as requested; the legality of the transaction and the lawyers' over-all clause of "further assurance."

Then the negative covenants; that is, that without the prior consent of the noteholder the borrower will not do certain things, such as create, guarantee or assume additional indebtedness except as specified (generally unsecured bank loans maturing within 12 months and often limited in amount); dispose of assets except in the usual course of business;

mortgage or pledge property, sometimes with a limited exception as to purchase money mortgages; merge or consolidate with any other corporation or dispose of its business or assets; acquire securities or make loans of more than a limited dollar amount, except U. S. Government securities; pay cash dividends or retire stock except out of income subsequent to a specified date; create subsidiaries unless substantially wholly owned, etc.

Next come the usual default provisions with respect to principal and interest payments, covenants and warranties, bankruptcy or insolvency. We also require representations and warranties with respect to corporate organization, business, rights, authority to execute the agreement and issue the note; representation of balance sheet and earnings statements as submitted; agreements adversely affecting the company's business or assets. Finally, the obligation of the insurance company to make the loan is limited to the prior receipt of legal and other opinions, documents, etc.

Supervision and Follow-Up

Now that we have our loans and hope to have more, what do we do about them? The path of least resistance would seem to indicate that they and their accompanying papers be filed away and forgotten. But prudence dictates otherwise.

As one of the affirmative covenants, I have mentioned financial statements and other information. It is our practice to require that we be furnished financial statements of the company within a reasonable time after the end of each quarterly accounting period, and an annual audit covering each fiscal year. Also an auditor's and an officer's certificate to the effect that to the best of their knowledge all terms of the agreement are being fulfilled. The officer's certificate usually contains an itemization of insurance in force so that we may determine that the company's property has been properly safeguarded against fire and other contingencies.

Upon their receipt, the quarterly and annual statements are subjected to close scrutiny with a view to ascertaining whether all the financial covenants, affirmative and negative, have been complied with. The financial information as received is not always in uniform detail and we reduce the data to a standard form consistent with the basis on which the loan was made. At the same time the statements are given a "going over" for the purpose of preparing a brief report on the progress, or lack of it, made by the company as compared to previous periods.

Any unusual aspects that may turn up are then discussed with the company in a spirit of mutual helpfulness, and other information necessary to clarify the situation may be requested. We like to think of our supervision efforts in terms of being a type of preventive maintenance, and the old saying, "An ounce of prevention is worth a pound of cure" is just as applicable to this field as it is to the field of medicine.

Advantages

These I am going to list as we see them and leave further elaboration for the discussion period.

a. Advantages to the client (please note that I choose to call him "client" and not "borrower"):
 Our theory is that we provide a service, first learning the requirements of the client, present and future, and then recommending a "tailor-made" plan which would seem to meet his particular conditions and yet adequately protect the policyholders for whom we are trustees. We have no standard forms.

Corollary advantages are:

1. Flexibility and expedition of negotiations.
 2. Simplification of the transaction, with consequent reduction of expense.
 3. Non-disclosure of figures and details of business.
 4. The opening up of a source of supply of capital funds for companies of only moderate size, there being many such which would struggle along "as is" without adequate capital rather than resort to public financing.
 5. Ease of revision, when such may be desirable — a well-nigh impossible procedure with publicly-owned securities.
 6. Financial adviser to the client — a collateral service which supplies answers to a wide variety of practical questions.
- b. Advantages to the insurance company (I don't call us "the lender"):

1. An additional outlet for life insurance funds — much needed at the present time. Not only are new loans added as the service becomes better known, but we are always ready as our present clients progress to re-set and increase their debt capital as needs increase.
2. Diversification of investments with respect to type and businesses and with respect to maturities.
3. Some increase in return, in recognition of decreased expenses to the client, assumption of total risk, and lack of marketability (we must live with the investment throughout its term, amortization being substituted for marketability). The cost of putting the loan on the books is of course greater than the purchase of a like amount of securities on a public offering where the work of investigating and documenting is largely done by others.
4. Terms of private vs. public offerings. In a seller's market such as we have been having, many securities are publicly offered with wide open terms which do not adequately protect the investors or for which they do not receive adequate compensation in the rate.
5. Close client-company relation. We receive the client's financial statements, analyze them, and if deemed advisable discuss them with the management, as well as all aspects of their business. We do not interfere with management but we know continuously what is going on and are in a position to appraise the company and its prospects.
6. Last and perhaps the greatest advantage — pay-out or sinking fund. The pay-out is an important element as it provides some shorter maturities, a more even schedule of inflow of funds, and most effectively insures security of principal and interest. As the loan is steadily reduced, it becomes less of a burden to the "client" and of higher investment quality and safety to the insurance company.

John G. Nesbett Co. in N.Y.

John G. Nesbett & Co., Inc. has been formed with offices at 25 Broad Street, New York City, to engage in the securities business. Officers are John G. Nesbett, President and Treasurer; Berrian P. Posener, Vice-President, and Bess M. Nesbett, Secretary. Mr. Nesbett was formerly with Carl M. Loeb, Rhoades & Co.

Admits New Partners

CHICKASHA, OKLA.—R. B. Nunnery, Jr. has been admitted to partnership in R. B. Nunnery & Co., Petroleum Building.

Securities Salesman's Corner

By JOHN DUTTON

There is a vast difference between theory and practice in the securities business as well as every other profession that requires a certain amount of skill. It is sometimes amusing to read the articles concerning what salesmen and customers' men should do that are prepared by those who have had no practical experience to back up their advice. Last week was a case in point when an SEC Commissioner (quite likely with the best intentions in the world) suggested at a meeting in New York that customers' men should literally sit down with their customers and read them the prospectus page by page. It probably was the Commissioner's idea that this sort of thing would in some way add to the investor's knowledge of the security he was buying, which no doubt it would, providing the investor had the patience to go through with the ordeal.

Educating the American people to do a better job with their surplus funds which they invest in all types of property is a laudable objective. We in the securities business should do our part and slowly we are beginning to educate the public to know that investing in securities should be done with care and understanding. But first of all our primary job as securities men is to make a good profit out of our business. In order to accomplish this end it is necessary to face the realities of our market, striving as we go along to inculcate not only sound investment ideas among the investing public, but also those economic ideas which are of long range importance in protecting not only our investor class but the entire population from economic chaos.

Here are a few realities that exist today when it comes to retailing securities and unless you recognize them and direct your selling operations along lines that will meet with the favor of your market you will not be conducting your own business in a manner which will give you a maximum return on your investment. As far as we are concerned we believe in the profit motive. That is another economic fact of life we should drum into our people if we are going to educate them how to be more successful investors. But to get back to those realities, here they are:

(1) There are very few simon-pure individual investors in corporate securities today whose primary concern is safety of principle. Punitive New Deal tax rates levied on the investing class has forced most of these investors into the highest grade municipal bonds. (Note the price level of municipals for the past decade, it's stratospheric.)

(2) The best protection any investor can have is to be able to shift his securities from group to group and industry to industry in this ever changing world, when government encouraged class warfare takes its toll of one business after another. What may be a pretty sound picture of the past at the time that you read a prospectus, two months later may turn into another deteriorating situation that has become the victim of labor strife, or some government inspired attack either through the Department of Justice, unsound tariff policies, subsidies to competitors, etc. Under such conditions reading a prospectus thoroughly doesn't go very far as a method of protecting investors.

(3) The majority of people who have a few dollars left after today's punitive taxes that are levied upon the business creating and job producing element in our country, would rather gamble on a 25% capital gains tax than strive for income. That is why they bought so many new issues of very doubtful quality last spring—all they wanted was a free ride.

(4) There is a saying that the public is never right. Every time they come into the securities markets in droves and are buying almost any stock that has a likely story attached to it, look out, we are getting ready for a downturn in prices. Trying to stop such a stampede is impossible, for stampede it is. If you are selling securities you may try to persuade those of your customers that haven't lost their sanity completely to take it easy. . . BUT IF YOU ARE GOING AROUND GIVING OUT SOUND ADVICE THEN YOUR CUSTOMERS WILL GIVE THEIR BUSINESS TO SOME OTHER BROKER AND HE'LL BE MAKING COMMISSIONS WHILE YOU'LL BE TRYING TO TEACH THE DEAR OLD PUBLIC HOW TO TAKE CARE OF THEIR INVESTMENTS. Until times are different you'd better take the business when you can get it. You will need those few good months earnings to make up for some of the slow ones that soon follow after such a splurge.

Survey of Potential Municipal Issues

(Continued from page 739) reported which will increase the total of the inventory to almost 5 billions. The over-all adjusted inventory in millions of dollars is included

in the table below along with estimates of issues not included in the inventory but which should reach the market sometime in the next five years. Total emissions may equal 19 billions.

soon be ready for public financing. The success of the Pennsylvania Turnpike, started before the war, has already led to a discussion of a number of ambitious programs in other parts of the country.

The purchase of existing facilities through Authorities or directly seems likely to continue and several large projects have already reached the preparatory stage.

POTENTIAL MUNICIPAL BORROWINGS (In Millions)	BORROWINGS (In Millions)		Total
	Inventory Adjusted* to 1/15/47	Probable Additional Issues 11/15/46-12/31/51	
State issues—General	\$641	\$1,193	
Soldier bonus**	924	2,764	
Local Issues exclusive of airports partially financed with Federal aid	2,441	4,739	7,180
Airport bonds other than Authorities	56	475	531
Housing Authority bonds	250	2,250	2,500
Miscellaneous Pub. Authorities incl. airports	411	2,100	2,511
Issues to acquire existing facilities	177	350	527
"Bond Buyer" Inventory 11-15-46	\$4,500	\$13,871	\$18,771
	4,577		
Increase since 11-15-46	\$323		

*All Authorities contained in "The Bond Buyer's" inventory of Nov. 15, 1946 have been withdrawn in arriving at the net local figures. The Authority items are included under miscellaneous public authorities in the table covering Potential Municipal Borrowings.

**Soldier bonus includes bonus and certain special bond issues under consideration for the specific benefit of veterans.

In the foregoing table, the figures shown as the adjusted inventory represent issues which will reach the market in the next year or two. The figures have been separated into independent categories and 250 million of Housing Authority bonds added since these are to be marketed, it is reported, by the Federal Public Housing Authority. The probable additional issues are broad estimates with the figures for State and local issues supported in a separate tabulation.

The figure appropriated by Congress under the Federal Airport Aid Act calls for an expenditure by the Federal Treasury of over \$500 million to be matched by the states or municipalities. The Federal Aid will equal 50% in the case of small airports and less than 50% for larger projects. With aviation on the increase as a new economic lever, the full use of the funds will no doubt be made and in all probability the municipalities will spend far more than the figure indicated.

The great shortage of housing virtually assures a continuation of the low-cost housing program

which was gaining headway before the war. The inventory figure represents the approximate amount of bonds that are ready for immediate distribution. These issues are for those projects rushed to completion during the war as defense housing but which can now be financed in the normal way. The projected figures represent the cost of an additional 450,000 family units to be constructed during the next five years at an average cost of \$5,000 per unit. Since the nation is expected to build seven million home units in the next five years, the figure for low-cost governmental projects would appear conservative.

The figures for projected Public Authorities including the huge airports which the larger cities must create or improve are based on projects under discussion. In this regard, it is interesting to note that in the Metropolitan area around New York over \$250 millions may be expended by Authorities on major airport development without Federal aid. In that area a number of other types of Authority projects are under consideration and one at least will

Borrowings According to States

In order to support the over-all State and local figures, the following tabulation is included to show the comparative position of each state. This table includes the adjusted inventory figures and estimates of all types of issues which can be expected to reach the market in the next five years.

The portion of the table covering additional issues above the inventory figures is admittedly a series of estimates. These estimates are based either on plans under discussion or obvious needs. Bond issues included in this group have not yet been approved and will require some time to reach the market.

In the case of the additional soldier bonus issues only those States have been included where Veteran organizations are now actively campaigning. The feeling among Veterans is rapidly rising that if one State hands out a bonus all others will have to fall in line.

While the increased supply of new issues of tax-free securities will be tremendous in the next five years, being more than the currently outstanding total, no precipitous fall in tax-free bond values seems likely so long as taxes remain high, easy money prevails and care is exercised in timing flotations.

During the next five years, many bonds currently outstanding will mature and many of those to be issued will mature as well. While the new flotations will be heavy, only a portion of them will actually increase the outstanding tax-free debt on balance.

During the war period, the municipal market had to absorb only small amounts of new issues and bonds were maturing far faster than new emissions were being offered. Taxes rose to fantastic levels, forcing individual investors to seek refuge in tax-free bonds. The result was to drive prices to an all time high. With the pressure of taxes on individuals dropping and with the supply increasing, a price adjustment was necessary before commercial banks could be attracted to the market. The decline during the fall and winter of 1946 did increase bank buying and fairly heavy additions were made to municipal portfolios of the commercial banks for the first time in many years. As the Government retires short-term debt without furnishing other investments the commercial banks will turn more and more to municipals as a source of earnings. The intelligent buying of this type of investor will improve the marketability of municipals and tend to reduce fluctuations. While the amount of pending new issues is imposing, it must not be forgotten that the resources of commercial banks have greatly increased in the last five years.

Hanrahan to Address Rocky Mt. Group of IBA

DENVER, COLO.—Edmond M. Hanrahan, Commissioner of the Securities and Exchange Commission and former member of the New York law firm of Sullivan, Donovan and Hanrahan, will address a luncheon meeting of the Rocky Mountain group of the Investment Bankers Association Feb. 6.

PROJECTED STATE AND MUNICIPAL FLOTATIONS, 1947-51 (In Millions)

State	Population	Adjust. Inventory—1/15/47		Additional Issues During Next 5 Years		Local
		State	Local	State	Miscell.	
Alabama	2,812	\$2	\$6	---	\$15	\$50
Arizona	630	1	9	\$20	10	25
Arkansas	1,780	---	3	50	10	40
California	8,823	100	186	200	100	300
Colorado	1,120	---	12	35	5	40
Connecticut	1,786	9	7	50	20	30
Delaware	286	---	1	8	5	10
Florida	2,385	---	53	---	15	100
Georgia	3,191	15	41	50	10	120
Idaho	500	---	3	12	5	12
Illinois	7,721	387	350	---	50	400
Indiana	4,438	---	1	120	30	100
Iowa	2,259	90	7	---	5	60
Kansas	1,740	---	14	50	10	30
Kentucky	2,578	1	12	---	10	40
Louisiana	2,456	41	14	---	50	60
Maine	786	---	---	---	---	7
Maryland	2,125	7	41	---	30	150
Massachusetts	4,183	15	11	125	25	120
Michigan	5,471	270	13	---	30	300
Minnesota	2,497	---	10	80	20	100
Mississippi	2,080	---	8	---	20	30
Missouri	3,556	3	81	110	20	160
Montana	457	13	4	15	5	15
Nebraska	1,198	---	14	45	10	40
Nevada	159	---	---	4	2	5
New Hampshire	452	10	1	---	5	10
New Jersey	4,201	35	13	130	45	200
New Mexico	531	---	5	15	5	20
New York	12,584	408	794	450	192	510
North Carolina	3,504	15	26	---	50	100
North Dakota	520	12	2	15	10	10
Ohio	6,873	---	196	250	50	300
Oklahoma	2,034	---	12	60	10	60
Oregon	1,206	31	13	20	10	50
Pennsylvania	9,193	50	196	300	50	350
Rhode Island	758	20	15	---	5	30
South Carolina	1,906	---	7	---	25	50
South Dakota	555	---	4	15	10	15
Tennessee	2,879	5	21	---	25	75
Texas	6,787	25	185	300	100	360
Utah	617	---	3	20	5	15
Vermont	310	---	---	---	2	5
Virginia	3,079	---	6	---	15	50
Washington	2,089	---	26	60	25	100
West Virginia	1,724	---	2	50	20	25
Wisconsin	2,952	---	12	100	20	50
Wyoming	247	---	1	5	2	10
		1,565	2,441	2,764	1,193	4,739
Soldier bonus approved		924				
Balance of State issues		641				

NOTE—The following types of issues were not included in the table: 1. Municipal and State bonds to be issued in conjunction with Federal Airport Program. 2. Housing Authority Bonds. 3. General Authority Bonds. 4. Bonds of all types issued to acquire existing facilities.

Airline Foods Corporation

Common

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Right and Wrong Ideas About Stocks

(Continued from page 737)
turnover in ownership in common and preferred stocks steadily has decreased. Stocks are traded less often. Ownership is more stable. The market is less active.

In 1928, the average turnover of the stocks listed on the New York Stock Exchange was 1.22 times. There were 757,300,000 shares listed on the New York Stock Exchange at the end of 1928, and the total reported volume of trading was 930,893,000 shares. Statistically expressed, the turnover was 122.92%. By 1930, the turnover had shrunk to 62.5%; in 1931, to 32.4%; in 1934, to 24.8%; in 1938, to 20.8%; in 1939, to 18.2%; in 1940, to 14.2%; in 1941, to 11.6%; and in 1942, to the abnormally low level of 8 1/2%. In the more active markets of 1943-1946, turnover increased to 18.7% in 1943, 17.6% in 1944, 23.7% in 1945, and 20.5% in 1946. The following tabulation is worthy of study:

A MEASURE OF MARKET ACTIVITY

Year	Total Listed Shares (000's)	Reported Volume of Trading (000's)	Percentage of Listed Shares Traded
Dec. 31	omitted	omitted	omitted
1924	433,448	284,044	65.53%
1925	491,615	459,717	93.51
1926	585,641	451,868	77.16
1927	654,999	581,702	88.81
1928	757,301	930,893	122.92
1929	1,127,682	1,124,800	99.74
1930	1,296,794	810,632	62.51
1931	1,318,729	576,765	43.74
1932	1,311,881	425,234	32.41
1933	1,293,299	654,816	50.63
1934	1,305,421	323,845	24.81
1935	1,317,847	381,635	28.96
1936	1,360,349	496,046	36.46
1937	1,412,002	409,464	29.00
1938	1,424,252	297,466	20.89
1939	1,435,404	262,029	18.25
1940	1,454,761	207,599	14.27
1941	1,463,295	170,603	11.66
1942	1,470,502	125,685	8.55
1943	1,489,367	278,741	18.72
1944	1,492,277	263,074	17.63
1945	1,592,111	377,563	23.71
1946	1,771,399	363,769	20.53

Turnover always is larger in bull markets than in bear markets. It is a matter of record, too, that the market always spends more months advancing than declining. That is another way of saying that the in-and-out public always has more time to buy than to sell. People buy leisurely in bull markets; they sell hurriedly in bear markets. The market, therefore, is more thin on the way down than on the way up.

It often has been said that stocks are "made to buy and sell," rather than to hold. If this is true, the public certainly is not convinced. In standard stocks, the annual turnover in ownership often is less than 10% of the outstanding shares. In other words, 90% or more of the holders of standard stocks seem to regard themselves as more or less permanent owners with only an academic interest in day to day, month to month, and year to year fluctuations.

The turnover in American common stock has averaged less than 10% per annum for the past ten years. Stated another way, it takes over ten years for all of the company's capital stock to change hands once. This is also true of American Tobacco, Commonwealth Edison, Diamond Match, duPont, Hershey Chocolate, Ingersoll-Rand, International Business Machines, Procter & Gamble, Socony Vacuum Oil, Standard Oil of California, Standard Oil of New Jersey, United Fruit and Woolworth. A slightly higher turnover is indicated for issues like Consolidated Edison, Continental Oil, General Motors, Kennecott Copper, Anaconda Copper, Kroger, Lambert, Montgomery Ward, and Pullman. In speculative stocks, of the type of New York Central, American Rolling Mill, Douglas Aircraft and Radio Corporation of America, the turnover is much faster. As stocks become more "seasoned" and better distributed, as they acquire more "quality," market activity usually automatically decreases and ownership becomes more stable.

Obviously, reasonably stable

ownership of common stocks is a good thing both for the country and for the corporation. On the other hand, stable ownership does not make for efficient markets prepared to absorb offerings quickly. It makes the market smaller and less active. It makes the market thin.

When the broker talks about thin markets, he refers to the inability of the market to meet the demand for the issue, or to absorb selling, without the trade's having too great an influence on prices.

If you will go back with me to the market collapse of last September, I will show you what I mean by a thin market.

In the month of September, 1946, approximately 2 1/2% of all the shares listed on the New York Stock Exchange changed hands, and the market appraisal of all listed stocks declined \$7 1/2 billion. What would have happened last September if 10% or 15% of all of the stocks owned by investors, instead of only 2 1/2%, had been forced to find new owners?

The worst part of the break occurred in the 21 sessions beginning with Aug. 22 and ending Sept. 21. The following tabulation, taken from my article in the Nov. 7, 1946 "Commercial and Financial Chronicle," gives similar figures for a few other stocks:

THIN MARKET STATISTICS

Trading in 21 Sessions, Aug. 22-Sept. 21

Company	Decl. in Mkt. Appraisal Per Dollar's Worth of Stock	Part of Issue Traded	Decline in Hands
Am. Rolling Mill	8.30%	19.4%	\$2.00
Chrysler	5.40%	23.2%	5.00
DuPont	0.31%	16.3%	60.00
Eastman Kodak	0.42%	10.2%	29.00
Ex-Cell-O	3.60%	31.9%	11.00
General Electric	0.80%	15.9%	24.50
General Motors	0.80%	18.7%	29.00
Montgomery Ward	3.70%	12.3%	3.50
National Oil Products	2.00%	21.5%	9.00
Southern Pacific	4.60%	28.6%	7.50
Union Pacific	0.98%	18.0%	29.50
U. S. Playind Card	0.49%	17.2%	40.00
U. S. Steel	4.90%	21.6%	7.56
Warner Bros. Picts.	4.90%	13.8%	3.00
Woolworth	0.73%	11.2%	17.00

I am anxious not to use up too much time in discussing the changed character of the market. I have tried to show: (1) that stocks changed hands less frequently in the 1940s than they did in the 1920s, (2) that the market is much more thin, particularly on declines, in our present purged SEC markets than it was in the old days of free trading, and it follows (3) that the securities market regulation legislation of the 1930s has been much more successful in protecting the buyer than in protecting the seller.

Investors' Attitudes

The second part of this lecture will deal with the attitudes investors take toward common stocks. In dealing with owners of shares, I have learned that some use them and others abuse them.

When I stop to think about it, it amazes me that my profession has devoted so much time to the study of equities themselves and exerted so little effort to teaching investors as to how to use them.

Physicians are just as much concerned about skillful medication as they are about medicines themselves. We should say more about the functions of stocks, and about the functions of individual stocks in specific investment portfolios. Our profession is new and we still have a lot to learn. As the profession evolves, we must apply our talents more at the investor level without neglecting knowledge at the corporation level.

Few outsiders realize the highly personal character of the investment business. The broker has nothing whatever to sell except his personality and his services. One investment house can execute an order just as efficiently as an-

other. The place where one broker competes with another is in the services he renders to his customer in providing information and advice.

It follows that the broker must be a superior type of person. It is imperative that he should be well educated, have a thorough knowledge of securities, and understand their functions. If he is alert, if he applies himself to his business, if he is scrupulously conscientious, the broker or investment dealer can occupy a place in the life of his client as secure as that of his commercial banker, his lawyer or his physician. Actually, I know of few businesses or professions where a more sincere effort is made to serve clients conscientiously.

There is nothing mysterious about a common stock. It is just a fraction of ownership in a corporation. The certificate you receive from your stock broker is nothing more or less than an evidence of proprietorship. When you buy a common stock you buy part ownership in a business just as truly as if you acquired a part interest in an unincorporated drug store or in a country cider mill.

Actually, you probably take a smaller risk in buying a well-known common stock than in purchasing a part interest in a drug store or in a cider mill. You usually acquire an interest in a business with a better management, a better history, a more assured outlook, and often you deal with more honest, or less shifty, people.

The trouble with some who "dabble" in common stocks is that they have the wrong approach. They think they are buying a price rather than a value, and intend to sell a price rather than to continue to own a part interest in a corporation. Those who make common stock investments in this frame of mind, consciously or unconsciously, give equities a reputation they do not deserve.

In my opinion, common stock owners of this type probably represent not more than 1% or 2% of all the people who own shares in American industry. The other 98% or 99% regard themselves as investors rather than as traders. However, this camp-follower type of market participation often accounts for as much as 10% or 20% of total day to day trading, especially in active low price stocks.

Your presence at this lecture indicates a serious interest in the art of common stock investment. I am going to outline a serious approach to the whole matter. Many of the things I shall say you have heard before. I hope, however, to put them together in a way which will be at once interesting and convincing.

II.

Self-Study by Investors

The first thing a common stock investor ought to do is to study his own personality. Not all of us are so constituted as to make risk-taking a comfortable avocation. Too many make a decision without much investigation and thought, and then worry about it. To worry is to lose perspective. It is this type of stock trader who often buys at the top and sells at the bottom!

I know of nothing more essential than a serene approach and a serene attitude toward a common stock commitment once it has been made. One way to maintain a serene approach is never to make decisions under pressure.

Secondly, each investor should have a unique objective. In buying or in selling individual securities, always keep in mind whether the action you contemplate taking fits into your program. Ask yourself why you are buying this particular security.

There are three main reasons

for buying a stock: first, to obtain income; second, to attain appreciation in the value of principal; and third, to achieve safety for one's savings. I might buy Consolidated Edison to obtain yield, but it certainly is not a growth stock like Monsanto Chemical. I might buy Monsanto Chemical, hoping to obtain long pull appreciation, in spite of the fact that its yield is very low. I might buy General Motors preferred or National Biscuit preferred hoping to achieve safety, but I certainly would buy neither one if I sought either appreciation or a high yield.

Each security in a portfolio should have a functional objective and should be bought, held or sold with that objective in mind.

Third, every security has a definite personality of its own which should be studied carefully. You should know your security as well as yourself. Sometimes I am amazed at the nonchalant manner in which people are willing to entrust their savings in the care of the unknown managements of corporations, concerning which they know next to nothing.

Not only does each common stock represent a different type of business, but each competing company in any industry has characteristics of its own. There is all the difference in the world between an investment in General Motors and an investment in Chrysler, between a commitment in New York Central and a commitment in Pennsylvania Railroad, between Southern Pacific and Santa Fe, between U. S. Steel and Bethlehem Steel, between Waldorf System and Childs, between General Foods and Standard Brands, or between Lake Shore Mines and Hollinger Gold.

Some companies are institutions and others are ventures. The objectives of management vary. One management tries to pay high dividends, another uses most of earnings to reduce debt or for reinvestment in the business. Sometimes a company is being "dressed up" while at other times earning power and assets, for one reason or another, actually are being concealed. Some companies, like General Foods, provide complete information about their affairs, and others, like New Jersey Zinc, tell just as little as they can and still get away with it.

Passing from the company to the security, most stocks have well defined and individualistic habits. Just think of the fundamental difference in the type of market you have in American Telephone, with over 600,000 stockholders, none of whom own a large part of the outstanding stock, and the type of market you have in another investment issue such as Gulf Oil, in which the Mellon family and its affiliates probably own 80% of the outstanding issue. You might also contrast the kind of a market which exists in a big, widely distributed issue like Sinclair Oil, with the market in the shares of a small company like McCord Corporation. Certainly the market for an investment stock like Diamond Match always will contrast most sharply with the market for a highly speculative issue of the type of Kaiser-Frazer or Transcontinental & Western Air.

It may be estimated that there are approximately 15 million stockholders of record in the United States, eliminating duplications. That means that there are 15 million different investment specifications to satisfy. At the same time, there probably are several hundred thousand different types of common stocks, preferred stocks and bonds, each one of which has different qualities and should be employed to meet somewhat different objectives. The task of the investor and the task of the investment advisor is to arrange combinations of these securities to fit the requirements

of the people who should own them.

I run into some amusing ideas about investments. I have a man who will never buy a railroad stock because it is too speculative, but he will buy any kind of a mining stock—and at present he owns at least a dozen sugar shares. Now, I think that most of you know that sugar shares and mining shares are about as speculative as anything one can buy. One day I asked this man how he developed his peculiar prejudices. In a mellow moment he told me that years ago, purely by social accident, he became interested in astrology. An astrologer—he says she was a good one with a nationwide reputation—advised him that, because he was born under a certain star, he was of the esthetic type and therefore would always make money if he associated himself with ventures and enterprises engaged in providing the finer things of life. For this reason, my very successful, quite wealthy, retired bank vice-president client tells me, in all seriousness, that he always makes money in gold and silver mines, in amusement enterprises, in sugar shares (providing the sweet things of life), in objects of art and in stamp collections. Now, according to a recent issue of Life, all astrologers are either charlatans or "fakes," and there is no scientific basis whatever for this type of character-analysis. So far as I am concerned, I don't wish to be involved in a discussion of the possible effects of cosmic rays on human nature and other scientific claims of astrologers. My client says he has applied astrology and it works in his case. I know he has made a lot of money, and I have learned over the years not to try to inflict my judgment on clients who are smarter than I am.

More seriously, without endorsing astrology as an aid to security analysis, I think this man's success has been due in no small measure to the fact that he has tried to fit his securities to his personality. I wish more of my clients would do the same thing, without necessarily employing a star gazer.

III

I am sure that too many people confuse price with fundamental value. The price of a security and its intrinsic worth are not as closely related as most people assume.

When you stop to think of it, the very liquidity of listed common stocks overemphasizes price. If you own a house you seldom think of how much it is worth. It is not quoted every day on the financial pages of the newspapers. If you are sole owner of a business, years may pass without its market appraisal bothering you. On the other hand, if you own a stock, and you see the price change from day to day, week to week, and month to month, this suggests to you that you have made money or lost money in the market. You are tempted to think the stock is worth more or less, according as to how it is quoted. Actually, every time you buy a stock you register your opinion that the market is wrong—that it is too low. When you sell, you register your opinion that it is too high.

Most of our wrong attitudes toward common stocks originate from their extreme liquidity, which, in itself, is a great investment advantage. Because of this extreme liquidity, prices fluctuate very widely. This leads thousands of men and women to think more in terms of price than in terms of essential investment value. Too many of us, consciously or unconsciously, always are buying a quotation rather than a fraction of ownership in a corporation. Incidentally, most of us frequently hope to sell a quotation, too.

(Continued on page 758)

Right and Wrong Ideas About Stocks

(Continued from page 757)
Everyone knows that stocks were too high in 1929, in the early months of 1937, and just before the Germans invaded the Low Countries in 1940. Everyone also knows that stocks were too low in 1921, in the summer of 1932, in the spring of 1938, and in early 1942 just after Pearl Harbor.

But does anyone know, or has anyone ever made a serious attempt to find out, when they were priced "just right"? If we would make an attempt to determine just what U. S. Steel is worth, year in and year out, we would, perhaps, then know enough to buy it when it is too low and sell it when it is too high. During my 28 years of financial writing experience, practically every stock and every bond I can think of, at some time has sold too high and, at some time, has sold too low—and most of them have been far too high at least half a dozen times and far too low at least as many.

The Market Verdict

What about this bloodless verdict of the market place, concerning which people love to talk? American Telephone & Telegraph could have been bought as low as 98% in 1935 and sold as high as 190 in 1936. It could have been bought again in 1938 at 111 and sold at 175 in 1940. It might have been purchased again at 101½ in 1942 and sold at above 200 in 1945. Yet during the whole period from 1935 through 1945, it has paid dividends at the rate of \$9.00 a share, earning it each year by about the same margin. Is there anything logical in this "bloodless verdict of the market place"?

Again, General Electric sold as low as 16% in 1934, only to advance to 64¼ in 1937. Then it declined to 27¼ in 1938, only to rise to 44 in 1939. After Pearl Harbor in 1942 it declined as low as 21½. Last year it sold up to 52 and back down to 33¼. The intrinsic worth of General Electric capital stock certainly has not changed as violently as the price. The stock many times has been too low and it often has been too high in relation to its average earning power and its year-in and year-out ability to pay dividends.

It is much more difficult, of course, to obtain any ideas regarding the intrinsic worth of highly speculative securities which fluctuate even more widely, but does any reasonable person think for one minute that the low priced highly speculative stocks, were not far too low in 1941 and 1942 and far too high in 1945 and early 1946?

The price of any stock is established by the "time incidence" of supply and demand, and usually by the motivated emotions of a very small part of 1% of all the holders of an issue. Those who do not sell and do not buy are only passive factors in establishing a quotation. The quotation itself is established only by those who actually trade. The influence of a few people, or of a small amount of buying and selling, can, at times, be spectacular.

For instance, between Aug. 22 and Sept. 9 of last year, U. S. Playing Card dropped from 74 to 59 on only 600 shares which traded for a gross amount of about \$41,000. On transactions of 600 shares, or 15/100ths of 1% of the total number of shares issued, the market appraisal of the company dropped \$5,790,000. While 99.85% of the stock outstanding was neither bought nor sold, for every dollar's worth of stock traded, the market appraisal of the company dropped \$141. To state it another way, every time 100 shares of stock was traded, the total market appraisal of the company declined \$964,000. This, of course, is an extreme case but it is significant that it happened in an

investment type stock which has paid dividends every year since 1896, and it happened at a time when the company represented was having the best year in its history and faced a further period of prosperity.

IV Overemphasis on Non-Recurring Factors

The most fatal error in common stock appraisal, I think, arises from overstressing non-recurrent favorable or unfavorable conditions. A recent example, it seems to me, has been the over-appraisal of the worth of most probably non-recurrent very large earnings for the distilling and department store companies.

Non-recurrent earnings, at the very best, are not worth more than one times their face value. Probably they are not worth even as much as that because not all of them will be distributed as dividends and part of them eventually probably will be lost in some inevitable correction of an abnormal situation. It seems to me that during the first half in 1946, in particular, the market was doing some dizzy things in capitalizing non-recurrent profits.

Let's not name names, because someone may be suffering with the very stock or stocks taken as illustrations. Instead, let's imagine a fictitious corporation, the Good Whiskey Company. It has an earnings record back in 1933, earning \$4 a share in 1933, \$2.50 in 1934, \$3.00 in 1935, \$3.50 in 1936, \$4.00 in 1937, \$2.50 in 1938, \$3.00 in 1939, \$4.00 in 1940, \$6.00 in 1941, \$5.40 in 1942, \$6.00 in 1943, \$6.00 in 1944, \$18 in 1945 and in the first half of 1946, with the excess profits tax repealed and everything favorable, earned at the annual rate of \$40 a share. What is the stock worth? The early 1946 market would have appraised such a stock at somewhere between five times and seven times the current annual rate of earnings—at somewhere between 200 and 280; and some thoughtless people would have been asking why should this stock not sell at 400 in a big bull market?

Well, what is the company's normal, bread-and-butter earning power? Based on the record, I would say, \$6.00 a share would be fair. Perhaps that's too much, but let's assume that the whiskey business really has grown and that the company's position in it has improved, and let's assume that there won't be a period of losses after this present highly abnormal boom in whiskey is over.

If we do this, we will assume that \$34 a share of the company's current earning power is non-recurrent and \$6.00 a share is recurrent, or "dependable." Then we have to ask how long these non-recurrent earnings will last. Let's guess two years. So we multiply \$34 by two and get \$68, which we set up as the proper or sensible valuation of the non-recurrent earnings. Then we say that normal earnings of \$6 a share ought to be worth 12 times (take another multiple, if you like) their face value, or \$72. Adding \$72 and \$68, we arrive at a "fair" value of \$140 for the stock. Probably that is very generous, because the non-recurrent earnings may not run at the present rate for two years and because the stockholder probably never will get \$68 a share in cash dividends from them.

Right in this market we have another extreme. Half a dozen or more aircraft manufacturing company shares, infinitely better stocks than before the war when they sold at about five or 10 times their meagre net working capital, now are appraised at from 40% to 80% of their net working capital. This gives no recognition whatever to any value for physical

plants, going concern value, manufacturing know-how, or even the growth possibilities in the most dynamic of all America's industries. Why? Because current earnings are abnormally low, and there are a lot of "uncertainties" (what a "grand" word that is in security discussions!) in the outlook for a temporarily over-expanded industry. The aircraft shares, if they are good ones, probably are essentially cheap. You will observe that they have not gone down as much as most other stocks in the recent market unpleasantness. There's a reason. They were down before the decline started.

There has been no such change in the investment position of F. W. Woolworth Company capital stock, as is indicated by its rise from 21½ in 1942 to 62½ early last year, or by its decline recently to around 44. The company is one of America's most stable enterprises. It always makes money and the stock always pays good dividends. The quotation for the shares obviously changes more rapidly and more drastically than the values back of it. The same might be said for hundreds of other stocks.

The influence of "vogue" often distorts the price-value equation. Investors are just as temperamental about different types of speculative stocks as women are about their hats and shoes. Stocks definitely are "in vogue" or "out of vogue." Think of the vogue that the oils had in 1919, that the radios experienced in 1926, that utility holding companies enjoyed (to their sorrow) in 1928 and 1929, of the liquors in 1937, or of the airlines in 1945. These vogues sometimes partake of the nature of fads and they often result in a subsequent deflation in values as they did in each of the cases just mentioned.

How can it be otherwise when figures show that, in the case of some issues, as little as 2% to 10% of the outstanding capitalization changes hands in an average 12 months period—so much for the idea that price often is a poor measure of value.

V

Portfolios Should Be Kept Intact

As already has been shown, most people buy stocks to keep, not to sell. You people in New England know that is true of their own favorites such as American Telephone & Telegraph, United Fruit, United Shoe Machinery, Pepperell Manufacturing, Boston Edison, Chapman Valve, Springfield Fire & Marine, to mention only a few. Only the minority feel that portfolios should be disturbed frequently.

And that is fortunate. It is physically impossible for everybody to be "out" in a bear market. Someone always has to own every share of every stock. Stocks are never homeless, although I have seen the time when some of them have been 'unwelcome guests'!

This leads me to another observation. It is never possible for very many investors to sell out at the top of a bull market. Most people who think they will sell in the last 20% of a bull market or in the first 20% of a bear market have only about two to five chances out of a hundred to accomplish this objective. There just isn't enough market to absorb more than a small part of the capitalization of any company.

If your instructor wants to give you a research project, I suggest that he put you to work finding out how many shares of Transcontinental & Western Air were sold from 40 up to 60, and back to 40 again. That was a fairly active stock. He might do the same thing in some of these formerly popular railroad stocks like New York Central, Missouri-Kansas-Texas preferred, and Baltimore & Ohio.

There is always more room, and there is always more time, to buy these speculative things on the way up than there is time to sell them on the way down.

The successful investor is the one who buys the right stocks and keeps them. Over a period it has enriched many people to buy shares of growing companies and hold them through bear markets as well as bull markets. Let me give you a few examples.

If you had bought 10 shares of Abbott Laboratories for \$585 early in 1935, you would now have 18 shares of the present stock, which recently were worth \$1,638.

If you had bought one share of International Business Machines (then computing-Tabulating-Recording Corporation) for 118 early in 1925, you would now have approximately 8.91 shares worth about \$1,871.

I recently worked out how an investor in Monsanto Chemical would have fared had he bought 100 shares of stock at \$34 a share on the initial offering in November, 1927. I found that if he had kept all of his stock dividends and stock splits and not taken advantage of any subscription privileges, he would now own 2,362 shares worth, at \$62 a share, \$146,444. In the meantime, over a period of 20 years, the investor would have received \$27,919 in cash dividends and would have been able to sell his rights for around \$6,576 more. In other words, he would have received a cash income of approximately \$35,000, while he was realizing an average appreciation of about \$6,089 per annum for a period of 20 years. That is a pretty good record for a \$3,400 investment.

One could present similar fantastic long range figures for General Electric, Sears Roebuck & Co., and United Fruit. I would not want to predict that these same securities would behave in the future as in the past, but I have no doubt but that there are hidden somewhere among the equities of today other issues which will reward patient investors very liberally in the future.

The Security Analyst Profession

I like to talk about the profession of the security analyst. It is something new under the sun. No one ever tried to devote himself exclusively to it, or to make it a means of livelihood until about 50 years ago. The early analysts really were not much more than custodians of security manuals. Then they got to playing with figures, and everyone called them statisticians. Gradually it came to be realized that figures were only a very small part of the game. A good background in economics seemed desirable; and some of us, without the benefit of a degree of Doctor of Philosophy, were called economists. As time went on, however, it became recognized that a specialist in the judgment of securities was more than a librarian, more than a statistician and more than an economist; and such specialists became known as analysts.

There are divinity schools, law schools, colleges of business administration, schools of accounting, colleges which turn out excellent librarians, and schools which manufacture teachers on an assembly line basis. So far as I know, on the other hand, there is not anywhere in the world a school devoted exclusively to preparing young men to become security analysts.

If there were such a school, of what would the curricula consist? I suppose you would suggest intensive courses in economics, courses in economic history, in accounting, in the anatomy of a corporation, in corporate reorganizations, in the operations of the securities markets, in the work of the investment banker, in the theory of interest rates, in trade cycles, in labor problems, and in similar related subjects. A man

could master all of those things though, and still fall short of the profession's exacting requirements.

A good security analyst has to have the insatiable intellectual appetite of a Franklin, the enthusiasm and vigor of a Roosevelt, the rugged honesty of a Cleveland, the pioneering spirit of a Wright, and the simplicity of mind of a Lincoln. He also should have a cast iron constitution to give him the health necessary to work unbelievably long hours. It is necessary not only to develop the art of gathering information from people, but also to acquire the ever more difficult knack of imparting knowledge and opinions effectively. Some of the analysts who do the best job gathering information and formulating opinions, I have found, often fail utterly in the task of putting their accomplishments to profitable use.

Vast Knowledge Required

It is literally true that every scrap of information and knowledge one gains in any field, even in the field of personal relations, at some time or another is useful for the general practitioner in security analysis. Over the past 28 years I have been forced many times to obtain quickly a working knowledge of the essential factors influencing hundreds of different kinds of business.

To know railroads, I must understand geography as well as bond indentures and earnings. To understand utilities, I must have an intimate knowledge of the character of the territory served as well as sources of energy and consumer rates. To judge retail stores, it is essential to know the type of merchandise handled, the kind of people who buy it, and the types of distributor competition. To have any sense in appraising drugs, I must know the acceptance of trade names and have ideas concerning the possibilities in new ethicals. To really have a working knowledge of the chemical industry, I ought to be something of a chemist.

To explain the nature of an investment in two or three specific companies, recently it was necessary for me in a few evenings to gain a layman's working knowledge of what is meant by atomic energy. I have had to delve into such things as the size of radio audiences, the relative merits of black-and-white and color television, jet propelled engines, the features of different types of aircraft, the complications of subsidized shipping, the economics of publishing a book, the future of penicillin and streptomycin, the impact of excise taxes on consumption of certain goods, the formula for a soft drink, the trend in preferences for alcoholic beverages, the birth rate and its influence on the consumption of baby foods, profit margins in burial caskets, the problem of smelting a new type of refractory copper ore, the willingness of negotiators of small loans to pay their debts, the economics of steam engines versus Diesels, whether the ball point pen is a fad or really a revolution in writing instruments, and the probable life of oil wells in Saudi Arabia.

At times I have employed knowledge obtained on fishing trips and at funerals, gathered at cocktail parties, snatched from sermons, picked up from novels, gleaned from classical literature, acquired from the rough and tumble of local politics, remembered from a high school laboratory, and painfully learned in spending my own money. This is a profession where everything is grist that comes to your mill, and one where a retentive memory and constant thoughtful observation pays off.

What I am trying to say is that the investment analyst is expected to know more than it is possible for any human being to learn. His profession is a gruelling one be-

cause he has to cover so much territory and keep so wide awake—sometimes when he feels like sleeping. He can't separate himself from his work when he goes home at night. The briefcase has to go too—and it has to be opened and cleaned up before morning. His field is the world's knowledge and he must keep up with everything.

But in all of this, he cannot for one moment neglect the human factor. Every corporation has a management, and that management gives it a personality. The analyst, therefore, must know people and develop an ability to judge them. I know dozens of situations which look inviting in every way but one; they simply lack that indispensable human factor. I know some other situations, too, which would be worthless from an investment factor but for that splendid human factor which has been added. It is just as much our job to judge men as it is our function to know ore in a mine or potentialities in some new product.

And then there is the securities market itself. It is much more than interest rates, booms and depressions, earnings and dividends, the national income and the complexion of the governments at Washington and in Moscow. Those are not the things that make the ticker chatter prices up or scowl

them down. It is something much more alive and human.

The market's gyrations, and the fluctuations in individual issues are determined by the impact of a constantly changing panorama of inter-acting and conflicting influences so complicated and all-inclusive that no mind can be conscious of all of them, or resolve their full significance.

Those who buy and sell stocks are those who really establish prices. They are influenced to act by reason, but also by fears and hopes originating in every sphere of political, social, economic, financial, business and personal experience. Fears and hopes are emotions, and emotions are not always logical. The area in which the market commentator moves, therefore, often must be as much dominated by the psychology of the hour as by the economics of the generation.

I would not trade this profession of mine for any profession in the world. It is stimulating and fascinating. It supplies me with a box seat at all of the world's great dramas, and tells me I must keep awake every minute lest I lose something—lest I fail to absorb something that will help me to help others to safeguard their savings, or miss ideas that may enable my clients to profit.

This absorbing endeavor is my life work. I invite you to make it your happy avocation!

Technical Background of the 1947 Stock Market

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2. The intermediate reaction in February, 1946 ended the longest advance free from serious secondary corrections in the history of the average.

3. The 1946 decline was far in excess of the frequently mentioned 23%, which is the amount lost by the Dow-Jones industrial average.

4. The 1946 market decline included a period of concentrated collapse in the price structure that seems to have had a much higher technical content than the collapses of October, 1929 and October, 1937, with which a detailed comparison is inevitably invited.

In tremendous percentage gains registered by a great number of individual securities, bonds as well as stocks, the bull market from 1942 to 1946 exceeded in relative intensity the achievements of the New Era market during the eight years 1921 to 1929. In 1921 the number of low-priced securities available was much smaller than in the Spring of 1942 when hundreds of issues, including industrial, rail and public utility common stocks, low grade preferred stocks with dividends in arrears, the defaulted railroad bonds, were selling at less than \$10. As the recovery from the 1941-1942 lows proceeded, active trading interest concentrated for the most part on these low-priced securities.

Bull Market Concentration on Low-Priced Issues

The Dow-Jones industrial average started its major advance from a level of 92 in the Spring of 1942. In December of 1945 it finally exceeded its 1937 high of 194 and in the next five months added a mere 10% more. Most people knew this technical record but only a few had any clear concept of the revolutionary change in speculative practices during the four years 1942-1945. For the first time in market history good quality, higher-priced, so-called pivotal equities were virtually ignored by speculators.

The result of this was that the Dow-Jones industrial average never reflected the degree of inflation in the price structure which was more accurately re-

vealed by the comparatively obscure Barron low-priced stock index. This index also started from a 1942 low of 92. However, it was much more dynamic on the subsequent advance. By February, 1945 it had exceeded its 1937 high of 346 and by May, 1946 it had soared to 662. While perhaps not as noteworthy as the 500% advance in the high-priced Dow-Jones industrials from 1921 to 1929, the 620% gain in four years by the Barron low-priced index was more truly representative of the great bull market of World War II.

The second important technical item to keep in mind is the record-breaking persistence, free from conventional intermediate corrections, of the bull market that started in the Spring of 1942. Over a period of 45 months the major advance, as reflected in the industrial average, was interrupted by only one correction in excess of 10%. This was the 11% July-November decline in 1943.

Never in the history of the average had there been anything approximating such persistence in the maintenance of a major trend free from 10% reversals. A total of three intermediate swings in 45 months compared with 16 moves exceeding 10% in the 45 months preceding April, 1942, ten for the three years 1935-1937, 19 during the three years 1932-1934, and 18 for the three years 1929-1931. The market from the end of April, 1942 to the end of January, 1946 certainly gave the impression that it had abandoned its wild, unpredictable, speculative way of life and settled down as a respectable investment mechanism to discount, without alarming intermediate corrections, the widely-publicized monetary inflation and generally expected postwar prosperity.

By the end of January, 1946, the market had decisively broken the New Era records for duration of intermediate upswings. From May, 1924 to February, 1926 the market, in a 21-month advance uninterrupted by a 10% reaction, broke the previous record of 14 months that had been established in the first phase of the New Era bull market from August, 1921 to October, 1922. The regulated mar-

ket of World War II advanced for 14½ months, reacted for 4½ months, and then broke all previous records by advancing for 26 months without as much as a 10% setback.

Stability Ended

After this disarming performance the market was in a strategic position to double-cross investment confidence by staging a series of violent intermediate gyrations to compensate for the long stretch of abnormal stability. This is strictly in conformity with its performance following the conclusion of the two previous record-breaking intermediate upswings. After the 14-month advance that ended in October, 1922, the market in the next 12 months staged three intermediate swings—a one-month reaction of 11%, a recovery amounting to 14.5% and finally a 19% decline from March to October in 1923 that is usually but inaccurately referred to as the bear market of 1923.

Following the termination of the 12-month intermediate advance in February, 1926, the market during the next 12 months compensated for the abnormal persistence of the preceding upswing with a 17% break, a 23% recovery, another intermediate correction running to about 13%, followed by a resumption of the recovery trend which by the end of February, 1927 amounted to a 10% rally from the intermediate lows of the previous October. The 17% break in February-March, 1926, coming as it did after four and one-half years of major advance, was generally regarded as the beginning of a bear market.

Decline Exceeded 23 Percent

The third technical item deserving special emphasis is that the 1946 decline in securities prices substantially exceeded 23%. Those sections of the financial markets in which the most active speculation occurred between 1942 and 1946 suffered declines that in amount qualified as major bear markets. The Dow-Jones rail stock average declined 34%, the defaulted rail bond group 45%, and the Barron low-priced stock index 40%. Prior to 1929, major declines in the Dow-Jones rail and industrial averages ranged between one-third and one-half.

Collapse Was Concentrated in Time

The fourth technical fact that must be considered and its significance understood is the concentrated character of the price collapse during the ten trading sessions from Aug. 27 to Sept. 10. In terms of the industrial average about three-fifths of the entire decline took place during these ten days when trading in 23 million shares resulted in a 15% decline in the average.

This abrupt and violent collapse in the price structure has been exceeded in intensity for comparable periods of time only by the breaks of October, 1929, October, 1937, and May, 1940. In 1929 at the climax of the price collapse, the average lost 33% in ten days; in 1937 the climax decline in 11 days amounted to 17.3%; and in 1940 the ten-day loss was 23%.

A detailed comparison of the fundamental economic or specific news developments associated with these four concentrated price collapses leads to a suspicion that the panic of 1946 was the most capricious and least justified in the quartet. Preceding the October, 1929 collapse was an eight-year record-breaking peacetime prosperity that had inspired the greatest speculative pyramid in history, partially supported by \$8 billion in brokers' loans. By mid-October in 1937 it was all too obvious that the Government-financed industrial recovery, planned that way for sound permanent prosperity, was rapidly disintegrating. In May, 1940, the market collapsed as the Nazi blitz-

krieg threatened the complete domination of the world by the Hitler dictatorship.

Causes of This Decline

What major economic or political disaster comparable to those of 1929, 1937 and 1940, drove the market into the ten-day price collapse between Aug. 27 and Sept. 10, 1946? Well, as 1-3/10% of the total number of shares listed on the New York Stock Exchange were hurled upon the market there was some fairly wild and irresponsible talk about the possibility of a war with Russia and a tendency, increasing as the price collapse progressed, to take more seriously the probability of a second round of increased wage demands by organized labor. There was no important credit pyramid supporting the structure of security prices when the panicky selling swept over the market, leaving 98.3% of the total number of shares listed still held by the same owners at the end of the ten-day deluge.

The more one studies developments during the ten market sessions from Aug. 27 to Sept. 10, the more insistent becomes the suspicion that the panic of 1946 was primarily a technical phenomenon. In the course of the ten days that extended the decline well beyond secondary proportions, the industrial average broke through two generally accepted support levels that had acquired important technical significance. These levels were around 195 and 186 in the average.

The 195 level was important because it represented the price reached by a sharp reaction on July 23, which penetrated by five points a clearly-defined support area around 200 that had been maintained for nearly four months. However, immediately following the five-point penetration of July 23, the market turned around and in 16 sessions rallied to 205. On the basis of this performance, the July 23 reaction could be interpreted as a false move. But to support this interpretation the market had to stay above 195. Under the circumstances a break through this point would have to be accepted as indicating the probability of further decline.

The 186 level was the lowest closing price established on the 10% intermediate break in February. Virtually all technical advisers had this spot marked as of special significance, with the decisive break-through giving a Dow theory indication of a bear market.

Critical Technical Levels

In view of the substantial increase in the number of market commentators now basing their advice upon mechanistic indications, it was unfortunate that these two critical technical levels were less than ten points apart. On Aug. 26 the industrial average closed at 193.99. The next day ushered in the beginning of the concentrated price collapse as the average broke through 195, closing with a net loss of nearly six points at 191.04. Four trading days later, the average broke through 186 and closed that session at 177.68 for a net loss of 10½ points. Five days later the concentrated collapsing phase of the decline came to an end with the average reaching an intra-day low of 166.64 on Sept. 10.

Changing Explanations

Market performance during the six trading sessions from Sept. 4 to 10 revolutionized speculative and investment psychology. Hard-headed realists accepted the dictum of the market place and jumped aboard the major bear-trend bandwagon. In the midst of the early confusion Russia and labor were blamed for the new bear market. Within a few weeks, however, these early explanations were replaced by the more fin-

ished concept of an important decline in business activity some time during 1947 which the stock market was discounting in 1946.

Millions of shares were sold after Sept. 10 on the theory that the major trend of the market had been reversed and that much lower prices would be seen before the end of 1946, or by the Spring of 1947, or at the very latest by the Autumn of 1947. The most interesting technical fact concerning the action of the market after Sept. 10 is that, despite the formulation and widespread acceptance of the major bear market and business depression philosophy, the industrial average has never been able to stay more than briefly below the 166.64 low that was recorded on Sept. 10. The average has closed lower than this level on only four different reactions involving a total of 11 trading days. The lowest closing price of 163.12 established on Oct. 9 was a mere 2% additional decline beyond the low of the ten-day concentrated price collapse that popularized the concept of a major turn in the economic cycle.

The Technical Explanation

Deferring until another time consideration of the problem—Why ten days in the life of the stock market should have such a revolutionary effect on respectable economic forecasting—there is justification for exploring further the haunting suspicion that the ten days which wrecked a four-year bull market were dominated by short-term technical considerations that had very little to do with longer-range economic logic. In this connection it must be admitted that the decline in the stock market made far more dynamic progress during the brief period when it was impelled by the technical bearishness created by the violation of the 195 and 186 levels than it subsequently was able to do with the help of a fundamental, well-rounded theory of major deflation embracing the orthodox sequence of a decline in the securities markets followed by falling commodity prices, and ultimately by business recession.

The relatively minor additional decline reflected in the Dow-Jones industrial average beyond the immediate period of technical excitement may have some fundamental significance. The general price collapse reached a climax on Sept. 10, just five trading days after the Dow theory indication of a major bear market had been given on Sept. 4 by the penetration of the closing low of the February break, which was 186.63 in the average. At the climax of the price collapse on Sept. 10 the average reached a low of 166.64 which was just 10.4% below the important technical level marking the start of a Dow theory bear market.

Comparisons With Previous Bear Markets

As the record now stands, four months after this indication of a major decline, it is obvious that the response of the market in 1946 lacked the enthusiasm which it exhibited under similar technical circumstances in 1929 and 1937. In the ten-day climax to the 1929 price collapse the average at its low on Oct. 29 was 34% below the closing level for Oct. 4 which, at the time, was generally accepted as the bottom of a normal intermediate correction. At the Oct. 29 low the average was 27% below the close for May 27, 1929 which was the low reached on the final intermediate correction of the New Era bull market.

In 1937, at the low for Oct. 19, which marked the end of the collapsing phase of the decline, the average was 30% below the June 14 closing level of 165.51. It was the penetration of this point on

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Technical Background of the 1947 Stock Market

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Sept. 7 that gave the Dow theory indication of a major bear market.

Forced liquidation resulting from the collapse of the credit pyramid in 1929 and investment selling in 1937 based on the concurrent spectacle of collapsing rates of industrial activity gave a genuine major impetus to the stock market declines in those years. In 1946 the absence of a dangerous credit pyramid or any immediate threat to the physical rate of industrial activity, resulted in relatively meager additional general decline in the securities markets beyond the few days in which the price structure was subjected to the concentrated selling pressure resulting from the bearish psychology generated by adverse technical performance.

Technically, the September, 1943 indication of a Dow theory bear market is more reminiscent of the signal given on March 31, 1939 during the course of a concentrated price collapse, when the industrial average broke through the low of a previous intermediate decline which had ended at 136.42 on Jan. 26. With the now familiar fanfare that goes with the penetration of an important Dow theory technical point, the average on March 31, 1939 broke through 136.42 and closed at 131.84. Six trading days later it closed at 121.44 which was 11% below the price which indicated a major decline. However, this marked the low for more than a year and within six months the average had staged a recovery that exceeded 30%.

Recovery Anticipated

Thus, a detailed technical analysis of the concentrated price collapse of 1946 suggests that it may not belong in the same category as those of 1929 and 1937. It may well be that the elementary arithmetic of the situation reflects the comparatively inconsequential fundamental basis for the 1946 collapse in the price structure. Therefore, despite the fact that thus far the technical recovery from the September collapse has been the least impressive ever recorded from similar technical situations, there is ample justification for emphasizing the past record of price recoveries from concentrated collapses. This record shows that for a 12-month period following the low of a price collapse the probabilities favor a recovery in prices substantially in excess of any additional decline.

Comparison With 1937 and 1929

The climax low of the 1929 collapse was 212.33 reached on Oct. 29. Before a substantial intermediate recovery started, there were only two days that the average closed below the Oct. 29 low. These days offered buying opportunities for an ultimate recovery that ran from a low of 195.35 on Nov. 13, 1929 to a high of 297.25 on April 16, 1930. Thus within the 12-month period following Nov. 13 the average recorded a 52% gain from the low of that day whereas the maximum additional decline registered in the next 12 months was only 14%, the average on Nov. 10, 1930 reaching a low of 168.32.

In 1937, the climax low of the price collapse was 115.84 on Oct. 19. By Oct. 29 the average had rebounded 22% to 141.22. However, this technical snap-back failed to hold and the absolute low of the decline in the autumn of 1937 was not reached until Nov. 23 at 112.54. On the November decline the average closed below the Oct. 19 low only three times and following Nov. 23 the average staged a 20% intermediate advance to 134.95 on Jan. 15, 1938 and within 12 months had reached 158.90 for a total gain of 41%. This gain compared with a net additional decline of only 13%

from the low of Nov. 23, 1937 to the low of 97.46 established on March 31, 1938.

This low at the end of March, 1938 was the result of a concentrated price collapse precipitated primarily by the Nazi annexation of Austria. Without the help of this menacing foreign development it is open to question whether the November 1937 average lows would have been broken. As far as the time element was concerned the penetration was relatively brief. Only six trading sessions were involved in the decline from the day the November low was broken until the absolute low for 1938 was recorded.

These six trading sessions ended a 14-day price collapse during which the industrial average lost 22%. The record of the subsequent 12-month period reveals a recovery of 63% from the low and no additional decline.

Another concentrated price collapse (previously referred to) was produced by Axis invasions of Czechoslovakia and Albania. From March 10 to April 11, 1939 the average lost 20%, with the major portion of the decline coming in the final seven days accompanying a Dow theory indication of a major bear market. In the 12 months following this concentrated crack-up of the price structure the average rallied 31% from a low of 120.04 to a high of 157.77

on Sept. 13. The low for April 11, 1939 remained the lowest level touched for the next 12 months.

Climax of the blitzkrieg price collapse was reached on May 21, 1940. However, the absolute low was not recorded until June 10 at 110.41. This low held for the ensuing 12 months during the course of which the average showed an extreme recovery amounting to 25% at its high of 138.77 reached on Nov. 8, 1940.

Conclusion

Thus on the basis of practical experience with five previous examples of what may be technically termed multiple-climax price collapses, it has always been wise to capitalize on the opportunity offered by the post-collapse price recoveries rather than to continue apprehensive regarding the amount of additional decline during the following year. Adding this record of action following previous concentrated price collapses to the obvious fact that those segments of the securities markets in which speculation ran wild from 1942 to 1946 have already had major corrections and, finally, recalling the erroneous major trend diagnoses of 1923 and 1926, there is justification for being a bit skeptical about accepting the market's 1946 ten-day technical "wild oat" as a guarantee of a major bear market and business depression in 1947.

Aspects of the Economics of Over-Full Employment

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fer from what we have been used to and sometimes to neglect the general truths that have been established in the immediately preceding period.

In the 1930's perhaps the dominating problem for economic science, to the extent that it wanted to be a basis for policy, was to analyze the causes of widespread unemployment and to find a cure for it. As unemployment, and a depressed economic state in general, was found to be due to insufficient demand for goods and services, the question became how to achieve and maintain a sufficient volume of aggregate demand. Some people think that this has been done only in times of war. Sir William Beveridge, for instance, has made the statement that the only sovereign remedy for unemployment that has been developed in liberal economic societies is war. While this is no doubt an exaggeration and was meant to be one, it contains an element of truth.

Maintaining Peacetime Employment

The fact that employment conditions have almost always been good in periods of war but unsatisfactory during long periods of peace is a challenge to economists to outline a policy that would provide employment for everybody in occupations that are useful and desirable in a state of peace. In dealing with this question, the emphasis has usually been placed on the difficulties to overcome in order that unemployment should be kept on a sufficiently high level. Beveridge put the goal to be aimed at in the following way: "Permanent full employment defined as a state of affairs in which there are always more vacant jobs than unemployed men." The Delegation on Economic Depressions appointed by the League of Nations has stated that the one objective of economic policy is to assure "that insofar as possible no man or woman able and willing to work should be unable to obtain employment for periods of time longer than is needed to

transfer from one occupation to another or, when necessary, to acquire a new skill."

It is only natural that the difficulties involved in maintaining a situation of so complete employment or labor has not as yet received as much attention as the difficulties in causing an expansion of employment from a depressed state. In the course of this lecture I shall make an attempt to describe or characterize some of the difficulties which occur in a country that aims at maintaining conditions where everyone willing to work finds it easy to obtain a job.

My subject is not the conditions of a relatively high degree of employment as experienced in good periods of business conditions between two world wars. I assume a state where the number of vacancies is as large as three, four or five percent of the total employment, whereas the unemployment due to movements of labor from one occupation to another is much lower than the number of vacancies. An analysis of a situation of this kind may throw some light on the question how to maintain a reasonable high and even employment and it may also help us to understand how high it is reasonable to fix the employment which we should aim at and therefore might, for practical purposes, call full employment.

Over-Full Employment

The state of affairs which I am to analyze can be called over-full employment, or, for the sake of brevity, overemployment. It is not, of course, incompatible with the existence of some structural and seasonal unemployment; it means simply that there is always a much greater number of vacancies than people looking for jobs. The first thing we have to ask ourselves is how such a situation can be brought about. The answer is obvious. If the total demand for goods and services exceeds the current supply, producers will be anxious to expand output and will therefore increase their demand for labor even if practically the

whole labor force is already employed. The problem therefore becomes the following one: what is it that will make the aggregate demand exceed the value at current prices of the present supply of goods and services? Does not demand depend on income and does not income depend on and vary with the volume of output?

It is true that income is dependent on production though not entirely on the volume of goods that are put on the market in the present period, but rather on the volume of productive activity that is now going on. And the demand for consumers' goods depends on income and the willingness to save a part of it. But purchases for investment purposes are not financed exclusively by current income. A large part of investment is financed through credit and the volume of credit has no fixed relation to the volume of present savings. Therefore the sum total of what people are willing to buy for investment purposes and what they want to buy for consumption may well exceed or fall below the value of the forthcoming supply of goods and services at current prices. It is not necessary to complicate these matters by a detailed analysis of saving and investment of the kind that has become popular in the last decade. It is sufficient to point out that there is no automatic mechanism which guarantees that the sum total of what people want to buy for consumption and for investment will be exactly equal to the value of current output at present prices.

This thing can also be expressed in another way by saying that the planned investment may exceed or fall below the planned saving, but I think the former way of expressing it is more easily understandable. If the aggregate demand is too large, relative to supply, and if we grant consumers the right to determine how much they will buy, then one can say that what makes total demand "too great" is the fact that investment purchases are kept on an excessive level. In other words, the state of overemployment is due to an excessive demand for investment purposes.

Cases of Excessive Investment

Some cases of excessive investment are well known. This is true, for instance, of the ordinary inflation movement. Prices rise, wages go up, investment expands, prices rise still further in a cumulative process. Obviously if we want to avoid development of this kind as a result of an excessive investment demand, it is necessary to apply various controls by the state. This has been tried in almost every belligerent country during the last war. Both wages and prices were kept down and the result was an acute feeling of scarcity both with regard to labor and commodities. From the point of view of the labor market it is obvious that in such countries the total demand for products which is an indirect demand for labor, exceeded the supply of labor at the current wage rates. This is the kind of situation I am going to comment upon but it is better not to study the case of economies in times of war. There are too many special circumstances and too many psychological factors that are specific in a war economy. Hence it is probably more interesting to analyze a state of affairs of overemployment as a permanent situation in peacetime. It is important to know what kind of state controls are required in order to make such a situation permanently possible. We also want to know which economic advantages or disadvantages will follow from a system of this kind compared with one where a somewhat less complete employment is to be found.

Let us consider therefore a case that is common in Europe today i.e., that the prices of the most important goods and services are controlled. Wages, on the other

hand, are not subject to government regulation. We are not concerned with the after effects of the war with regard to raw material supply and the scarcity of foreign exchange. With this reservation we may have the present British economic situation in mind. It has recently been stated that in Great Britain the current volume of purchasing power for consumption purposes is about £7,000,000,000, whereas the current supply of the consumption goods and services is not much above £6,000,000,000. We may assume a somewhat smaller discrepancy than this one in order to make it possible to visualize a situation where there is no rationing of consumers' goods.

Let me try first to characterize the market situation under these conditions. As demand for most goods exceeds supply, producers and traders find it easy to sell at current prices more than they have. From their point of view the situation is similar to what is called in economic theory "perfect competition." The marginal selling costs are zero. This is so, even if the number of competitors is small or if true monopoly reigns. In most firms marginal costs of production are below price which is equal to the marginal revenue. Every new laborer that can be employed therefore brings a considerable extra profit. In these conditions the demand for labor must exceed supply.

Effect of "Unintentional" Savings

Let us look now at what happens on the commodity markets. It is inevitable that commodity stocks should be reduced, unless speculative considerations make the owners of these stocks refuse to sell. In the case of domestic raw materials half-finished products bottlenecks develop for there are always some lines of production where capacity is relatively smaller than in other lines. Buyers of certain goods like machinery that is made to order are put on waiting lists. Thus in spite of the use of overtime, which to some extent alleviates the pressure, it is obvious that the investment in new productive appliances, houses, etc., is delayed. The total volume of investment will be smaller than planned and anticipated. Some of the consumers' purchases are also delayed because the desired type of goods is not to be found immediately. In other words, unintentional savings owing to the putting off of purchases appear. In some industries profits may become unexpectedly large and in that way too unintentional savings are caused.

Thus the volume of investment is made to agree with the volume of savings although much more investment was planned than would correspond to the planned savings. It is possible that part of the investment is financed by the drawing upon foreign exchange reserves. For the excessive demand will tend to make imports rise whereas exports fall off. To the extent that the price control is incomplete or ineffective, prices will go up. This may increase the savings and reduce the volume of goods that are consumed. Considerations of this kind lead us to an important conclusion. It is impossible to have a situation of overemployment without getting bottlenecks in the domestic economy. There are not sufficient goods to be had and the degree of insufficiency will be very uneven. As it is necessary to expand the capacity in certain lines, the shortage in supply may be intense. In other fields supply can be more easily adjusted.

Labor Market Maladjustments

The conditions on the labor market about which I shall speak soon will, however, make adjustments in production more difficult than what we are used to under conditions of less complete em-

ployment. In countries which have scanty reserves of foreign exchange, bottlenecks will appear also owing to an insufficient supply of imported raw materials and other goods. If larger buffer stocks exist at the time when the period of ever investment begins, then the appearance of bottlenecks may be delayed. But sooner or later shortages will develop. If certain prices are not regulated, they will tend to rise considerably, particularly in the case of raw materials. For it is better to pay a high price than to curtail production.

It is not unlikely that the most serious bottlenecks will appear with regard to half-finished products for which capacity is insufficient. Supply of such goods is often inelastic as the building of new plants may require several years. If many countries are in this state of overemployment the effect on raw material prices on the world market will be unavoidable. It is difficult to see how a considerable but uneven rise in such prices can be avoided. As the pressure grows it will be increasingly difficult to maintain control of prices without rationing. Besides, the volume of investment will tend to grow, and if the situation shall not run entirely out of hand it will be necessary to control investment activity.

Let me add that the shortage of labor cannot be abolished through immigration. Let us assume that there are in a country 100,000 vacancies and that therefore the same number of immigrants are admitted into the country. These newcomers appear not only as workers but as consumers as well. Thus demand will grow and supply will continue to be insufficient. It is true that the total volume of savings will grow, as a part of the increased income will be saved, but investment will have a tendency to rise also as the need for housing will increase.

Conditions of Moderate Level of Employment

If we compare the situation I have now briefly outlined with conditions at a moderate but relatively high level of employment, we find that there are several advantages connected with the former. First, the very full employment is in itself an indication that production is relatively large. Secondly, the scarcity of labor acts as a stimulus to rationalization. These kinds of investment that increase output with a constant labor force are given preference both by businessmen and by the government agencies that has a say on investment policy. Furthermore, trade unions will probably become less adverse to labor-saving devices and may even be strongly interested in methods that increase efficiency and earnings. Thirdly, selling costs will be much lower than under ordinary economic conditions. This may be a saving of the order of magnitude of 1 to 2% of the national income.

On the other hand, one cannot overlook that there are several offsetting influences which tend to reduce the effectiveness of the economic system. I have already mentioned that bottlenecks and waiting lists for deliveries of machinery, half-finished products and some raw materials will be inevitable. This means that production will be slowed down, perhaps in a whole industry, as a result of a temporary lack of vital commodities.

Over-Employment and Labor Turnover

Another unfavorable factor is the excessive labor turnover that seems to be characteristic of a state of overemployment. Even in Russia, where conditions are different from the capitalistic economies, there is a complaint that capricious movements of workers from one job to another reduce efficiency. The experience

in Sweden in recent years bears out that such arbitrary migration back and forth not only reduces the output of the workers in question but to some extent hampers the work of other laborers who are dependent on the former. It also seems hard to avoid that some people who take very little interest in their work will not have as strong a stimulus as usual to do their best, if they know that they can any day quit their present occupation and immediately find a new one.

It is perhaps somewhat of a paradox that labor mobility of another type tends to be relatively low where overemployment rules. In the past, unemployment in some occupations has been an important stimulus to transfers to other places and occupations. During a period of overemployment, there will be very little of such employment and many firms will tend to hold their workers even if they are not needed at the time. They will fear that it would prove impossible to get them back later on. The psychological obstacles to movements from one place to another will be difficult to overcome on a sufficient scale. Furthermore, if rents are controlled and not allowed to rise to a relatively high level—and this is almost ever true—one has to count with a shortage of housing. Hence industries situated in places where this shortage is acute will find it particularly difficult to attract new labor. The ensuing difficulty in transferring workers causes a tendency for business to establish new factories in districts where the labor supply is relatively satisfactory, even though this district may offer less favorable conditions with regard to cost of transport or in other respects. Hence the location of industries will not be the most effective one and the expansion of industries producing goods that are needed in larger quantities may be difficult.

Of course, firms and industries which happen to have an unused productive capacity will be able to expand their output more easily than others which are dependent on the building of new factories. There is a prior likelihood that the former are always those which can add most to the national product. On the contrary, it seems probable that the expansion of output when compared with demand will be somewhat unbalanced.

Over-Employment and Business Expansion

Experience in Sweden and other countries seems to indicate that while large firms have difficulties in finding the needed labor force, small firms can expand because they are in a position more or less secretly to pay wages that lie above what is fixed in their collective agreements. In some cases the efficiency of production is lower than in the small firms but even for them the marginal revenue may exceed the marginal cost in a state of overemployment. It is also obvious that it will be very difficult for an industry to expand unless it is a high-wage industry, particularly in countries where the number of people in the working age is not increasing.

For instance, if more textile goods are needed, and I think this is the case in many countries today, the textile industry nevertheless finds it very difficult to expand its output because its wage rates are relatively low. It may even lose labor to other industries in spite of unsatisfied demand for its products. To transfer an important industry from a relatively low wage status to a high wage is, of course, extremely difficult and it would have far-reaching consequences on the whole wage level. Obviously there are several reasons why one must expect a relatively slow adaptation of supply to demand. It can be done much more quickly in a situation where there is not such

an excessive scarcity of labor. It is a sad conclusion that the smooth adaptability of the economic system to some extent depends on the existence of a certain amount of unemployment. However it is important to stress that the disadvantages mentioned above seem to a large extent to depend upon the transition from the stage of full employment to one of over-full employment.

Price Control and Unbalanced Production

The control of prices which is inevitable under conditions of overemployment will, in most countries, be confined to the more important commodities. This may lead to a less effective use of the productive resources. It is inevitable that the control should be directed primarily towards goods and services that are important for the consumption of the general public and particularly those which enter largely into the costs of living indices. Hence the pressure to keep low prices will be stronger in the case of such products and producers will find it tempting to expand the output of other, less severely controlled commodities. Even new investment to expand capacity will be similarly directed into channels that are not advantageous from the point of view of society as a whole.

I mentioned that a certain reduction in selling costs is possible when the demand for most goods exceeds supply. This saving will, however, be more or less offset by the increased difficulties involved in buying the right kind of goods. We must remember that commodity stocks in some lines will be relatively low. Hence consumers will often have to go from one shop to another to find what they need. Similarly professional buyers will have to spend a considerable amount of time in finding the right sources of supply and to persuade producers to put out the wanted products, etc. Present conditions in Europe offer ample illustrations of this phenomenon.

It is, of course, impossible to say whether the economic advantages that follow from overemployment, that is, the more complete utilization of labor, or the various disadvantages I have touched upon will have the greatest economic importance. The only thing one can say is that it is very doubtful whether an increase of employment from, for instance, 96 or 97% to 99% will add to the volume of output. The loss in efficiency may more than offset the increase in the number of hours worked. Personally I am inclined to think that output would in the long run be maximized at the level of employment which is high enough to stimulate businessmen to rationalization, but not so high that one could call it over-full employment.

Problem of Price Stabilization

Let me turn now to another aspect of the economic system that is characterized by over-full employment. Is it probable that a relatively stable price level can be maintained in the long run? If the answer is in the negative; and if we find—as I think we shall do—that a considerable rise in price levels is probable—then this must in itself be regarded as a weakness of such a system. For such price movements call forth changes in the distribution of income which are by most people agreed to be undesirable. Furthermore; strong price movements make it difficult to maintain a balanced economy and increase the risk that some day a violent recession will set in. This would, of course, involve a great loss and we are entitled to put the risk of it as an item on the debit side of the system of overemployment.

I have already mentioned that there will be a tendency for employers to "overbid" i.e., to pay higher wages than are agreed

upon in collective agreements. In Sweden the rise in earnings of industrial workers in 1946 is estimated at 8%; of which one half is supposed to be due to such "overpayment," e.g., in connection with the fixing of price rates that are not determined in the collective agreement.

When new wage agreements are negotiated in a state of overemployment the tendency will be for the unions to ask for considerable wage increases. It is improbable that they will be content to accept increases of the magnitude of 2-3% that correspond to the increase in productivity during a year. Hence, to the extent that profit margins cannot be reduced there will be a pressure on prices to rise. The experience of the United States, Sweden and many other countries in 1946 bears this out. The employers resistant to large wage increases will probably be relatively weak when labor is very scarce. Low wage industries, in particular, may be willing (perhaps anxious) to raise wages in order to keep or expand their labor force.

The existence of price control will, of course, tend to reduce this willingness to lift wages. But the fact that marginal revenue is for many firms higher than marginal costs will nevertheless lead to wage increases. Under such conditions it is unlikely that a ceiling on all important prices can be maintained in the long run. When it is broken in one way or other, prices may rise considerably. If it is maintained for a long period and if employers, therefore, refuse to grant the wage increase the trade unions will accept, the outcome may be large labor conflicts. It cannot, I think, be denied that the risk of either considerable price movements or large conflicts is much greater when a typical seller's market reigns on the labor market, than it would otherwise be. This is a serious weakness of the system of maintaining over-full employment. If people should come to expect a long run tendency of rising prices, this may have consequences for the lines of investment chosen as well as for the willingness to save; in both cases the consequences will not be regarded as advantageous.

The Effect on Interest Rates

In a state of overemployment and insufficient capacity there will be—as experience demonstrates—a tendency in many industries to increase capacity. Hence the volume of desired investment will tend to grow. If it is to be kept at a level compatible with moderate overemployment, then either the interest level has to be adjusted, credit restrictions applied or investment regulated. It is quite probable that when the state of overemployment and excessive demand has lasted for some time, the tendency to increase investment will be so strong that if credit and investment restrictions are not to be used, the interest level has to be raised to a considerably higher level than under ordinary conditions.

It seems obvious that an economic situation of this sort is inherently very unstable.

If for one reason or another the volume of investment is suddenly reduced or a consumer's strike begins and, therefore, the total demand for goods and services declines, a strong tendency to a recession will set in, which will call for a drastic reduction in interest rates and other measures. Many European countries have preferred to use investment control rather than high interest levels that would exercise a disturbing and unpredictable influence on house building. It is not surprising that the pressure of the excessive demand which is characteristic of overemployment leads to an economic policy of this sort. We have seen that price control is absolutely necessary if a strong

inflation is to be avoided. Unless there is also wage control or a very conservative wage policy on the part of the unions, price levels will nevertheless get a decidedly rising trend.

Over-Employment Cannot Last

The general impression one can gain from considerations of this sort—based largely on the experience of European countries in the last two years but independent of the after affects of the war—is that a state of over-full employment cannot last for a considerable period, unless a system of rather strict government regulation is used.

Furthermore, it seems highly doubtful whether a reduction of the number of unemployed from what it will be when the aggregate demand is the highest compatible with the condition that is balanced by current supply will at all increase the volume of output. The idea to keep the "volume of purchasing power" well above this "equilibrium level" is evidently not such a brilliant one, as many people have thought.

On the contrary, one is inclined to think that it is wise for economic policy to aim at the appropriate level of total demand, where the factor of scarcity plays its customary role as a balancing and economizing force. The alternative seems to be a system of controls and, unless they are tightened step by step to include wage policy as well as finally considerable inflation.

Thus: to keep up total demand at a level where it is very easy for anyone to find a job is no panacea for our economic ills. It is better to set a different goal; to create and maintain a balanced economy, where total demand is large enough to provide employment for all labor that is available in the appropriate places and occupations, but where there is no considerable number of vacancies in industries paying an appropriate wage.

Life Ins. Purchases At New High in 1946

Life insurance purchases in the United States last year reached an all-time high, the 1946 total of \$21,342,860,000 comparing with \$14,139,729,000 in 1945 and \$12,062,035,000 in pre-war 1941, it was reported on Jan. 22 by the Life Insurance Agency Management Association, of Hartford, Conn. The Institute of Life Insurance, making this information available, on Jan. 23, said:

"While the aggregate of life insurance purchases last year was 51% over the previous year, purchases of ordinary life insurance accounted for \$15,092,307,000, a gain of 55%; industrial life insurance purchases were \$3,970,357,000, a gain of 29%; and group life insurance purchases were \$2,280,196,000, a gain of 76%.

"December purchases were \$1,962,873,000, compared with \$1,449,014,000 in the corresponding month of 1945 and \$1,629,069,000 in the corresponding month of 1941. The December total was 35% over December of 1945. Purchases of ordinary life insurance in December were \$1,196,725,000, representing an increase of 27% over a year ago; industrial life insurance purchases were \$290,439,000, an increase of 10%; and group life insurance purchases were \$475,709,000, an increase of 94%."

With Slayton & Co. Inc

(Special to THE FINANCIAL CHRONICLE)
CHICAGO, ILL. — Albert A. Lau has become connected with Slayton & Co., Inc., 135 South La Salle Street.

With King Merritt & Co.

Edward S. Kulesza has been added to the staff of King Merritt & Co., Inc., 55 Liberty Street, New York City.

The Good Economy and the Science of Economics

(Continued from page 734)

the basic instruments that have made these accomplishments possible are now, and have been, particularly during the last dozen years, under severe attack by those who would offer devices for living that nowhere at any time in the world's history have ever enabled a people to attain the standard of living and the degree of freedom which these 158 years have brought to the people of these United States. Indeed, it is substantially accurate to say that, although it has been the great institutions of individual freedom and private enterprise in this country that have been employed twice in the last thirty years to rescue peoples and nations of Europe from the onslaughts of autocratic governments, we find vociferous groups urging that we replace these institutions of freedom with those of autocratic governments.

There are no lessons in history that justify the recent and current attempts to turn our country's clock of progress backward—back to the employment of devices that are known to be evil and a danger to the well-being of the individual and of a people in general.

The multitude of reasons for this reaction toward those things from which people throughout history have struggled to free themselves can perhaps be summarized under the general heading of a shortsighted view of events in the last thirty years. The economic depressions and dislocations, the most severe of which are perhaps the result chiefly of wars, seem to have caused many people to lose their perspective. In a situation in which such a large proportion of people, here and elsewhere, have been depressed, harassed, tired, and discouraged, political demagogues, amateur and politically-minded economists, and others have found a fertile field which they have cultivated day and night. History seems to have been forgotten, or not understood, or misinterpreted. There has been a strong tendency to base programs of "reform" upon emotion rather than upon the methods of science. The lessons of hundreds of years have been junked by those who have been willing to rate their anticipated or realized personal gains of the last dozen or more years above the long-time welfare of their respective nations. The politically ambitious saw an opportunity to elevate themselves, to become bosses, to exercise power they never had before and probably never expected to have. Dictatorships sprang up abroad and unprecedented march toward an unconstitutional, totalitarian form of central government developed—even in this country. Slogans, promises, programs, and policies were made to fit the needs of the rulers who did all in their power to keep themselves in positions of authority.

The ambitions of the leaders of these autocrats soon clashed, and they led their people into the most widespread and destructive war that the world has ever seen. In no nation did the people as individuals have an opportunity to vote for or against this war. Their rulers decided for them. The liberties of people, already sharply curtailed by autocratic dictatorship, were progressively and rapidly reduced to something approaching zero. Millions had no choice but to lose their lives. Savings of a lifetime and of generations have been swept away. Destruction and waste have seared the face of the globe. Debt has been saddled on the living to an extent never before seen. Taxation has become destructive. Few people and homes anywhere on this earth have escaped bitterness and hate and despair.

This is the scourge that autocratic leaders in government have brought to millions and millions of people in this world in recent decades.

Clamor for More Central Government

And yet the basic lessons in these events seem to be lost on those who keep clamoring for more, not less, central government, and for less, not more, freedom for the individual. Today, in this country, we are experiencing a sharp conflict between those, on one side, who clamor for more government—Socialist, Communist, or totalitarian in some form—and less, or no, private enterprise, and those, on the other side, who wish to arrest this trend and to work for greater freedom for the individual and a continuation of the progress, with improvement, that we have experienced through most of our last 158 years.

What Is a Good Economy?

This conflict raises questions as to what is the proper aim of any social organization, and what is a good type of government—in short, what is a good economy.

(a) It seems reasonably clear that no social organization is good if it does not, in addition to contributing to the material well-being of a people in general, protect and foster individual liberty.

For centuries, people have fought for liberty as strenuously perhaps as for material goods. One may find food, shelter, clothes, safety, and security of a type within the walls of a prison, but at the price of liberty. Many men have sacrificed all their worldly goods, and even their lives, to obtain freedom for themselves or others. Individual liberty has in general been considered a priceless heritage. It has been man's perpetual aspiration. He has struggled for ages to enlarge the scope of individual liberty, including the freedom necessary to develop his personality to the limits of his physical and mental capacities and to safeguard the same freedom for his fellows. The justice and desirability of such freedom are recognized by all truly enlightened and free people. When we curb this freedom, we take a step backward. When we find new ways to enlarge this freedom, we progress.

Such freedom recognizes, above all things, the sacredness of one's personality. Probably every important religion in the world has recognized and clung to this great fact. It ran like a theme through the teachings of Christ. It lies at the bottom of that courtesy with which the refined person deals with his fellow men. It is probably one of the most vitally fundamental elements that make human existence worth while.

(b) Other aspects of a good social organization and a good economy appear by implication as we examine the criteria of a good government, which can be good only if it protects, fosters, and operates within the limits of, a good social organization.

It seems reasonably clear that a government cannot aid in raising the general level of living in society and protect and enlarge the scope of individual liberty unless it fosters free and fair competition and applies the standards yielded by such competition when regulating activities in which it is inoperative.

Free and Fair Competition

Human beings apparently have never devised a better means of encouraging individual development and social progress than by fostering equality of competition, impelled perhaps chiefly by the profit motive, and by providing at the same time the means of protecting the weak against the strong and the honest against the

dishonest. There is probably no better means of determining the social value and proper prices of commodities and services than that of free and fair competition. *Indeed, the only objective standards of value and price known are determined in this manner.*

Freedom of competition of itself is not enough; competition must also be fair. And fairness of competition implies conformity to the rules of fairness acceptable to that society which is endeavoring to foster competition. The test of the fairness of these rules is found in whether or not they tend to produce the conditions that would prevail if the competitors had equal strength and accorded to each the same freedom in competition.

The genus, of which competition is a part, is rivalry. And rivalry is universal in life and operates in some form in any type of society. It is only by free and fair competition, or by the application of standards revealed in such competition, that the selection of what is superior can be made in any objective manner.

It seems quite clear that most if not all deviations by governments from the objective standards provided by free and fair competition have been injurious to social well-being.

The application of these standards requires, for example, that monopolies be regulated in an effort to obtain the results that free and fair competition appear to yield in similar fields; that the weak and the honest be protected against the strong and the dishonest, to the end that that competition may be fair; and that prices, with certain exceptions, be neither fixed nor controlled, but the results of this free and fair competition, to the end that they may reflect accurately society's appraisal of the value to it of these goods and services.

Examples of appropriate exceptions to the rule against price fixing are found in the necessity for the government, in order to establish a standard of values (a) to fix the weight of, and consequently the metallic price for, the monetary unit used as a standard in its currency system, and (b) to fix the rates charged by public and private monopolies which are permitted to operate in lieu of competitive enterprises. It is probably desirable, also, for a government, in time of war, to fix prices of those products in which a rise in prices will not bring an increase in production. But such government price-fixing should utilize as objective standards the prices and profits revealed under conditions of peace-time competition.

Free and fair competition cannot function properly unless there be both economic and political democracy. In a political democracy, the individual is free to cast his political votes as he thinks best. In an economic democracy, the individual is free to vote his dollars as he prefers. Democracy is incomplete in so far as either of these aspects is impaired, and neither can operate well if the other is restricted in any considerable degree.

On all sides today we see how our economic democracy has been impaired—how our freedom to spend our dollars for goods and services has been curbed. Taxes take from us by compulsion much that we would like to use in our own interests or as our desires suggest. A multitude of government regulations and the inability to get the customary goods and services, in large degree the result of these controls, have placed sharp limits upon the proper operation of economic democracy in this country. And, as one considers how the taxpayers' funds have been used by our government, it should be easy to understand in

what respects this impairment of our economic democracy has also impaired our political democracy.

Guidance of Mass Judgment

No government, no government organization, no government bureaucrat or collection of bureaucrats can begin to compare in efficiency or in intelligence with the mass of people who are free to vote their dollars as they think best. Producers can never obtain better guidance than that given when all buyers are free to spend their dollars for this and withhold them from that. Buyers can never be served as well as when they can vote their dollars as they please and when producers must respond to these indicated preferences. Apparently every departure from this method of buying and selling injects into the economy elements of inefficiency, waste, and maladjustment. A heavy burden of proof rests upon those who, in periods other than war time, when maladjustments and regimentation are the order of the day, would interfere with the free operation of economic, as well as political, democracy.

The power of one individual over another is an insidious and corrupting thing. It places a great responsibility upon the person with whom the power rests. Where economic and political democracy operates freely and fully, the power of one individual over another is sharply curbed. Power is widely diffused, and it is difficult to concentrate it if economic and political democracy has free play. Furthermore the system of incentives, instead of government compulsion, plays its beneficent role.

Society a Cooperative Enterprise

An enlightened government, earnestly striving to increase the well-being of society, will recognize and conform to the fact that society is a cooperative enterprise.

All agents and individuals engaged in the production, exchange, and consumption of goods and services, and in the distribution of the national income both compete and cooperate with one another. In production, employers, employees, and owners of natural resources and capital equipment must cooperate. All are necessary, and it is as futile to argue that one of these agents of production is more important than any one of the others as it would be to contend that any one leg of a four-leg table is more important than any one of the other three.

The better the cooperation among the agents of production, the better is the well-being of society promoted. A fostering of free and fair competition facilitates such cooperation. The smoother the competition, the more effective is the cooperation. Cooperation, under conditions of free and fair competition, becomes practically automatic and largely devoid of conscious effort. When competition operates less freely and less fairly, cooperation becomes more difficult and requires a progressively greater amount of conscious effort.

In this country we have had in recent years, if not today, a government that has allied itself largely with one agency of production—the employee group. It advertised itself as the champion and friend of the job receiver and job seeker, and constituted itself the disciplinarian, if not the enemy, of the job provider. In large degree, government compulsion replaced encouragement of incentive. The task of the job provider was made harder, not easier. Class struggle and social and economic disruption, not cooperation, were and are some of the results. Today we have a situation in which one labor leader says we cannot have coal, another says we cannot have steel, another says we cannot have automobiles, another says we cannot have foreign music, another says we cannot have bus transportation, an-

other says we cannot have telephone or telegraph service, and so on and on. The unfortunate aspects of this dictation by people given monopoly powers by a partial government should be obvious to all mature and thoughtful people. It is a manifestation of the consequences flowing naturally from the operations of a government that chose to depart from neutral, even-handed, intelligent, and high-minded statesmanship.

Government Should Provide Peace

A good government will provide those agencies that ensure peace. The best cooperation among the agents of production, the best operation of our instruments of exchange, the assurance of the greatest benefits to the consumer, and the attempts to obtain the best sharing of the national income all require peace. When conflicts of interest appear, they should be eliminated quickly by means of devices that will provide justice and restore peace. In general, this means that courts must be provided to which people with conflicting interests may repair, since adjudication offers more promise of ensuring justice than does resort to force, except as used by the State to enforce those of its laws which are based upon the principles of equal justice for all.

In recognition of these facts, a good government will never cease cultivating and improving upon the devices and rules which will aid cooperation and facilitate a better understanding of its necessity and virtues. It will always occupy a neutral position with respect to the importance or interests of any one of the classes of the agents of production in recognition of the fact that all are necessary, that all should cooperate, that all are equally entitled to justice, and that this justice probably can be obtained in no better way than through the smooth operation of free and fair competition, with its consequent automatic and largely unconscious cooperation, and through the enforcement of the objective standards yielded by such competition in the fields in which it does not exist.

Today we find widespread acceptance in this country of the notion that strikes must not be prohibited. If intelligence is superior to brute force, then the notion that there is some valid defense for strikes or lockouts or picketing or some similar and related manifestations of force is without any rational foundation. The current fetish that provisions for strikes can be defended is a sad commentary on human intelligence and the state of our civilization.

In practically all but two fields of human activity we as a supposedly intelligent people have worked steadily to end trial by battle. Our courts are assumed to be a monument to the substitution of intelligence for force; and these courts in many respects are authorized to reach into the innermost aspects of our private lives.

Trial by Battle

But in two large areas we have persisted in retaining the primitive system of trial by battle: One is in our international relations, and at present we are hoping that the instruments of peace and justice will finally be substituted for war. The other is the field of industrial or labor relations. But here we seem to have been doing little or nothing beyond keeping the way open for, if not actually fostering, warfare. There appears to be nothing good that can be said for this manifestation of human ineptitude. An objective look at our policies, practices, and warfare in the field of industrial relations should reveal that in so far as fundamental principles are concerned we have not risen much

above the practices of primitive man.

It is probably an open question whether provision for replacement of trial by battle in industrial relations by institutions for peaceful judicial determination of justice needs to involve the dangers which are commonly alleged to be inherent in compulsory arbitration. Relatively little effort seems to be made by economists in the field of industrial relations to devise programs for peaceful settlement of labor disputes and for the elimination of any dangers that might be involved in some provision for compulsory arbitration. Instead, it appears that many, if not most, labor economists, like many others, take it for granted that strikes are a right and a necessity.

It seems reasonably clear that the first and most fundamental consideration is whether, in human efforts to obtain justice, trial by battle is to be regarded as superior to the exercise of human intelligence. If intelligence means anything, then it would appear that trial by battle should be ended. If this be granted, it naturally follows that our tasks lie in the creation of the instrumentalities that will insure justice in the peaceful settlement of all disputes.

In so far as the economic world is involved, objective standards of justice are those yielded under conditions of free and fair competition; and it is most important that all courts charged with the responsibility of making just awards in the economic field be required by statute to find and to enforce such standards.

Without such an objective standard to guide, all standards of justice become subjective in nature. There is, then, no standard of rightness except that determined by the court. Justice would still be determined by the power of some individual uncontrolled by objective standards. The fact that the power happens to reside with a court does not alter the nature of the power being exercised. It can still be subjective, and, therefore, according to objective standards, arbitrary and unjust. It would simply be a case of "*Hoc volo; sic jubeo; sit pro ratione voluntas*" ("This I will; thus I order; let my will be in place of reason").

In recent years we have seen a multitude of instances in the fields of administrative and case law in which this has been the dominant characteristic of the standards of justice employed—in principle nothing more than the subjective "This I will, and thus I order."

That practice should be ended; and it should not be permitted to enter into any provisions for courts of arbitration in the settlement of labor disputes.

A good government will exercise only those powers granted to it by the people being governed. The State is the organic agent of society, created by that society to promote its best interests. Thus a government which is granted powers, usually in the form of a constitution, for the purpose of aiding society in attaining its aims, cannot step beyond the scope of the authority granted it by that society without ceasing to be a good government. Briefly stated, a good government will be a constitutional government. It will neither exercise powers nor engage in interferences with social practices when such governmental acts exceed the provisions of the organic law according to which that society has decided that it expects its government to be guided.

Government Should not Compete With Private Enterprise

A good government will undertake no activities that can be performed as well or better by private individuals or associations. A fundamental purpose of government is to provide society with the regulations and the enforcement of these regulations, which

this society desires, as a means of protecting individuals in their efforts to live and to make a living. People do not wish to be deprived of opportunities to gain a livelihood, and they do not, in principle, willingly organize an agency which will deprive them of these opportunities.

Those who regard this principle as questionable, or who suggest that the State should be free at its option to compete with, or to enter into "partnership" with, the people who provide it with its authority, open the door to Socialism—a form of government which cannot meet the objective tests as to what constitutes good government and a good economy. Unless this principle is recognized and adhered to, we have no criterion by which we can define the extent to which a government may appropriately enter into competition with citizens or deprive them of their opportunities to make a living without being employees of the State.

When a government enters into competition with its citizens, or creates a government monopoly in a business in which private enterprise could be as efficient or more efficient than the State, it substitutes government monopoly or ownership for regulation. This is evidence that, as a regulative agent, it has not been successful. The government's function is to regulate, not to own, business; and ownership and operation of a business by a government are more difficult and create more problems for all concerned than does government regulation. Governments rarely count with any high degree of accuracy their costs of doing business; their losses are levied upon the taxpayers; the forces which usually exact penalties for inefficiency in management and in service practically cease to operate; and society suffers as a consequence.

There are limits beyond which cooperative activities through the agency of government bring more disadvantages than advantages; and it is at this point that the government should cease its efforts to act for the people as their cooperative agent.

A very large proportion of human activities can, with great advantage to all, be left to private arrangements in which people are free to enter into contract; to exercise their ingenuity in production, invention, and discovery; to pursue their pleasure in music, art, literature, entertainment, and recreation; to choose their friends and associates through the organization of clubs, fraternities, partnerships, and similar organizations; to organize for religious purposes their churches, synagogues, cathedrals, and tabernacles; to pursue knowledge through the establishment of educational institutions; to save by creating savings and insurance institutions; to engage in humanitarian activities by establishing hospitals, fundations, and eleemosynary institutions.

Government is not an end; it is a means. Its function is to serve the society which creates it.

Government Should Seek Competent Advice

A good government will seek competent advice on intricate matters. Every government is confronted with a wide variety of questions. They may involve matters falling into the provinces of chemistry, physics, geology, mechanical engineering, hydroelectric engineering, civil engineering, naval and military affairs, economics, constitutional law, insurance, and so on. No government is wise, nor is it pursuing the proper course, when it submits questions of chemistry to those who are not competent chemists, or engineering questions to others than competent engineers, or economic questions to other than competent and scientific economists.

In the fields of the exact sci-

ences, this principle is ordinarily recognized, but often, if not usually, matters of economics, such as questions involving money and banking, tariffs, public finance, labor, agriculture, public utilities, and transportation, are not submitted to economists and others having long and practical experience in these matters, but to the general public or to so-called economists with a certain political allegiance. Some economic questions are as intricate in nature as any in the fields of the so-called exact sciences, and the period of training required of the economist before he is competent to render valuable opinions as a scientist regarding the best solutions may be even longer than that required of the chemist or high-grade physician. These are facts often overlooked by government officials. Because economists generally employ words in common usage, rather than such specialized symbols as those characterizing chemistry, many laymen seem to suppose that they are automatically admitted to an understanding of most or all economic principles. Consequently governments, unless they are careful and wise, often arrive at their answers to, and policies regarding, economic questions of major importance, not by consulting the most competent and objective economists, but by arranging for the general public to vote upon the issues or by submitting the questions to a group who may call themselves economists but who may in fact be nothing but devisers of, and agitators for, the policies which they think will help the government, of which they are a part or with which they are in sympathy, to remain in power. The same is true of important and really intricate matters in constitutional law, sociology, political science, and international law.

It is the duty of an unintelligent government to submit all such questions to the best trained and most reputable scientific people at its disposal, and then to take appropriate steps to inform the general public regarding those matters of which a very large proportion of the people has no clear understanding.

A government becomes particularly untrustworthy, and even extremely dangerous, as an agent of the people, when it not only submits involved questions to the incompetent general public for a vote on what the answers should be but goes even further and appeals to the emotions of the untutored people, or enters into a deal with groups having large voting strength, in an effort to obtain a vote that will maintain the party in power, even though this be at the expense of the national welfare. When a government indulges in such practices, the intellectual resources of a country are not properly utilized, the methods employed lead in too many instances to the wrong answers and policies, the government ceases to be a reliable agent of the people, and the prospects of insuring the effective functioning of a representative government are seriously impaired.

Since a large proportion of the questions before a government falls in the field of economics, it naturally follows that the scientific economist should be of great value in seeking and supplying the proper answers. But this would be true only if he is a thorough-going and experienced scientist.

Pseudo-Economists

The unprecedented influx of many people calling themselves economists (some of whom were genuine scientific economists) into our Federal Government during the last dozen years probably cannot properly be regarded as indicative of an increased reliance by our government upon scientific economists during those years. Rather, it seems to have

been for the most part a utilization of the services of those so-called economists, and of those economists, who, for various reasons, found it expedient to embrace and to advocate the economic maturity-underconsumption-oversaving-Keynesian-Socialist doctrines. Those doctrines, and the theories advanced in support of them, are in most respects thoroughly fallacious, for the simple reason that available evidence either refutes them or provides inadequate support in science.

When a severe business depression engulfs a nation, it is common to see laymen embrace many or most of these doctrines, partly for the reason that it is easy to confuse symptoms of a depression with its basic causes. But for what seems to be the first time in our history we have the phenomenon of a large group of so-called economists and of economists, who vigorously assert their scientific qualifications, allying themselves with the supposedly unscientific notions of the untutored mind as they are generally revealed during a severe business depression.

Keynes Influence

The late John Maynard Keynes of England had provided a new technical terminology with which to encase these old, simple, untenable, lay, depression, underconsumption-oversaving theories. This jargon gave his followers, chiefly those youngsters who as economists converged upon Washington in the 1930's, tools with which they were able to create for themselves an atmosphere of severe, austere erudition—perhaps one should describe it as a new variety of academic ostentation—and to appear as the guiding "scientists" in what was in nature a popular political movement far removed from what the science of human welfare seems to teach.

These embracers of these old, disreputable, lay theories of business depressions offered them as something new, although essentially all that was new in them was the distinctive terminology, provided chiefly by Keynes, and a related orgy in the use of mathematical formulae to prove some thesis lying perhaps chiefly in the field of imagination or some contention that available evidence would answer much better and possibly refute. Perhaps, as a part of the new economic jargon developed during the 1930's, mention should also be made of that provided by the *Semantic Guide*, used in connection with the hearings of the Temporary National Economic Committee. It was employed to disarm those who could be confused by the use of a new terminology or a familiar terminology used in new ways and who might otherwise have recognized and challenged the theories being propounded.

Through the use of these devices, among other things, these Keynesian economists were able to exercise a dominating influence, in so far as economists were involved, in directing the policies of the Federal Government. This dominance was also extended to the American Economic Association's officers, its quarterly *Review*, and its annual convention programs, and to a large proportion of our college and even high school textbooks in Economics.

The virtual alliance of a temporarily dominating faction of what is supposed to be a scientific body with a political party that happens to be in power, particularly when the party in power advocates and pursues conflicting economic principles, would seem to constitute a serious blow to the field of science. The mischief involved appears to be far reaching.

For instance, the objective standards for measurement and appraisal which the methods of science are supposed to yield have steadily dwindled in textbooks on Economics until, in some of them, such scientific standards have practically disappeared. Subjec-

tive descriptions and appraisals have become the dominating features of many if not most of our recent so-called standard works in Economics.

This trend in the field of what is supposed to be scientific Economics has an intimate relationship with the similar substitution of the subjective for the objective standards of science not only in the fields of administrative and case law but also in our statute lawmaking. Many of the so-called economists in the Federal Government in recent years must accept a large share of the responsibility for this situation.

The government, the country, and the science of Economics have suffered immeasurable harm in recent years from this apparently unprecedented moral, ethical, and scientific slump in the field of Economics. It should not be surprising, as a consequence, that practically any layman who chooses to write on an economic subject seems to have no hesitation in regarding himself as an economist. It is not his training, experience, and knowledge of economic facts and principles and of the requisites of science that determine whether he should offer himself as an economist; it is, rather, the nature of the subject with which he chooses to deal. Emotion, wishful thinking, and unsupported assertions become for such people quite satisfactory substitutes for generalizations derived scientifically from adequate evidence.

Many find comfort in the assurance of William Cullen Bryant that "Truth crushed to earth shall rise again." Sometimes it requires a long time to produce the truth in a convincing manner, particularly when it runs counter to popular political movements. Probably no one could predict with accuracy just how long it may require to make clear to a sufficient number of people what the essential facts and principles are regarding the economic maturity-underconsumption-oversaving-Keynesian-Socialist and closely-related theories that have, as something like a pestilential visitation, afflicted this country in recent years.

Fortunately some economists with unqualified loyalty to the methods of science are putting out evidence that should reveal the unfortunate nature of these most unfortunate doctrines. As an example, a recent study entitled *Economic Research and the Keynesian Thinking of Our Times*, by Dr. Arthur F. Burns of the National Bureau of Economic Research, should have a salutary influence if enough people read it. All economists, who really wish to be scientists rather than parroting followers of a political fad, improperly wearing the cloak of scientific Economics, should obtain a valuable lesson from Professor Schumpeter's article on "John Maynard Keynes" in the *American Economic Review* of September 1946, unless they can be misled by the extraordinary politeness which characterizes Dr. Schumpeter's analysis.

Until the basic criteria as to what constitutes a good social organization and a good government in relation to that organization are clearly understood and generally accepted by the majority of government officials, it becomes extremely difficult to enter upon a profitable examination of whether this or that activity should be undertaken by private enterprise or by government, or whether certain regulatory devices of government are wise or unwise. Furthermore, even with accepted criteria before us, there appear to be a considerable number of problems regarding which their closest students find it difficult, because of inadequate evidence, to state with a high degree of assurance what the best or proper answer is. It is

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The Good Economy and the Science Of Economics

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for these reasons that the several large issues now confronting this country are passed over here in deference to an examination of some basic principles against which it would seem that these problems should be viewed as we examine them, one after another.

Laws do not Solve Economic Problems

In our drift away from these criteria of a proper social organization, a good type of government, and a good economy—assuming the soundness of these criteria—another phenomenon has become conspicuous: It is the reliance of our people upon laws—not law, but laws—to solve their problems, whether business or otherwise.

When difficulties arise, the first reaction of people, in general, seems to be that a law should be passed. There appears to be an increasing tendency to pass more and more laws with respect to more and more things. This has become strikingly true of the Federal Government. At some sessions of Congress a thousand or more laws are passed. The accumulation of statutes, particularly during recent years, is one of the amazing commentaries on modern times. Our present faith in the efficacy of lawmaking, especially in the value of thousands of statutes that are neither read nor understood by a large proportion of our people, presents a problem for the social psychologist. We are being swamped with laws; we have so many on our statute books (to say nothing of administrative rulings) that we do not know what they are; the general public makes no pretense of reading them; we do not know when we are violating or obeying them, and yet there appears to be a persistent clamor for more.

We have been living in a period of frenzied legislation, particularly legislation by Preamble in which supposedly laudable purposes are set forth at great length to gain the support of a gullible public, the vague notion of superstition being that if only we can pass a law—its economic soundness often being not a paramount consideration—our problem or problems will be solved and we shall be saved from our troubles.

One may advance several plausible reasons for this remarkable faith in the virtues of statutes that are neither read nor understood generally. Among these reasons may be an undermined confidence in the virtues of competition and self-reliance, and a lack of understanding and perspective regarding the unwise acts of governments in contributing to economic and social maladjustments. Whatever the reason may be, we seem to have become a nation of law worshippers—particularly laws dressed up with persuasive and, sometimes, apparently dishonest, Preambles which have no legal significance whatever—a fact regarding which the general public seems quite unaware.

At the same time, these laws are slowly bending, if not breaking, our backs. They have brought upon us greater costs; destructive taxation; an unprecedented and mounting public debt; more governmental supervision; a growth in bureaucracy; a pronounced trend toward personal government; a development of class consciousness, class strife, and class hatred; a startling spread of demagoguery in politics; a serious decline in objective statesmanship; an insidious attack upon the virtues of hard work, thrift, and self-reliance; a conspicuous disregard for economic facts and principles; a growing and disturbing complexity in life and business; a loss

of freedom in many directions; a widespread pessimism and fear regarding the future; and the consequent development of a great weight which for the last dozen or more years, has had the appearance of bearing down more heavily upon us each year.

The question arises as to whether in the end this piling of law upon law, combined with the deluge of administrative rulings, may not destroy much or all that is worthwhile and healthy in our economic, social and political life if we do not soon reverse this trend and embark upon a program of repeal of all statutes and rulings which do not clearly contribute to our well-being as indicated in the criteria of what constitutes a good government and a good economy.

Connected with (a) our unfortunate, if not dangerous, drift away from the principles of good government and (b) our remarkable reliance upon statutes, many with Preambles that are laudable, misleading, or outright dishonest, to solve our problems, is a widespread notion that both developments are symptomatic of progress. Often they are pointed to as marks of liberalism in this country.

The fact seems to be that they are indicative, rather, of an insidious social disease which is slowly undermining our general social health and well-being and pointing toward some form of social retrogression. They clearly indicate an increasing amount of coercion, much of which undoubtedly of an undesirable sort.

False Liberalism

Time and experience have made it amply clear that those things which do not raise the general level of living in the long run, as against a short run, and which impair, rather than enlarge, the freedom of the individual, are retrogressive in nature. Most unfortunately, this spreading spirit of coercion and retrogression, in recent years and today, is frequently called *liberalism*, and the advocates of this coercion and authoritarianism often call themselves *Liberals*. But this return to coercion is the antithesis of liberalism; it is illiberalism and retrogression. The philosophy of these self-styled, but false, Liberals is that the individual must be regimented for his own sake—a philosophy that has characterized tyrants, dictators, and coercionists throughout human history. True liberalism has been associated with that long, painful struggle of humanity to free itself from regimentation, coercion, and authoritarianism.

A great number of people today—in the United States as well as in Europe—have fallen under the spell of words. Label a thing "liberal" or "progressive" and people in general will follow, advocate, or pursue it as though hypnotized. Label a thing "conservative" or "reactionary," and they will mark it down at once as bad. Such gullibility and faith in labels are a striking commentary on the degree of our intelligence.

People in general do not stop to ask the self-styled "Liberal" what it is that he is liberal about. Often it seems to center chiefly in distributing other people's money among himself and friends. The character of the "Progressive" is rarely defined. It may mean merely movement, or movement in a good or bad direction. The *Conservative* is rarely asked what it is that he wishes to conserve. There is little concern about the possibility that he may wish to conserve the very things that contribute most to the general welfare. Nor do many people

seem to pause today to consider the possibility that the "Reactionary" may be reacting against corruption, dishonesty, and stupidity. We prefer to read our labels and run rather than to distinguish between poorly-considered emotions and careful thinking.

As a consequence of the widespread thoughtless reliance upon labels, the word "liberal" has been dissociated from its historic meaning. Today it is a vague word used for the most part by Socialists, Communists, advocates of so-called government planning, and a variety of others who are trying to lead the people of the United States back along the path toward autocratic government, with its increased coercion of the individual, and into a period of social retrogression.

The battle in this country to-

day is between those, on the one hand, who are clamoring for more government coercion and are trying to head this nation in the direction of social retrogression and those, on the other hand, who are fighting for an improvement in our economic and social well-being by protecting and widening, if possible, the scope of individual freedom; for a wider recognition of the sacredness of the individual personality; for free and fair competition, with monopoly watched and controlled; for political and economic democracy; and for a constitutional government that will operate in accordance with the standards of goodness which have been presented here so briefly and inadequately.

Is CIO Demand for a Guaranteed Wage Practicable in Steel?

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terested in the benefits of stable income.

III.

Stable Wages Benefit Workers, Employers, Consumers and the Community. The benefits to the worker are pronounced. He develops a feeling of security and can plan ahead for buying a home and educating his children. In the Nunn-Bush Shoe Company, the worker's annual earnings are higher than for the average shoe worker, even though the wage rate per hour is lower. The wage assurance plan has brought other benefits to the employee. It taught the workers the difficulty of guaranteeing wages and gave them an understanding of the economic forces which cause fluctuations in business.

The employer benefits also. When temporary peak loads are eliminated, costs decline. Stable production requires less reserve and idle plant capacity and less overhead expense. Overtime penalty and unemployment insurance can be reduced. Workers are less inclined to restrict output for fear that the job may disappear. Output is increased. Labor is more ready to accept new machinery and technological improvements.

Stable operation is more economical. Workers cooperate in solving plant production problems. Labor becomes more efficient. Production per man rises. Labor turnover declines. As a result, a trained and experienced labor supply is available. Therefore, spoilage of material and damage to machinery by green hands is diminished.

Where annual wage plans have been operating for some time, labor unrest diminishes. The Procter & Gamble plan of wage stabilization has produced undoubted benefits. According to its President, "Good labor relations result. Procter & Gamble Company has not had a real strike in 60 years." Imagine the saving, financial and social, if such a condition became nationwide.

Workers prefer regular lower wage rates to irregular higher wage rates, according to two surveys. An annual stabilized wage makes labor more reasonable and conciliatory on vital issues such as wage increases, reduction of hours, introduction of labor-saving machinery, scientific management, jurisdictional disputes, interference with the management, bonuses and incentives to increase output. Labor becomes resourceful and develops initiative.

Benefits accrue also to the community and to the government. Consumer good-will has resulted in several companies that developed annual wage plans. Stabilized wages stabilized the sales of stores in factory towns. Furthermore, wage stabilization reduced the dole and the burden on

Federal, State and Local government.

IV.

What Is the History of Stabilized Employment and Guaranteed Annual Wages? A government report shows how few employees enjoy such benefits. In a survey covering 8 million workers, only 42,500, or 1/2%, were covered and in the manufacturing industries, only 2/10ths of 1%.

Obviously, wage stabilization is more feasible in companies making and distributing consumer goods because the demand is constant. The above government survey showed that about 31% of the plans were in retail trade, 18% in wholesale trade and 20% in food processing. Heavy industries and steel making were notably absent.

The Procter & Gamble Company makes soap. Its plan is the oldest and most successful. But it is very flexible. The plan is limited to the permanent employees, who have been on the payroll for 2 years or more. It guarantees only employment not wage rates. The company reserves the right to transfer workers to lower-paid jobs. Further, the management reserves both the right to discharge workers and to reduce the guarantee to 75% or 36 weeks gross. "The Company must and does reserve the unqualified right, to be exercised at its sole discretion, to withdraw this guarantee at any of its factories, or to terminate or to modify this guarantee at any time." This guarantee depends not on a contract, but on good faith. However, the Company has kept the faith and the employees are contented and cooperative.

The Hormel Company is a meat packer. Its plan does not guarantee wages, but stabilizes employment per year. The total annual labor cost of each department is estimated and divided into 52 equal weekly portions. Though the hours vary from week to week, the pay remains the same. The weekly pay is an advance against work to be done. The plan allows for balancing overtime against overtime. But there is no penalty rate for overtime. The hourly wage rate is not guaranteed. The labor force is flexible and men may be transferred from one department to another.

The Nunn-Bush Company manufactures shoes. Its plan guarantees 52 variable pay checks. The amount of the pay check depends upon the value of the shoes sold. A specified percentage of the wholesale value of shoes sold is put into a "Share Production Fund" to pay wages. Each employee may draw weekly 1/52nd of his share of this total. At the end of the year, the union's accountants examine the Company's

books. The plan is limited to employees with at least two years of service.

Plans have been successful only in consumers' goods industries. Yet most wage guarantee plans failed. The number of plans that remained in operation for 20 years or more has been insignificant. No plan in effect in 1929 to guarantee wages or assume employment has survived, except for the Procter & Gamble Company and the Columbia Conserve Company. Some of the plans were abandoned after experience of only one or two years. A prolonged and serious decline in business can break any plan.

V.

Every Successful Plan Involves Limitations. The guarantee may cover a definitely limited number of workers or a fixed percentage. Again, the guarantee may be valid for a limited period, either a specified number of weeks or a certain portion of the year. Or the guarantee may apply to a specified wage per year or to a certain percentage of the basic hourly rate. Some plans become invalid in emergencies like fire or floods or strikes, upon bankruptcy, upon sale of the business and, in other cases, upon a "serious decline of business."

VI.

What Are the Difficulties in Guaranteeing Annual Wages? In private enterprise, the businessman assumes the risk and either suffers a loss or takes a profit. The farmer can insure against a crop failure. The worker can insure against unemployment. But the businessman cannot insure against bankruptcy. Under private enterprise, he must "hold the bag." Yet, workers are now demanding of him guarantees for almost a full year's pay, not at some minimum level of annual income, but at the peak wage rates of history. But the basis of insurance and stabilization is that the beneficiary foregoes present benefit to provide against future risks. What will union leaders now forego?

VII.

Some Compromise Must Develop. Instability of employment has evil repercussions, not only on the workers' families, but also on the industry. Furthermore, it aggravates social and political unrest. America has led the world in mechanical invention and resulting rise in workers' wages and living standards to the highest in the world. Can we be equally inventive in our social mechanism.

The unions have a responsibility corresponding to their demands. The union leaders must abandon wishful thinking and inflexible demands and be realistic in practice. Wage stabilization presupposes flexible terms of employment. The program requires concessions on all sides. Any plan for employment stabilization emphasizes the obviously mutual interest of employer and employee.

The unions must choose. If the unions are serious about stabilizing employment, will they accept responsibility corresponding to their demands? If they insist on maintaining the highest hourly rate in history and the resulting higher "break even" point in operations, they must also accept inevitably earlier unemployment. Or are they willing to accept a lower rate per hour to obtain fuller employment per year as Nunn-Bush workers have? Will the unions' rules permit the transfer of men to other jobs at a lower wage rate per hour? Or will they insist on workers being immobilized at their machines at the high basic rate and thus forced to take a cut to the dole? Will the unions tolerate or terminate the jurisdictional disputes involved in such shifts? If the work week is guaranteed, will the unions permit offsetting "under-time" against "overtime" without

penalty? Will the unions agree not to strike during the life of the contract? Will they eliminate the artificial restrictions of craft unions so as to permit shifting from job to job? Will the unions recognize that the worker's wage rate per hour can come only out of his productivity? Will the unions, therefore, suspend "featherbed rules" or "make work" devices which restrict productivity?

Continuous high production at a loss must bankrupt the employer. Jobs then cease. Not only the worker but the risk-taker must be compensated for effort. Profits are required even in Soviet enterprise. Profits depend on wages. Wages have the first claim on the dollar of sales. The risk-taker, or employer, has the last claim, if anything is left. To stabilize employment and wages, costs must become flexible. The selling price is now the only flexible element in our economy. It is the competitor who fixes the selling price. But wages are the largest item of cost. When wages become rigid, deficits result. Then follows unemployment. To guarantee annual wages, hourly wage rates must be flexible.

If all the elements in the cost of production would decline in proportion to the selling prices so as to avoid a deficit, high employment could continue. Obviously, even if the workers owned the plant, they could not pay themselves a wage which would end in a deficit. They would merely be owing themselves money. A wage guarantee requires a balance between wages, selling prices and profits. Something must yield. If wages are rigid, employment yields. But if employment is to be constant, wage rates must yield. The Nunn-Bush wage stabilization plan of "Share the production wages" is based on flexibility of costs.

Accounting points the way. If employment is to be constant, there must be flexible costs, not only flexible wages, but also flexible charges for maintenance, depreciation and taxes. Thus, labor would not have to make as great concessions in wages if other costs were also flexible. The Treasury will have to permit higher charges for depreciation and maintenance during booms. Therefore, boom profits subject to tax will be lower. This practice will permit, during depressions, lower charges for maintenance, depreciation and taxes so as to require smaller cuts in wages needed to avoid deficits and unemployment.

VIII.

What Are the Prerequisites of Any Plan for Stabilization of Employment? It must be based on experiment and gradual development. Every successful plan was preceded by careful study and its introduction required several years. Much preparation is required, both in the plant and among customers. The Procter & Gamble plan is successful only because fundamental changes were made in the Company's sales policy after years of study.

What criteria are prerequisite for a wage stabilization program? As the government report states: "The industry should not be complex in organization, like the railroad, automobile and building industries. . . . The demand for the products must be relatively stable over periods of time. There must be direct and sustained consumer demand. . . ."

IX.

The Steel Industry Faces Special Difficulties in Stabilizing Employment. What did the CIO forecast as its demand? In the 1944 steel wage case, the following provisions were specified. Each employee in the companies concerned shall be guaranteed a minimum weekly wage for each week during the life of the contract. The wage shall be computed

by taking employee's straight-time average hourly rate of earnings and multiplying it by 40 hours. If the employee works for less than 40 hours a week, he is to be given his regular weekly wage nevertheless. Idle time need not be offset by overtime. If an employee works more than 40 hours a week, he should (apparently) be paid the basic rate plus one-half.

The union demanded a guarantee of a weekly income at the straight-time hourly rate for 40 hours regardless of whether the work is available or whether the employee does it. The union demanded rigid wage rates per hour, rigid number of hours per week, and rigid number of weeks per year. But it does not accept the responsibility for the result. The 1947 Wage and Policy Program now repeats these union demands.

What do these demands mean? The union wishes maximum wage rates even if the employer has deficits. If a maximum number of weeks is now to be guaranteed, it will be possible only with flexible wage rates and flexible number of working hours.

X.

The Union Has Made an Intelligent Compromise With One Steel Company. The CIO Steel Workers' Union actually cooperated in setting up a guaranteed annual wage plan on very moderate terms. In the summer of 1945, the U.S.W.A. obtained a guaranteed employment clause in a new contract with the Wildman Manufacturing Company of Norristown, Pennsylvania. This is a small company having only 325 employees. The company guarantees 30 weeks' work (1200 hours), for 70% of the entire staff, covering workers employed five years or more.

Several safety clauses are included. Overtime is applied against the 1,200-hour guarantee. A strike relieves the company of the guarantee concerning the strikers. The guarantee is forfeited by employees who quit or are discharged. Hours of unwarranted absenteeism are deducted from the guarantee. With a guarantee of wages for 30 weeks and with 20 weeks of unemployment compensation of \$20 a week, under Pennsylvania law, the workers are assured of some weekly income for the entire year. In view of the union contract with Wildman, it is justifiable to assume that the union does not intend to adhere to its original extreme demands.

How do the obligations under this contract compare with the actual experience for a large company like the United States Steel Corporation? Without any agreement, the United States Steel Corporation, for the two depressions 1920-21 and 1937-38, met the terms fixed in the Wildman agreement. It is doubtful that the Wildman guarantee, or any other guarantee, would survive as drastic a depression as 1929-32. None did, except the two consumers' goods companies, Procter & Gamble (soap) Company and the Columbia Conserve (jam) Company.

XI.

Partial Stabilization of Wages Exists Already in the Steel Industry and Could Be Extended. The steel industry appreciates the need for stabilization of production and employment and, for years, individual companies have taken steps in this direction. True, these measures have not been organized or industry-wide. They were adopted by individual companies or departments at various times. Sales stimulants were devised to increase production in dull times. Sales campaigns were set up in slack periods with special discounts as the incentive.

Again, within the factory, labor policies were designed for stability. There was interchange of workers between departments, between plants and even between

companies. Employees were trained for several skills so as to make them transferable from idle to busy departments. The work week was made flexible to conform to the volume of incoming orders. Work was shared so as to be distributed fairly equally between all the workers. Companies would avoid hiring new workers to take care of temporary peak loads.

Wage rates were made flexible. Instead of discharging men, they were retained to do other work that was available at a lower wage rate. Extensive maintenance and repair of plants would be undertaken in slack times to give employment to men who would otherwise be idle.

What can the steel industry do further on stabilization? Experiments in stabilization of wages and employment should be encouraged. Some wage stabilization has proven possible even in heavy industry. The makers of steel, electrical equipment or farm machinery can give steady work to some employees as watchmen, repairmen, skilled key workers and office help. A guarantee is possible to some workers but not to all.

On the other hand, some departments making consumers' goods could work on a less fluctuating basis, as in the manufacture of nails, wire, mesh, poultry netting and fencing.

XII.

But Why Do the Unions Begin With the Steel Industry? The steel industry has unique problems in seeking to develop stabilization of employment. Difficulties would remain even under a flexible wage assurance plan. Indeed, Mr. Philip Murray, President of the CIO, stated in his book, "Organized Labor and Production," New York, Harper, 1940, p. 122, "Experience to date raises doubt whether annual wage plans can be extended over a wide area of business activity. For basic to their success is stabilization of operations. . . . The outstanding plans . . . are to be found only in companies manufacturing or selling consumers' goods."

The nature of the steel industry does not readily lend itself to stabilization. Demand fluctuates violently. Important customers of the steel industry, like building construction and freight car building trades, fluctuate even more violently than the average of steel users. As the government report admits, "The demand for steel, arising as it does from a wide variety of industries and in almost all cases at least two stages removed from direct consumer demand, has had tremendous variations." There are limits to the possibility of a guarantee by a steel company. The widely fluctuating figures for the United States Steel Corporation in the last three depressions, 1921, 1932 and 1938, present the difficulties of stabilizing employment in heavy industry in general.

Demand must be stabilized if production is to be stabilized. Obviously, steel should not be the first industry required by unions to undertake a program of guaranteeing wages or employment. The steel industry can be stabilized only after its customers' production has been stabilized. Therefore, the first effort should be concentrated on stabilizing the consumers' goods industries which amount to about 85% of the total production. That is the place to begin. R. R. Deupree, President of the Procter & Gamble Company, which has long been successful with wage stabilization, confirmed this view. "If we can find a way to operate our factories evenly and add to our present plants or build new ones evenly, as consumption rises, we will make it possible for the steel producer to operate more evenly." As an official of a steel company stated: "Stabilization must start with the customers of the steel industry. The steel industry itself

is the last place where much can be accomplished."

Soap and canned chicken are not made to order. They are standard products. Future demand is certain and constant. Therefore, in dull periods, production for inventory is possible. Procter & Gamble or Hormel can thus stabilize production, employment and wages. But most steel products are far from standard. Future use is not predictable. Shapes and lengths depend on the orders. Production for inventory and storage is impossible. Therefore, the steel industry cannot as readily guarantee wages or stabilize employment.

Instability of the steel industry is aggravated by forces outside the business. Stabilization of wages and employment in the steel industry depends on control of the business cycle. In this the government is involved. Federal policies on taxes, on wages and hours, and on labor's powers encourage or discourage risk-taking, production, and employment in capital goods industries. In the face of government policy, any company or industry is powerless to stabilize.

Yet the difficulties are not insuperable. As Philip Murray said (ibid): "But because it has not been solved is no proof that the problem of a dependable yearly income for wage earners and their families is insoluble." He did not say a guaranteed annual wage.

XIII.

An Experimental Approach Is Necessary. Steel union spokesmen present demands, with insistence. But they make no effort to help work out a procedure. Let the unions propose a workable program. Let the union accountants take the income statements of the steel industry for the twenty peace years, 1919 to 1938. Let them show whether the CIO-type of demand for a fixed annual wage guarantee can be met without bankrupting the employers and thus ending employment. Let them show under what conditions a program of more stable wages and employment can develop. Certainly, the steel industrialists would not oppose a workable plan. They do not say that stabilization should not be sought. They merely say, "Show us how can it be carried out." Similarly, the union should show not merely why such a program should be adopted, but how it can be adopted. Are the unions willing to try out a plan on a temporary and experimental basis with adequate "savings clauses" until experience is acquired to perfect it?

We must have a practical not a doctrinaire approach. No formula will apply to all alike. Certainly, the original CIO formula of 1944 to guarantee 52 weeks of 40 hours at the peak wage rates of history will not work anywhere. We must experiment toward the goal. This requires time, trial and study. Various types of wage and employment stabilization measures could be attempted. Out of the varieties of methods may emerge patterns to suit different industries.

XIV.

Stabilization of Wages Fits in With the American Way of Life. Security and stability distinguish civilization from barbarism. Stabilization of wages and employment does not concern the steel industry alone. It is part of our social and political goal. The United States leads the world not merely in production, but in its democratic ideals, both in war and peace. What kind of America shall we create for the year 2000? Can private enterprise be more considerate of the human element? It created in the United States the boldest inventors and builders. America pioneered in the mechanics of production. It can pioneer also in social inven-

tion and in the human element of production.

Soviet Russia regards American workers' living standards and American production methods as the goal of its Five Year Plans. But in Soviet Russia, high employment is possible only because the unions are powerless. The State insists on a profit and fixes wages low enough to leave a profit. At that starvation level of wages, prevailing even in the best years since the Soviet Revolution of 1917, stable employment is possible. At the high wage rates per hour in the United States, by far the highest in the world, stable employment at an annual wage requires flexibility. The Soviets have achieved stability of employment but sacrificed workers' standards of living and freedom. America will refuse to pay this high material and spiritual price for stability. We should be able to achieve stability at our high standard of living and under full freedom if there will be cooperation and concessions by all interests involved.

Ogden, Wechsler & Co. Formed in New York

Announcement is made of the formation of Ogden, Wechsler & Co. with offices at 39 Broadway,



Charles D. Ogden Arnold J. Wechsler

New York City to conduct a business in investment securities. Partners are Charles D. Ogden and Arnold J. Wechsler. Both were formerly partners in Goldwater, Frank & Ogden, from which they withdrew as of Jan. 31.

Schulz Heads Dept. At M. B. Vick & Co.

CHICAGO, ILL.—M. B. Vick and Company, 120 South La Salle Street, announces that Fred W. Schulz is now associated with them as Manager of our Municipal Buying Department.

Mr. Schulz has been in the investment business for 25 years, starting with the old Illinois Merchants Trust Company, in the buying department and continuing after its merger with the Continental Illinois Company. He has recently been connected with Blair & Co., Inc., Chicago office.

Anthony Trenning will be associated with the firm as Manager of the Illinois Buying Department and James G. O'Donohue in the Sales Department.

W. D. Sullivan Forms New Inv. Firm in N. Y.

The firm of W. D. Sullivan & Co. has been formed with offices at 20 Broad Street, New York City, to specialize in United States Government securities, it is announced.

William D. Sullivan, who has had wide experience in the U. S. Government securities field, is senior partner of the new firm. Mr. Sullivan served 4½ years with a U. S. Army Anti-Aircraft Unit in World War II, enlisting as a private and rising to rank of Captain.

Money and the Security Markets

(Continued from page 734)
or downward is likely to lag somewhat, unless it had been expected, in which case it may be discounted in advance. Indeed, it should be kept in mind that it is not only the actual rise or decline of that volume that matters, but the expectation that it will continue.

Money Volume

Now, then, consider the current situation. The best measure of monetary volume is the monthly figure, published by the Federal Reserve Board, of "total demand deposits adjusted and currency outside banks." It has risen steadily from \$29.6 billions in December, 1937, to \$106.3 billions by November, 1945. In the following month, it dipped suddenly and for the first time in eight years, by 4 billions. It fell further to a "low" of \$101.1 billions in March, 1946. Since the figure is rising again month by month; at the latest recorded date, last November, it reached the new all-time high of \$109.5 billions. The 12 months' monetary increase should be more than \$3 billions; in addition, savings deposits increased by well over \$5 billions. A total monetary expansion (actual and potential) of about \$9 billions has taken place.

Bank Loans and Prices

The increase of money-quantity during 1946 has a great deal to do with the expansion of bank loans. True, in the first half of the year, security loans declined in all insured banks from \$6.8 to \$5.1 billions; but this was more than offset, since commercial, mortgage and other loans rose in the same period by some 2.7 billions. For the year as a whole, the net increase in all loans of all banks is estimated at \$5 billions (decrease of security loans at 3 billions). A more detailed picture is provided by weekly reporting member banks in 101 cities, which account for the bulk of security loans (but only for one-half of deposits). Their loans on securities started dropping at the end of 1945; by late February, 1946, they had declined by some \$1.3 billions—and the security markets took their first beating. Security loans recovered to their previous high in May—and the stock market soon reached a new peak. Security loans fell by almost 1.5 billions in May, and by another 1.4 billions by early September—when the stock market gave way sharply. Since, security loans move downward, and the stock market remains "weak."

As to business loans (commercial, mortgage, etc.) they rose slowly but steadily in the first seven months of last year—and so did commodity prices. Both "jumped" in the crucial months from August to November. And both slowed down toward the end of the year.

Briefly, there is an unmistakable parallel between the decline of security loans and security (especially common stock) quotations as well as between the rise of commodity prices and loans flowing into the commodity markets. The "coincidence" of monetary and price developments is close enough to give food for thought. But *per se*, it is not conclusive. Which is the cause, and which the effect? Did the change in loan volume, or the expectation of such change, bring about the corresponding change on the markets, or was it the other way around?

Raised in such broad terms, the

¹Adjusted demand deposits—total demand deposits minus Federal and bankers' balances and items in process of collection.

question is unanswerable. Statistics provide figures and may show their correlations, but it takes "insight" to interpret them. Presently, the two major open markets, which control the flow and allocation of funds for long-term purposes, shall be discussed in their relation to monetary factors: the markets (a) for riskless, and (b) for risk-investment.

U. S. and High-Grade Bonds

"Technical" factors last year played a substantial role on the markets for riskless investment, to wit: the necessity to unload the billions of government bonds bought on credit by speculators and dealers in the last drive, having pushed the premium to unprecedented height; pressure by the authorities to hasten that process, such as by effectively raising the rediscount; the liquidation of \$500 millions of bonds held by social security agencies; the increase in member banks' reserve requirements due to the Treasury's use of War Loan accounts to redeem outstanding bonds held by non-bank investors, etc. On top of it all, large segments of the financial community were disturbed by the suddenly emerging prospect of a balanced budget, implying the possibility that the policy of pegged interest rates might be abandoned. The result was cumulative liquidation on the one side, and reluctance of institutional buyers on the other, adding up to a fall of the most popular issue, the 2½s due 1972-67, to well under 102. The average yield on long-term taxables rose from 2.08 in April to 2.27 around Dec. 1.

However, the speculative holdings have been gradually "digested"; insurance companies could not stay out of the market indefinitely; the large-scale redemption of bonds reached its completion (unless a huge budgetary surplus should arise, which is most improbable); and emphatic assurances came from the Reserve Board, the Treasury, and the President, that the policy of supporting the "yield pattern" at par will be—as it must be—maintained. Accordingly, the market recovered, and it might rise further.

Bank loans on U. S. securities have been trimmed to one-third or so in this process. No doubt, there was intentional "deflation" at work, especially by way of debt-redemption procedures, and by pressure exerted on speculative holders to liquidate. But sooner or later, they had to liquidate anyhow, and without the pressure the process would have been merely more orderly. Bond premiums may not have declined as fast and as much as they did. The direct role of the monetary factor was important only in this temporary sense, as indicated by the fact that U. S. bond prices have been stiffening lately in spite of a continued decline in loans on U. S. bonds.

But its indirect influence, shown in the fear of higher interest rates, is most significant. It should be kept in mind that the bond rate structure is entirely artificial and might be changed by fiat—if and when the debt had been reduced so that the rates may be raised without closing the banks. And what makes this cheap money policy tick, if not the huge volume of liquid savings? Individual savings amounted in 1946 to about \$17 billions, half of the previous year's level, and approaching that of 1929. The incessant accumulation of fresh savings alone, adding an annual \$4 billions to life insurance funds, and another billion and a half to mutual savings deposits, provides a substantial market for long-term bonds. This growth of "cash" reserves, that permits also a trickle of net sales of war savings bonds, is only

possible simultaneously with last year's \$127 billion spending on consumer goods, because the vastly inflated hoard of liquidity is being monetized piecemeal—slowly but surely—and turned over at a quickening pace. So long as this monetary set-up is maintained, and it could not be changed without violent financial upheavals, U. S. 2½s cannot fall below par; there is no reason on the other hand why the premium should rise much farther.

(High-grade corporates follow, of course, the lead of the governments. High-grade tax-exempts acted out of tune for a while, due to the expectation of forthcoming large issues and of income tax reductions. But the financial community grows increasingly confident that \$2 billions or so could be absorbed in the course of 1947, perhaps 600 millions by the banks, without necessitating higher yields.)

Risk Securities

In short, the foundation of our bond market, and of its low interest rates, is the gradual monetization of the colossal national debt, with the Reserve System acting as "residual buyer." More or less loans on U. S. bonds are a subsidiary element only; their decline last year reflected rather than caused the decline of the bond market.

The same holds *a fortiori* for loans "on other securities." True, these loans were under actual deflationary pressure since May, when margin requirements were raised to 100%. But the new requirements were slow in taking effect, and the margins were very high to begin with. The loans at stake amounted even at the peak of the recent stock boom to a bare \$1.3 billions, scarcely 30% of all security loans, compared to \$8.9 billion brokers' loans in the 1929 boom. They could not have played a decisive role either in the recent decline or in the previous rise of the stock market. But again, the indirect impact of monetary (and fiscal) policies, actual or expected, is essential to understand the market behavior. A brief comparison with the London Stock Exchange may illustrate the point.

The London Exchange has been booming for six and one-half years almost uninterruptedly, trebling from the low of 1940. (The first relapse of any size occurred recently.) During these years, Britain's wealth has been decimated, her standard of living greatly reduced, her international position shaken to the roots. The unions in power nationalize large segments of industry, put the rest in straitjackets, enforce the closed shop, keep up high taxes, and raise social expenditures in the face of reduced labor productivity and increasing manpower shortage. But the stock market keeps up at a peak level. Why this contrast to the bearish American scene? In the first place, the British public holds consols in substantial volumes, and unloads them (on institutional holders) as the Exchequer cuts the yield of new issues to 2½%; the proceeds fertilize the stock market. Then, too, socialistic policies are no undiluted drawback: the government virtually guarantees profit margins, disciplines labor, outlaws strikes, subsidizes fresh capital equipment, forces industrial concentration. But these are minor considerations, comparatively speaking. Progressive inflation is at stake. Britain's budgetary deficit in this fiscal year will be over £2.5 billion, equivalent to \$7 or \$8 billions in our budget, and probably higher in the next. Commercial credit expansion progresses, too. Inflation-consciousness is permeating the country through mounting black markets

at home and the depreciation of the pound sterling abroad. It is selling at 20% or more discount against the dollar in spite of all official pegging measures and strict foreign exchange restrictions. So much so, that for the first time since the pound devaluation at the outset of the war, London financial papers openly discuss the necessity of a new devaluation (arguing that the dollar should be devalued, too).

London is largely an inflation-spirited market, different from the Continentals only in degree. An entirely different monetary psychology motivates the American market in stocks and credit bonds.

1. No prospect of changing interest rates affect our rate of capitalizing dividends, one way or the other. The American public does not invest in long-term governments; and their yields could not be lowered any further. Misgivings about the possibility of rising yields may have had some depressing influence last summer, but they have been dispelled since. A stiffening of short-term commercial rates could only disturb a bull market if the rise is very substantial, but that is out of the question. (A minor increase of short rates has occurred, and a little more "defrosting" may come with mounting volume of commercial loans, as hinted by Mr. Sproul of the N. Y. Reserve Bank. Note, however, that mortgage rates declined during '46 in spite of a rising volume of fresh mortgages.)

2. Stability of the dollar's gold content is the solid rock underlying all monetary considerations of our market place. Especially so, since budgetary balance has become a definite reality, since the middle of last year. Almost simultaneously, stocks began to slip. Could it be that the coincidence is merely accidental? This much is certain: that so far as the Exchange is concerned, devaluation prospects are simply non-existent. The fact that dollar notes are actually depreciated abroad—the dollar price of gold varies in Bombay between \$70 and \$80 per ounce, with Zurich lower and Paris higher (for reasons to be discussed on another occasion)—is either ignored or else is regarded as a nonsensical panic that might be subdued by a "little" sale of gold.

3. Budgetary balance has the further consequence that internal inflationary expectations fade out. For all practical purposes, monetary "inflation" is taken by all and sundry to mean money-printing, open or concealed, by the government. "Credit inflation" is an academic term, unknown to most businessmen. It would be presumptuous to assume that the rank and file should understand the meaning of debt-monetization; it is "Greek" even to a majority of professional economists. No more deficit—that is all they see and grasp; budget deficit is what they have learned as the source of "inflation." Money created ("printed") to finance a national deficit stays in circulation for good, unless it is taxed out (deflated), while credit extended by the banks is supposed to be liquidated as soon as the goods are sold, the production of which it has financed. Budgetary deficits are man-made, arbitrary in size and duration, while credit expansion is supposedly a "natural" process that merely accompanies the growth of trade, and must reach a natural end as soon as the credit base (gold reserve) tightens.

All that alleged difference between unsound governmental money printing and "sound" bank credit expansion is in the textbooks by which we live. It is part and parcel of banking tradition. It has little applicability in this managed money situation in

which the banks hold some 80-odd billions of federal paper, with the "printing press" standing by to convert them into cash. Without the inflated portfolio of the Reserve System—\$23 billions—and without its readiness to buy more paper outright or loan on more (at par), "managed money" would collapse like a house of cards. It is a house of paper, and more money must be "printed" not in any relation to sound economic growth, but in proportion to a growing demand for financing rising prices, international boondoggling, internal construction, consumer purchasing, etc.

We first inflated the monetary volume by selling bonds to the banks; we now keep on inflating it by monetizing the certificates held by the banks (and others). The difference is that the amount of "primary" inflation depended on the size of the deficit, while the current "secondary" inflation is determined by the volume of credit demand and the bankers' selection of risks—the latter greatly reduced by governmental guarantees. But the market place is not aware of such "subtleties." All it knows is (a) that there is no more deficit; and (b) that, therefore, credit expansion should come to an end, sooner or later. That is the rational, if any, of the pessimistic outlook expressed in the flood of recession-forecasts as well as in the stock market's behavior.

4. Even if no automatic "break" should occur, the authorities could bring it about artificially by credit regulations and other deflationary measures, as they did in 1937. Of course, the trend is in the direction of relaxing on restrictions; and is not likely to be reversed in the face of presidential elections.

5. Inflation, *per se*, is no boon to the stock market unless profits are inflated, not just wages. Labor trouble was the crucial issue last year; it stays with us, but is greatly moderated. Anyhow, since last summer, corporate net earnings are running at record highs.

The Stock Market Paradox

Briefly, the stock market operates—since May—on the dogmatic assumption that the gold value of the dollar will remain stable, and on the theory that the monetary flood will stop, or actually recede. Inflation should stop automatically, because there is no more deficit, and a deflation is either likely to develop as the "natural" follow-up, or may be brought about by monetary controls. Commodity prices are too high already, or soon will be; sellers price themselves "out of the markets," especially so under the pressure of unionized labor, the control of which is hampered by politics. Either by its own weight, or by man-made deflation, the boom is supposed to bust.

These hypothetical assumptions, based on past experience rather than on rational analysis, explain the market's "stagnation" in spite of Republican victory, high net profits, lull on the labor front, stabilized interest rates, prospective tax reduction, unrelenting credit expansion, and a fantastic volume of pent-up demand at home and abroad. But the "bang" must come soon—or else the market may change its mind (upward).

Aetna Securities Moves To Permanent Offices

Aetna Securities Corporation, recently formed investment banking firm, has now located its permanent offices at 111 Broadway, New York City. Officers of the firm, organized in December, 1946, are Ira Krupnick, President; George A. Searith, Vice-President and Secretary, and James D. Colyer, Vice-President and Treasurer. The three principals were formerly officers of First Colony Corporation.

Status of Aviation Industry

(Continued from page 739)

In numbers of registered civil aircraft in 1945 aviation in this country was at about the same place as was the automobile in 1903 when there were about 30,000 automobiles. At the end of 1946, the number of registered aircraft had almost doubled; and so had the number of automobiles in 1904.

In the intervening years the number of registered motor vehicles has risen to over 30 million. The private automobile led in the development of the expanded use of motor vehicles. Because of the nature of aviation, however, commercial airlines have quite naturally taken the lead as compared with private flying.

Incidentally, it is interesting to note also that travel on domestic scheduled airlines in 1946 almost doubled the 1945 figure, reaching a total of over six billion passenger miles. But air passenger travel is still less than one tenth of total rail travel. And the busses are running the railroads a close second.

Regardless of this impressive record, however, those various figures show not only how well our newest major industry has done but also that we have a long way to go before aviation takes its proper place in the life of the nation.

Public Response to Aviation

In our efforts to accelerate aviation progress there are a number of things we can learn from the record of the development of other forms of transportation.

One of the first hurdles of the automobile industry was in obtaining public acceptance of their new, and annoying, product. We all remember that it took quite a while even for the horses to accept the automobile,—not to mention their owners. Another hurdle was the provision of sufficient roads and services to enable the automobile to be generally usable, but that came after public acceptance, and I shall touch on the problem of its aviation counterpart later. For the moment, let us merely remember that the public had to accept the automobile—understand its values, its requirements and its limitations—before it would support the construction of roads.

The public has already an enthusiasm and understanding of the values of aviation, yet confusion has resulted because there is not yet a thorough understanding of its limitations and requirements. The public has been oversold on the present status of aviation. Modern methods of communication and news dissemination have made every man conscious of the airplane and its uses while the magnitude of the military air effort has given an exaggerated idea of the real status of aviation for commercial use. This exaggerated picture in the public mind has also been fostered by popular magazines and public statements, including some advertising, which depict coming services and facilities but which do not always make it clear that the promises do not apply to the present day. Of course, it is always said or implied that they are promises of things to come in the new Air Age, but the public, I feel, gained the impression that we were now in the Air Age.

This has resulted in the present confusion and disillusionment. After having known or heard of the progress during the war, and after being led to think in terms of giant, all-weather aircraft, with deluxe ground facilities and services, the beginner air passenger is shocked to discover that we have not yet reached the forecast condition. Others who do not ride, but who are potential converts, learn of delays at terminals, of canceled flights, and particularly of the accidents, and they lose some of their benevolent interest.

With frequent headlines about air disasters in every part of the globe, the fact that the mileage of scheduled airlines has gone up while the accident rate has declined substantially, does not register. Such statistics do not make headlines. Neither does the difference in record of safety between scheduled and non-scheduled operations impress the average man very much.

The aftermath of disillusionment has been a decline in airline patronage, and it is also reflected, I understand, on the order books of manufacturers of even private planes.

Over-Advertising

The immediate postwar demand was filling airlines to capacity. New airplanes were on order, but they could not be delivered at once. Meanwhile, advertising, instead of following the lead of telephone companies who advised the public to be patient a while longer, was calling for more passengers when reservations were almost impossible to get. Also, and this is important, everyone in the business knew that the overcrowding of present airways and terminals would preclude the handling of a much greater passenger volume at principal airports regardless of the number of available airplanes. Resultant poorer service, plus the unfortunate series of accidents, were factors that have produced confusion and disillusionment. But even the present situation can be turned into an asset if all concerned will knuckle down to do the various things that must be done to regain loss in prestige and to prepare for the real opportunities ahead.

Before they will accept the inconveniences of the moment and retain their enthusiasm for aviation as a whole, the public must understand the problems and be satisfied that proper action is being taken.

What Remains to Be Done

Somehow the whole picture must be gotten over to the public—the difficulties as well as the opportunities, and a clearer understanding of what is being done and what should be done, to remove the difficulties and realize the opportunities.

You all know what some of these things are:

We must improve existing facilities and services.

We must develop additional airways, airport facilities, and new methods of control.

We must continue our efforts to make possible consistent all-weather operation of private and commercial aircraft.

We must give concentrated attention to all the human and technical factors which will accelerate the record of increased safety which has been made in the past.

We should not minimize the past great accomplishments—nor can we afford to underestimate the job ahead.

Among the things that have been done, or which are in process, is an extensive experimental and development program on new devices with which I am sure you are familiar. Naturally, there are some differences of opinion as to the relative merits of the various items, but the common objectives of all—increased safety and dependability of air travel—will, I believe, lead us to success.

Before discussing the efforts to improve aviation's performance, perhaps I should touch on the safety record as it now stands.

Flying Accidents

In spite of the attention that flying accidents have attracted recently, the record for improvement has been impressive. It is now very much safer to fly on scheduled airlines than it was on the average in the years before

the war, and in 1946 the fatality rate was 40% less than for 1945. Last year these airlines flew over 80 million passenger miles for each passenger killed in an accident, a distance equal to nearly 15,000 round trips across this continent by a single passenger. This fact should be taken into consideration whenever the other side is examined—the numbers killed. 192 passenger fatalities occurred in all of our commercial air operations in 1946,—scheduled, non-scheduled, domestic and international. Of these fatalities 75 were in scheduled domestic airlines. This should be considered in relation to the great volume of miles traveled. By that method, it may be shown that commercial flying on scheduled domestic airlines is over twice as safe as riding in an automobile over comparable distances—yet even the most timid of us think nothing of riding in a car. Overall, motor vehicles have killed yearly since 1927 about 30,000 persons in various forms of highway accidents.

As I have said before, my family and I have no hesitancy in using the airlines at every opportunity.

Still, in aviation we have a long way to go to make the air safety record compare favorably with the safety record of other common carriers—the railroads and the busines.

But American engineers pioneered in reducing accidents on the railroads just as they have pioneered in reducing accidents in all other phases of our industrialized civilization. In that connection, it is worthwhile noting that railroads and highway transportation combined cause a great number of non-passenger deaths and injuries, while aviation has caused practically none. This hardly supports the fears expressed in some objections to the establishment of new airports.

The fight for safety is the kind of tough fight in which this country excels. The same principles which have brought success in other fields will bring us success in aviation. I have full faith that the record of air safety can, in the not too distant future, equal the present fine record of the railroads and busses. The question we face is simply: how long will it take, and how can we best hurry it along.

In the field of airway aids needed to improve safety, I want to point out that I am not posing as an expert. But I have flown enough in military and commercial aircraft to realize what we are up against. Just as rapidly as possible, we must have equipment installed on the airways which will enable us to operate regularly and safely at minimums substantially below those in force today. We must devise a method for expanding the capacity of the airways between terminals as well as at the terminals. We must find ways and means of developing for our airways an automatic control system similar in purpose to the systems in use on all railroads. And we must aggressively pursue a development program aimed at truly safe all-weather flying for everyone, the commercial operator and the private flyer.

Modernization of Airways System

In contrast to its effect on most phases of aviation, the war seriously delayed the modernization of our airways system. At the time of Pearl Harbor, we were just beginning a program for the installation of VHF (very high frequency) ranges and instrument landing systems throughout the country—a program which was scheduled for completion in 1943. Military requirements made it impossible to obtain the material for the program—in fact, most of it was transferred to the armed services—and it was not possible to resume installation of new

equipment until 1945. That was an unavoidable three-year delay—time which now must be made up.

On the other hand, the war did make a great contribution in the development of air navigation facilities based on radar equipment which, when properly adapted to commercial use, will help materially in making flying safer and easier. There has been some difference of opinion as to which of the items are most suitable for commercial use at the present time or in the future, but agreement between the various commercial and governmental agencies is gradually being reached as tests prove or disprove the contentions.

The conversion of the radio ranges to VHF, slowed by the war and by delays in material deliveries, should be completed over the entire system of airways by the middle of 1949. If the rate of delivery of material speeds up this date may be advanced. Of course, the installations for trunk airways will be completed much earlier. The ILS (Glide path and localizer Instrument Landing System), now in actual operation at 31 airports, will be installed at 100 airports by next summer, and we hope for an additional 55 next year. We believe that this system should be the backbone of our instrument approach facilities because it seems to be the one most adaptable to the ultimately necessary automatic approach.

It appears that the GCA (Ground Controlled Approach) radar talk-down system can also perform a most useful function at many airports where traffic is heavy enough to justify the very considerable expense of installation and operation. Three new type GCA sets on loan from the Army will be in operation before the winter is over for service tests at New York, Chicago, and Washington. It is expected that recommendations will be made for operation and ultimate purchase of 20 more which the Army has just informed us they can make available on loan.

It might be well to note here that not all wartime developments in their military form were immediately adaptable to peacetime uses on our airways, and GCA was one of them. Not only was the war set difficult to maintain, but its requirements for operators were such that probably 25 men for this job alone would have to be employed and trained for each using airport. The GCA operating cost for the whole airways system would thus be very high. The new types being installed for test, however, have been modified and refined so that only a fraction of that number of men should be required.

Other devices and systems too numerous for me to discuss here are either under consideration or being developed. Among them is the fog-dispersal system which is of particular interest to me because I followed its development in England during the war.

Expects Innovations

Meanwhile, existing services and facilities must be improved while we are waiting for the new innovations which eventually will add to safety and otherwise bring us nearer to being able to fly in all kinds of weather. It is not enough to coast on the present status while waiting for newer and better facilities, but instead, everything must be done to see that we are getting maximum benefit from what we have on hand. This applies to the operators as well as to the government agencies concerned.

The cost of the whole program, while large, is very small in terms of our essential expenditures on military aviation. It should prove a sound investment from the standpoint of speeding civil aviation's progress toward ultimate self-support, to say nothing of its importance from the standpoint of

safety and the national defense. Our Government's policy of assisting new forms of transportation has stood the test of time.

From 1921 to 1940, the Federal Government alone has spent approximately \$6,500,000,000 on the highways; and State and local governments an additional \$35,000,000,000, which made possible the universal use of automobiles. In all of the years up to 1945, the Federal Government spent about \$800,000,000 in promoting civil aviation. Civil aviation is now at the stage where it, too, must have more and better "roads," if I may use that term to include all airways and terminal facilities. As I pointed out earlier, roads for automobiles followed public acceptance of the new vehicle, and an enormous industry, with incalculable benefits to the country and to each citizen, resulted from those expenditures. The same can be done in aviation.

These things are joint responsibilities of government and the aviation industry. The government's responsibility—whether it be municipal, State, or Federal—can be discharged only with public support. The public must never be forgotten. We must make every effort to give the public a well-balanced understanding of what is required before the full promise of the Air Age can be attained.

In 1945, the CAA made an estimate of progress and opportunities to be expected in civil aviation for the following ten years. Although a deliberate effort was made to be conservative in the forecast, the picture looked very good. In 1946, however, the performance, in passenger miles, exceeded the forecast and was almost half of the estimate for 1955 (13.2 billions). That is a stimulating achievement which gives rise to hopes that we hardly dare express—but which should spur all of us to greater efforts.

An essential condition to progress in aviation is the financial health of the industry, both in airline operations and in manufacturing. We all know that here again there has been some undue optimism. There isn't time tonight to discuss this problem, but I want to mention it as having an all-important bearing upon our ability to seize the opportunities before us and to achieve the results that the public has a right to expect.

To attain our common objectives, all of us must work together. There is need for aggressive leadership in government and in industry. I am fully conscious of the great responsibility and the opportunity of the Department of Commerce. I personally intend to give to the problem my earnest attention. I ask you of the industry to give us your continued support and cooperation.

Brooklyn Savings Bank Elects Officers

Gilbert C. Barrett, President of the Brooklyn Savings Bank, Pierpont and Clinton Streets, announces that several officers were elected and others were assigned new duties by the board of trustees at the annual meeting. The bank's officers are now as follows:

Warren E. Garretson, Vice-President; George J. Bender, Vice-President and Mortgage-Real Estate Officer; Leslie G. Cheshire, Cashier; Henry D. Mohr, Comptroller; Charles P. Seaman, Assistant Cashier; Arnold W. Kolkebeck, Auditor; Richard H. Kessler, Assistant Cashier; Raymond H. O'Connell, Assistant Mortgage and Real Estate Officer; James F. Rost, Assistant Comptroller and Joseph B. Dodge, Assistant Cashier.

Paramount Railroad Problems

(Continued from page 741)
 tional relationships in the new one-world that is now being made. We have viewed with keenest apprehension, during the peace negotiations of the past year, every semblance of departure from these principles in a seeming pursuit of selfish interests.

It is not my purpose or province to attempt to discuss international relations. I wish only to point out that the principle of mutual understanding and good will—which is so generally recognized by our people as essential to the right settlement of international relationships—is equally deserving of our acceptance if a right and lasting settlement is to be made of those paramount domestic problems upon which our own economic well-being depends.

Harmonizing Labor and Management

Among these great economic questions, there is none that can outrank the necessity for harmonizing the interests of labor and management, not alone in railroading, but in all industry. Of first rank also is the need for securing that balance between income and outgo in our regulated rail transportation that must be secured if the public is to continue to have the type of rail transportation it requires. And if these far-reaching domestic problems are to be adjusted in the way that is best for the parties directly concerned, and best for the country as a whole, it is indispensable that there be a mutual understanding of all interests and that in the adjustment fair treatment shall be mutually accorded to all. If this fundamental principle can be observed, I believe it will be found that what is best for the one side in these controversies is, in the long run, best for the other, and that individual liberty and the common good under our American system are not incompatible.

There is no fact of greater political and economic significance in the past generation of this country than the unprecedented growth in the organization and power of labor. To the growth of the organizations for the purpose of bargaining collectively with the management of industry, there can be no sound objection. But it is the lesson of all history that power that knows no restraint or control save only the will of those who possess it is a dangerous thing.

Labor has matured and come of age far faster than did industry.

Whatever formerly may have been labor's disadvantage in size or power in its dealings with industry, there is none such today. The problem of the relations of labor and industry is therefore a problem that is posed by the conflicting interests, or assumed interests, of two gigantic forces—labor and business.

Equality of Bargaining Power

The principle of good will and mutual understanding requires that, each of these great forces, having attained the strength and virility of full manhood, should now, willingly or otherwise if need be, assume the responsibilities to itself and to society that attach to man's estate. Unless this is done there can be, in the very nature of things, no equality at the bargaining table. And I say to you that without equality of power and of purpose—without equality of responsibility—in those two great forces as they face each other across the bargaining table the existing flood of their conflicts will only be adjusted contrary to the sound interests of both in the long run.

The irony of the situation today is that both sides profess adherence to the principle of equality of bargaining power. The rule of

fair play—of equal chance without unfair handicap or advantage to any participant—is so ingrained in the American way of thinking that any outright advocacy of unequal bargaining power would not be long tolerated once the public mind begins to act.

But lip service to the idea of equality of bargaining power will not create such equality. There is no reality to the claim of equality at a conference table or elsewhere when industry is bound by certain basic laws of our country while labor is expressly exempt from similar laws. Such discrimination and preferences preclude equality. Recent occurrences have painfully brought home to the public consciousness how really unequal and unbalanced are the bargaining powers and responsibilities of these great interests and how seriously the public safety and welfare can be and have been imperiled.

Can We Stand Another Wage Boost?

But wholly aside from the matter of equality of power and responsibility under the law, there are even deeper economic questions to be considered. Will it, in the long run, really benefit labor itself to use its great power to force at this time another round of wage increases? Can the upward spiral of higher wages and higher living costs in this country today—followed, as would be the case, by still higher wages and still higher living costs—safely be continued? I am convinced that the answer is "No" and that such an answer to these deep economic questions is the best answer for the country as a whole and unquestionably the best for the personal self-interests of all who work for wages.

What both labor and industry now so sorely need for their own welfare is surcease from strife. We need an end to the turmoil and the irreparable losses to industry, to the public and to labor itself, that attend industrial strife. It is wasteful and destructive. We do not want to continue to destroy—we want to build and grow—to produce and have. We need to free ourselves from the economic dangers to all of us that must necessarily accompany any further inflation of prices from whatever may be the cause.

What greater economic blessing could come to this country, what greater boon could there be to labor's own self-interests, than an honest, old-fashioned opportunity for all of us to work continuously for a long period and avoid the losses which are inherent in interruption. Such losses are gone forever. Time not used the instant it is created is gone and there is nothing that can be done about it. How tragic it is to waste it as we have done during the past year! The need for and the rewards to come to everyone from continuous work are, I believe, almost beyond measure. The pentup demands of our people are far more than labor and industry can produce. There is today more money to spend than there are things to buy. What a pity it would be, what an unnecessary loss to us all, if we fail to take full advantage of such an opportunity by continuing at work and building up production. How much better off we all shall be, business, labor, and every one included, if we go ahead now and uninterruptedly work in producing this great volume of needed goods and services for sale and purchase at prices made to fit the job to be done. The enlightened self-interest of all of us calls for some real concentration on lowering prices through the sound medium of steady work and increased production.

Prices and Wage Boosts

Wage earners who are naturally apprehensive because of the rising cost of their living, cannot overlook the fact, in their own interest, that the incessant upward pushing of the wage level will necessarily push upward, through the resulting increased prices, the level of their own living costs. Economists are constantly warning us that the upward spiral of the vicious circle wherein increased wages are demanded, on account of increased cost of living, will, in turn, through increased prices, bring further increased cost of living. We do not have to be economists to know that the continuation of such action can only end in disaster. It cannot be too often said or repeated that wage increases unaccompanied by compensating productivity can at most benefit only a portion of labor temporarily. They cannot benefit all equally or permanently.

So in considering the wisdom of demanding another round of wage increases, there is a compelling need for mutual understanding and good will; and understanding that will recognize that both labor and management may share in the fruits of industry only to such an extent as will not endanger our national economy or the American way of life. For either side or either interest to make demands or to exact concessions which are inconsistent with the attainment of this objective will in the end benefit no one more than temporarily and injure all permanently.

Railroad Solvency

The other problem I have mentioned as calling equally for mutual understanding and good will is the one of balancing railroad income and outgo. Unless this balance can be achieved and, what is more, its continuity reasonably assured, the benefits of private management of railroad service will inevitably be lost both to the public and to railroad labor. Anything that makes it difficult to secure this necessary balance between the income and the outgo of the railroads is, therefore, a matter of real concern to everyone. Particularly is this so when the thing that contributes to the lack of balance is itself unfair or discriminatory.

We all believe that the rule of fair play—of equal chance without unfair handicap or advantage—is the American way. Yet as you survey the different transportation agencies that today compete for traffic, can you in truth say that it is a field in which all the contestants stand on their own merits and are treated alike by the public? Is it, in fact, a field that is free from handicaps and preferences? When you see in this field, as you must if you look, rail carriers, who are large taxpayers, obliged to provide at their own expense and without help from any source all the plant that they use, trying to compete with other forms of transportation which have important parts of their plant provided for their use by the government with money collected from the taxpayers, it must be apparent how unequal in fact is the competition.

Mr. Henry Hazlett, a nationally known economist, so clearly describes the evils of such a system when he says—"It is obvious in the case of a subsidy that the taxpayers must lose precisely as much as the industry which is subsidized gains. It should be equally clear that, as a consequence, other industries must lose what the subsidized industry gains."

Airline Subsidies

You are not unmindful of the huge sums already expended by the government nor of the nearly \$800 million more that it proposes to expend this year to provide and

maintain airports, air navigation facilities and services, waterways, and highways, for the use of other agencies of carriage at less than cost. The public conscience would be rightly shocked by any proposals of like public assistance for the railroads, yet paradoxically the government continues its discriminatory assistance to the other carriers, although they have well passed their pioneer stage and should now stand on their own feet.

Rates cannot be fixed, by regulation or otherwise, which reflect the real economy and fitness of different transportation agencies, if one must pay its own way in full, provide its own facilities, and to pay taxes on them besides, while the others are allowed to use facilities at public expense, either free or at inadequate compensation. The service that is offered by the carriers thus favored is artificial and uneconomical. It is so because it is made available to those who use it at rates less than its full cost, while the taxpayers at large, many of whom do not use the service, pay for the balance of the cost in the facilities they provide out of the public treasury.

But the inequity does not end there. Carriers by rail must also face the artificial and uneconomic competition that is born only of the government's unequal treatment and preferential subsidy and pay high taxes themselves for the privilege of doing so. No subsidy can lessen the cost of the transportation. In the end, the full cost of the favored service must all be paid—part by the user through the subnormal rates he pays, and the balance by the taxpayers at large. The anomaly of it all is, that today the American public is being taxed to provide assistance for certain agencies of transportation whose competition, thus artificially stimulated, add another and unnecessary burden to the unaided railroads, on whose service the public is yet chiefly dependent.

The real advantages and disadvantages that are inherent in the different kinds of carriers, which it is the national transportation policy to recognize and preserve, cannot, in any true sense, be recognized and preserved under such a system of public preference and advantage. And when it is realized that such unnatural handicaps add directly and unnecessarily to the effort to secure that balance of railroad income and outgo upon which the continuance of the industry under private management depends, it will be apparent how great should be the concern of the public and railroad labor in the removal of such handicaps and in the placement of all competing carriers upon their own real merits in the field of fair play.

Doubts Sufficiency of Rate Increases

Recently the lack of balance in this respect is one without parallel. Happily, with your fine cooperation, the Interstate Commerce Commission has granted some relief. It is necessary, however, that neither the public nor railroad labor be lulled into a sense of false security by the measure of relief that has been obtained. Only a limited knowledge of the figures is needed to make clear the fact that, however great and relieving the authorized rate increase is, it does not accomplish the balance of income and outgo upon which adequate privately managed railroad service is dependent. In fact, the anticipated additional revenue to be derived from this rate increase will amount to less than one-half of the increased costs since 1939. I fear that the sufficiency of the rate increase is too likely to be measured by its ability to cover only the out-of-pocket increases in operating costs, and that its inability to provide returns on rail-

road investment necessary to restore and retain railroad credit has not been given the deserved consideration its importance demands.

The best test of railroad credit and of investors' willingness to put their savings into railroad plant is what investors are willing to pay for railroad securities. Prior to the depression of the thirties railroad rates permitted investors to earn about 5% on their investments. They readily responded by paying over par for stocks, and in the decade of the twenties invested over \$6 billion in the railroad plant.

Return on Rail Securities

How different is the record for the thirties. During this period investors got a return of only about half of that received in the period immediately prior—with the result that they were unwilling to pay higher than an average of 65 for railroad stocks, and because of this lack of confidence in railroad earnings, or railroad credit, the railroad plant instead of attracting any new capital, actually suffered a reduction of \$250 million in the investment in its road and equipment.

If our country is to continue prosperous heavy construction using heavy goods must go on in a big way. Railroads are the nation's heaviest users of heavy goods, and only prosperous railroads can buy them.

A railroad industry stripped of the earnings necessary to attract new capital cannot progress nor continue long as a private enterprise. I shall not bore you with figures, but if you who would fully understand this problem will examine the available figures, you will discover that the net railway operating income under the new rates on the business in sight for 1947 will be almost 50% less than it was in 1929. And this will be true notwithstanding the fact that the railroad plant because of new money put into it since the thirties is today bigger by \$2 billion more dollars of investment in it than in 1929, and the traffic to be handled is 100% greater in passengers and 50% greater in freight.

It is neither reasonable nor possible to expect that the railroad industry, or any industry, can remain in private ownership and management unless its operating results satisfy the public, whose continuous investments are necessary to the building and maintenance of the industry, and that there is some reasonable prospect of receiving a fair return on those investments. The American system is a system of free enterprise, in which the touchstone that vitalizes and maintains it is the motive of fair profit and the railroads of this country, the finest in the whole world, are the most outstanding example of what private enterprise can do. Without this energizing prospect, the stream of inflowing capital from the investing public will naturally dry up and disappear. And when that occurs, private management will be left powerless to improve and keep its plant in shape to meet the never-ending public demand for better and cheaper transportation, and on that unhappy day only socialization of the railroads can be expected to follow.

Stake in Railroad Income

Shippers, railroad employees, and the whole public, in my opinion, have therefore a supreme stake in so maintaining the income from railroad service that the part that is left for the investors, after labor's share and all else is paid, will be enough to induce them to continue to pour new capital into the railroad industry. In no other way will this industry be able to continue, under private management, to serve the nation not only in the most modern, efficient, and satisfactory manner, but also in the way that

is required by the progressive development of the commerce of this great country.

A new chapter in the economic life of our country is unfolding. Unable as we are to see exactly the shape of things to come, we nevertheless have the assurance that "past is prologue" and that the best charts for the future are the lessons of the past. Mindful as we must be therefore that in the past America has grown and prospered only in proportion as did her means of transportation, and in proportion as her high wages were buttressed by expanding production, let us not through any misunderstanding of these great lessons imperil the economy of the America of tomorrow.

Lewisohn to Devote Time to Corp. Interests

Sam A. Lewisohn, President of the Miami Copper Company, confirmed that as of Jan. 31 the stock exchange firm of Lewisohn & Co., of which he



Sam. A. Lewisohn

was a partner, was succeeded by the firm of Dreyfus, Jacquin & Co. and that he will now devote all of his time to his expanding mining and corporate enterprises, as well as civic interests. Mr. Lewisohn is also Chairman of Tennessee

Corporation, President of South American Gold & Platinum Co. and other mining companies. Well known, too, for his work in prison reform and industrial relations, he will continue his long standing interest in those fields.

The plans of the other partners in Lewisohn & Co. were also announced. David M. Heyman, President of the New York Foundation, President of the Public Health Research Institute of the City of New York, Vice-President of the Health Insurance Plan of Greater New York and a Member of the New York City Board of Health, will devote himself to these and other civic interests. He will maintain his present office with Mr. Lewisohn at 61 Broadway. John G. Greenburgh will continue to hold executive posts in the mining companies with which Mr. Lewisohn is connected. Max Jacquin, Jr. and Oscar H. Riggs will become partners in the new successor firm of Dreyfus, Jacquin & Co.

Central Transfer Serv. Of N. Y. Curb Exchange

The central transfer service of the New York Curb Exchange Securities Clearing Corporation was expanded on Feb. 1 to include 11 New Jersey transfer companies located in Jersey City, Fred C. Moffatt, President of the Curb Exchange Clearing Corporation, announced. The advices from the Exchange said:

"The service has grown steadily since its inception last Jan. 6 and now provides clearing members of the exchange with centralized delivery of securities to and from 105 transfer facilities located in Manhattan uptown as far as 57th Street. The service originally included 42 transfer agents and was previously enlarged Jan. 20 to cover some 75 agents. Today's move marks the first central delivery of securities to transfer facilities outside Manhattan."

A number of additional Curb Exchange member firms have signed up for the service in recent weeks, according to Mr. Moffatt.

What Business Wants in the Tax System

(Continued from page 740)

What makes free enterprise work? Essentially the driving force and the incentives and the competition of business management. We take pride in the fact that we do not have vested interests and privileged classes over here. The boy from the farm or the small town has just as good a chance, perhaps a better chance, to reach the top, as the son of the well-to-do city family. New York City is full of Iowans and Georgians and Texans. That boy gets to the top by being a little more vigorous and intelligent, by producing more goods and by making them better and cheaper than the next fellow. Whatever we can do to preserve or to increase his incentives is all to the good. The managers of American business produce for all of us, whether consumers or laborers or stockholders. Consumers and laborers and stockholders are all interested in promoting good management. As a matter of fact, the first two groups, and particularly labor, have more at stake than the third.

My second premise is, then, that the tax system should be so drawn as to encourage and develop the incentives of American businessmen to work and to produce.

I

The Impact on Individuals

Granted these premises, how do they affect the details of the tax system? Doubtless the tax system is secondary in importance in its effect on incentives, but it still plays a major part. A tax system of any kind is bound to act as a brake on the private economy. As tax rates go up, the braking effect becomes more and more severe. Income taxes are a first lien upon profits of any kind, and with the rates we have today, income taxes are the major cost of doing business. We must be especially concerned, I think, with their impact upon individuals, for it is individuals who take the risks and who get the work done, whatever the form of organization.

1. You are all intimately familiar with the present surtax rates. The bracket rate reaches 50% at \$18,000. Of the next dollar an individual earns, the Treasury gets more than half. The bracket rates reach 68% at \$44,000. Of the next dollar an individual earns, the Treasury gets over two-thirds and the earner keeps less than one-third. The bracket rates reach nearly 77% at \$70,000. Of the next dollar an individual earns, the Treasury gets more than three-fourths and the earner keeps less than one-fourth.

We all know that the incentive to earn and to save is only one of the various inner forces which drive a man forward. Nevertheless, it is an important one. If we want to insure that men will put in that extra effort which will keep production high, we had better give them a greater stake in their own earnings than they have today. It is a common saying that an income tax system will not work well with rates over 50%. In my judgment, Congress would do well to heed that maxim. The revenue produced by the top surtax rates is negligible. The total yield of the surtaxes on incomes in excess of \$100,000 was \$628 millions in 1945, against the \$15.5 billions total yield of the individual income tax. The proposed 20% reduction across the board is a good start in the right direction. Ultimately, Congress should revise the whole surtax scale, so that the top bracket is not over 50%. One way or another, the surtax rates should be reduced.

Double Taxation of Corporations

2. Corporate income distributed in dividends is subject to two income taxes. It is taxed to the corporation and it is fully taxed again to the stockholder. No other form of income is taxed twice. In

ordinary fairness, one of the two taxes should be removed. Moreover, if we want to encourage venture capital, as we do, what is the sense of taxing the income from venture capital more heavily than other forms of income?

As a matter of fact, there is pretty general agreement that the double tax on corporate dividends should be removed, as a matter of equity. There has been such great discussion among the experts in Washington on the method to be used, however, that as a result the double tax still remains in effect. Under the circumstances, the simplest way of accomplishing the result is the best. Let the corporation pay its tax and the individual his, as at present; but give the individual a credit for the tax the corporation has paid on any dividends he receives. Thus, dividends will be fully taxed, but taxed once, not twice.

Other Reforms

3. There are numerous other reforms which should be made in the income tax and the estate tax, but I shall mention only a few of them. Congress ought to make stock purchase plans possible again by restoring the fundamental rule that income is not realized on a purchase, but only on a sale. Congress should make it plain that the income of trusts is taxable only under the specific provisions on the subject, not under the vague generalities of the definition of gross income, as the Supreme Court has held. The discrimination against insurance under the estate tax should be removed; and provision should be made whereby an individual may accumulate a fund of insurance or perhaps government securities to pay the estate tax, the fund itself to be free from tax.

Excise Taxes

4. Finally, what about the excise taxes? The place of the excise or sales tax in the Federal tax system has steadily decreased in importance. In the President's budget for 1948, only \$6 billions are to be raised by excises out of \$34.7 total tax revenues. The excise tax is the most stable, as well as the most readily administered part of the tax system. Excise tax revenues decline little in depression, while income tax revenues vanish. The British have learned this lesson, and rely on excises much more extensively than we do.

There are a number of excises that produce little revenue, are a nuisance, and should be eliminated. But the general productivity of the excise tax side of our revenues must be maintained. We shall not always collect, year after year, the great income tax revenues of today. Moreover, even today, the bulk of our national income is untaxed. The only taxes which can effectively be imposed on many of our citizens are excise taxes; and no doubt many such citizens prefer them to the complications of income taxes. Congress should review the excise tax system, and perfect it, but the Federal Government should continue to collect \$6 or \$7 billions in excises, so long as the budget remains at present levels.

Improved Administration

5. Good tax administration is quite as important to business men as tax provisions or tax rates. I am glad to have participated in one major improvement in administration during my term in Washington—the decentralization of the Bureau of Internal Revenue—so that now you can argue and settle your tax case at home, and you don't have to go to Washington. Another important reform would be the adoption of an administrative policy of giving more effect to the taxpayer's audited income statement and balance

sheet. In particular, the taxpayer should be given great freedom in the adoption of a depreciation policy, provided it will stick to such policy consistently thereafter. For too much time is spent arguing with revenue agents about rates of depreciation. In the long run, such controversies are apt to be entirely futile, for, on the one hand, the taxpayer is entitled to recover back, sooner or later, the full cost of the machine and, on the other, he can't recover more than that amount. To some degree, authority to deduct heavy depreciation at once encourages the purchase of new and improved machines. The Bureau's policy has been too rigid, and it has cost too much controversy and wasted effort. Everyone would gain by a change.

Undistributed Profits Taxation

6. Many corporations need to retain their earnings today to enable them to expand their plants, to build up inventories, to finance growing accounts receivable, to pay off debts. All of them are confronted with the Bureau's 70% rule for distributions. To be sure, the penalty tax for unreasonable accumulation of earnings is not often applied, and the Deputy Commissioner has promised not to apply it to corporations whose directors honestly believe that the earnings retained are needed for the business. There is always an area of uncertainty, however. No business man likes to guess what an examining agent will decide two or three years from now about the reasonableness of his surplus.

The Code has plenty of provisions for the special taxation of personal holding companies. They can be left alone. But in the case of an ordinary business corporation, should not the present burden of proof be reversed? Should not the Commissioner be given the burden of proving that a retention of earnings by an ordinary business corporation is unreasonable? If the Commissioner had the burden of proof, not the taxpayer, business men would feel more certain of their ground. Very little revenue would be lost. Indeed, the gains to business development could be counted upon to exceed any possible losses to the revenues.

II

The Budget

You may properly say at this point that the design for the house looks good, but what about the foundation? The foundation of the whole Federal fiscal problem is the expenditure side of the budget. No one can seriously advocate tax reduction, unless expenditures are brought down. Even advocates of free Federal spending in times of depression would advocate a balanced budget in times like these. What can be done about expenditures?

Expenditures can be and must be reduced. The President's budget is barely balanced, with rigorous taxes, almost the highest we have ever known, applied to the greatest national income we have ever known. Is there good reason to believe that that national income will always remain so high? Or should we not trim the budget now so that we can still balance it when times are not quite so good? The answer is pretty obvious.

Expenses Must Be Reduced

The ordinary citizen is easily confounded and baffled by Federal expenditures. The amounts are astronomical, and he has little data to enable him to judge the necessity for them. Nevertheless, the few facts he knows point to the conclusion that several billions should be squeezed out of those expenditures. Federal personnel numbers more than twice what it

totaled in 1939. The budget expenditures are four or five times what they averaged during the thirties before the war. The President proposes a budget, three years after the peak expenditures of the war, that is over one-third of the peak. Three years after the peak expenditures of World War I, budget expenditures had been brought down to one-sixth of the peak.

The budget can only be reduced by courage and, indeed, ruthlessness in cutting expenditures. Bureau chiefs must be told that they cannot have as much money as they want. They must be asked to present a program for their bureaus based on the expenditure of millions less money. Few individual Federal expenditures are wholly bad or wrong, but plenty of Federal administrators have budgeted on the basis of the free-spending days of the war. For example, we all know that veterans' expenditures, budgeted at \$7.3 billions, can be materially cut, without any actual injury to the veterans' basic needs. The same thing is true of many other less defensible items in the budget.

The 1948 budget should be brought down by several billions, to as near \$30 billions as Congress can get. In the next few years, expenditures should be further trimmed. A normal Federal budget of \$20-\$25 billions should be our aim. As a business man looks at it, such a program of expenditures is liberal. On the other hand, the revenue system can be enormously simplified and strengthened, if expenditures are brought down to these levels.

Conclusion

The road to a Federal fiscal program that will be good for American business and the American people is not an easy one to travel. It is always easier to spend than to save, and the Federal Government has had all too much experience in spending. Moreover, it is sobering, and even frightening, to know that year after year we shall have to meet with taxes expenditures at least three times those of the thirties, and perhaps four or five times. Like all other governmental problems, the fiscal problem demands strong leadership for its solution, backed by an intelligent electorate. My whole purpose today has been to put you in possession of some of the facts and the issues. In business, as in law, an understanding of the problem is the first step toward its solution.

Bond Club of Chicago To Hold Meeting

CHICAGO, ILL.—The 36th annual dinner and meeting of the Bond Club of Chicago will be held on Thursday, Feb. 13, in the Crystal Ballroom of the Blackstone Hotel. Guest speaker will be Mark A. Brown, Executive Vice-President of the Harris Trust and Savings Bank.

The following slate of officers and directors for the coming year has been presented:

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

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

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

Directors to serve for one year: The officers and Leo J. Doyle, Doyle, O'Connor & Co., Inc.; Richard A. Kebbon, Kebbon, McCormick & Co.; John S. Loomis, The Illinois Co.; George L. Martin, Martin, Burns & Corbett, Inc.; Richard W. Simmons, Lee Higginson Corp.; and Nelson M. Utley, Halsey, Stuart & Co.

Members of the Nominating Committee were: Ralph Chapman, Farrell, Chapman & Co.; P. A. Walters, Stone & Webster Securities Corp.; and Paul L. Mullaney, Mullaney, Ross & Co.

Tax Revisions for Small Business

(Continued from page 746)
paratively small number of industrial giants—say about 5,000 of them.

But where would these be—if it were not for the other third which is the result of the cumulative effort of our small businesses—over 3,000,000 of them everywhere: in retail and wholesale trade, in service industries, and a large number of important manufacturing industries, such as apparel, printing, foods, furniture and lumber, mining and construction.

"Small Business"—that means 10 million people; 8 million wage earners and 2 million active proprietors. Together they account for 35% of total production and in so doing give employment to 45% of the total manpower in these industry groups.

More Than Lip Service Needed

If we are ever to attain the goal of full production and employment in peacetime—and we had better make up our minds that we must unless we want to stagger along between booms and depressions—we need a strong small business. If we look for permanent employment for 60 million people, we won't find places for all of them in the 5,000 leading industrial enterprises of the country—but we may find places for them if we succeed in building a sound and strong foundation for the existence and lasting prosperity of small business. Thus far, we have not licked the small business problem. We have not even started to lick it; we are still merely paying lip service to the problem.

There was the war, of course. Many small manufacturers played an important part in war production—either as sub-contractors, working for the big fellows—or on their own. Nevertheless, the war saw a tremendous shrinkage in small business enterprises because many small businessmen went to war and others into war production because they felt that they could serve their country better by taking jobs in war plants. From 1941 to 1944 there was a drop of 15% in the number of small businesses in the country.

Now the trend has changed again. Veterans have been returning. So have war workers. Many of them once more want to be their own bosses. Since the end of the war the number of new small businesses has been jumping by leaps and bounds. This year it is estimated 550,000 new establishments will get started—BUT 400,000 will go out of existence.

It is obvious that we have not yet licked the small business problem. This year's balance sheet will be moderately better than what is considered as "normal." Normally, one small business closes for each new one that opens up. Such mortality rate has far too long been accepted as inevitable. It is time that something be DONE about it.

Small Business Must Grow

What is wrong with small business today? We all know the pet answers: bad management, poor planning, under-financing, inadequate supplies.

There is a grain of truth in each of them, but even put together, these explanations do not tell the full story.

The heart of the trouble is that small business today has no even chance to grow—as it should be allowed to do if it is to play its role as one of the cornerstones of the economy. It is really that simple.

As long as we consider the problems of small business under the heading of "small versus big"—we'll never find their solution. Small business is a vital problem for big business, too. It would be very short-sighted, therefore, to brush proposals for the assistance

of small business aside as "special" privileges and contrary to the spirit of equal rights for all. Such a philosophy may be contrary to the tradition of "the devil take the hindmost"—but the interrelationship of big and small business as well as labor and small business is so close that a proper small business program could benefit the whole economy.

Small business can use guidance in such matters as technological information, managerial practices, and what is called the "strategy of enterprise." The Small Business Division of the Department of Commerce is working on this problem.

Small business also needs a more flexible and broader system of credit facilities—both for short and long-term requirements. It needs ready access to working capital credits and venture capital loans. It is my understanding that American Bankers Association is engaged in active effort on the local level to expand private credit facilities for small business. There has also been discussion of Federal insurance for bank loans to smaller enterprises on the same principle as FHA loans.

But even these measures would still fall short of a real solution to the small business problem.

What the small business man really wants is a chance to become a bigger business man and finally, maybe, a big business man. Take this dream away from him and you take the foundation away from small business and from the free enterprise system as we cherish it in this country.

Yet that is exactly what is being done now—maybe inadvertently, but very effectively, nonetheless.

What gives small business its economic, social and psychological importance is its ability to grow. Take that away from it and you have destroyed one of the most important pillars of our economic strength.

The chance for small business to grow rests with its ability to "plow back" part of its earnings into the business.

Financing Growth

Here is the reason why. Business can grow only if it has the money to finance such expansion. Money for expansion is usually and generally should be obtained either from the capital market through the flotation of capital issues or out of a company's earnings. That is elementary. The first method is called equity financing—the second "internal financing."

The difference between these two—equity financing versus internal financing—often represents the difference between big business and small business.

It has often been asked: Why, if small business needs money for expansion, doesn't it invite outside participation? Get a partner, or invite one of its best customers to acquire an interest? It has been suggested also that a private or Government investment corporation be formed for the purpose of purchasing and holding ownership shares in small businesses.

All these proposals would tend to destroy the independence of small business ownership.

An economist of the Federal Reserve Board expressed this recently as follows:

"For small business to raise its needed capital by forfeiting its independent status would be to abolish that which it has primarily sought to preserve."

There can be no doubt that in the case of small business the sale of any form of part ownership would carry with it a considerable amount of control. Even a minority share would have a voice in the management of a small business. Silent partners do not always stay silent, and if one of the chief customers of a small business were permitted to

take a direct financial interest in it, that may easily turn out to be the first step towards becoming a subsidiary—in fact if not in name.

An Independent Businessman

If the typical small business man cherishes anything, it is his independence. If he believes in his business, he does not want to share the fruits of his efforts with anyone.

These, gentlemen, are the reasons why equity financing is virtually closed to small business. Where, then, are the funds for expansion and for needed increase in working capital to come from?

Loans from banks merely offer a temporary stop gap. Even assuming that the mechanics for small business loans can be improved, loans have the habit of falling due at the most inopportune moments. Business prefers risk capital to debt.

If a large company needs working capital, equity financing frequently offers the way out. It not only permits consolidation of bank loans, but often also cuts down the cost of such funds. No such recourse to refinancing is open to small business.

No wonder, therefore, that most small businesses shy away from using bank loans even where their need is, primarily, for an increase in working capital and an actual or potential boost in business volume is in sight.

The Answer: Internal Financing

That leaves only one way for small business to get the funds to grow on. That is internal financing. The money for expansion must come out of its own operations.

Every business—be it big or small—tries to finance itself as far as possible through the plowing back of its own earnings.

There are important differences, however, between big and small business in this respect. They apply to the extent to which internal financing is desirable as well as to the extent it is possible.

If we are to preserve our form of economy, we must guard against too much concentration of economic power in the hands of relatively few companies. There can be no doubt that there is a trend toward such concentration . . . and if large corporations are given too much leeway in the tax-free withholding of profits for internal financing purposes, this trend may well be pushed along further.

Fortunately, my own industry offers a typical example of the strength and staying power of small business even in the face of a general trend toward concentration.

A second reason against too much internal financing on the part of big business is that too large withholdings in times of depression would cut down consumers' spendable income considerably. That is the economic reason why at times extra taxation of undistributed income of corporations has been resorted to.

But the real difference between big and small business lies, of course, in the fact that big business has access to equity financing from outside—and small business has not.

The Traditional Method

That is the reason why small business must be put into a position to finance itself through its own earnings without being penalized.

This has always been the traditional method for small business to grow. Here is where the war created a serious problem, however. The need to increase taxes tremendously in order to mobilize all our financial resources for the financing of the war effort, greatly limited the opportunity for small business to finance itself out of earnings.

It seems clear that the Congress

has in mind a plan to raise personal income tax exemptions to at least prewar levels, thus providing in effect a "cost of living bonus." Because this particular item is of more or less marginal character insofar as it will affect businesses which are capable of employing people, I shall not include it in the programmatic part of this talk. I think we can take it for granted that such a measure is "in the works."

Aid From the Tax Structure

Mr. Henry Ford II in an address before this same audience on Sept. 16, 1946, pointed out that his company had 2,853 major suppliers and another 3,000 lesser suppliers. Eighty-five per cent of the total could, he said, definitely be classed as "small business." He stressed the fact that the stability of his large business and, in fact, employment in the automobile industry, depended upon stability and employment in small business.

As long as we agree that the economy needs sound small business if full production and employment is to be reached, a basis can and must be found to translate the financing needs of small business into a sound integral part of the tax structure.

Any tax proposal must be within budgetary realities. There is no use asking for the sky, or for a tax millenium, as long as we know that budget needs remain large for some time to come.

Any tax relief must benefit everyone of us, either directly—on an equitable basis—or indirectly by proof that the economy as a whole would benefit by a selective tax cut.

Here is the choice before the country today. As the budget burden becomes lighter, a progressive easing in the tax burden will become possible. This will permit cuts in taxes. How shall these be distributed during the first phases of this trend?

Across-the-Board vs. Selective Cuts

Should there be an across-the-board cut or should an attempt be made to translate certain economic policies—such as the protection of mass purchasing power or the economic strengthening of small business—into specific tax measures? Whatever is to be done, the decision must be made now—before Congress acts.

Congress is now wrestling with this important problem.

Therefore, let's pause here for a moment. If the choice must be, at this particular time, between an across-the-board tax cut or a system of selective cuts, where does the weight of the argument rest?

No doubt, business even of moderate size would profit by an across-the-board tax cut. There are strong pressures in Congress now for just such a course. It is claimed that only such procedure would be "equitable."

Yet it is more and more recognized now that there is a great difference between "special measures" for special groups and selective treatment in the distribution of a possible tax cut.

There should be no special treatment for special groups. I would no more want to go before Congress and ask for a special tax cut for commercial printers than you would go and argue that automobile manufacturers should have a lower corporation tax rate than other businesses because your reconversion to full peacetime production has been delayed by industrial disputes.

Yet, if we argue for a selective rather than an across-the-board tax cut at this time, we argue for something entirely different. And there is good reason to believe that the new Republican Congress, as well as the Administration, are largely sharing this view.

Let us take this argument apart: if we were to deny the justification for selective tax cuts at any time we would freeze the tax system once and for all and make

structural changes impossible—except in the extreme case that the tax burden can be reduced to an insignificant total. And that, of course, is a dream that neither we nor our children are likely to see come true.

There is a very valid reason against an across-the-board tax cut at this particular time. If it were made now, it might easily limit the scope of any structural changes in the tax law later on. It is easier to keep a tax rate up than to put it back up again, once it has been reduced. Yet adjustments of inequities in the tax law at a later date may involve revenue losses which would require as an offset increased tax yields through higher rates. There are numerous inequities in the present tax law. There is the inadequate treatment of the withholdings of earnings for business purposes on the part of small business. There is the double dividend taxation under the present corporate tax structure and there are inadequate loss offsets. Until inequities such as these have been eliminated there is a strong argument for avoiding across-the-board cuts and for concentrating on selective measures along sound over-all economic lines. Lower rates, brought about by across-the-board cuts now, most certainly would make structural changes in the tax law more difficult later on.

Small Business Needs Real Help

A typical example of a special measure which certainly would qualify as being sound economically is the proposed increase in the personal income tax exemptions—in preference to an overall cut in the tax rate. Such step would contribute materially in maintaining purchasing power where it is most urgently needed. And, due to the fact that small business for the greatest part is carried on by unincorporated firms, it would also benefit a large proportion of small business.

However, such a measure would hardly go far enough in strengthening the financial position of small business. The same would hold true of any across-the-board cut that might be possible at this time. The 20% tax cut that is being talked about would bring no marked relief for small business because taxes still would remain so high that the accumulation of reserves out of earnings for expansion would not be stimulated sufficiently to solve the small business financing problem.

Small businesses still would be handicapped tax-wise in comparison with small business a generation back. To bring about a real change in the chances for small business financing, it is necessary to develop a broad new program of taxation for small business.

There has been enough lip service to small business. Now is the time to DO something about it if the road is to be cleared for a successful development of small business, not just for today and tomorrow but perhaps for a generation to come.

Small business must be given the chance to grow bigger by making it possible once again to "plow back" a greater part of its earnings into its business—instead of being taxed out of any chance of financing larger sales or capital expansion out of earnings.

What Kind of a Plan

Any plan offered as the solution for this problem must be:

Simple in concept.
Possible in point of costs to the Treasury, and

Reasonably easy to administer.

We—that is the printing industry believe that we have such a plan. We offer it today for your consideration, not as a tax platform for the commercial printing industry—not even as a platform for a general small business tax reform—but as a platform for sound business taxation behind which, we believe, all businesses—big or small—should rally because

it would accomplish something highly beneficial to the whole economy. It would benefit every business at least indirectly and—through providing more jobs in expanding small businesses—it would benefit labor as well.

These proposals would if applied generally have value to all business. I will stress here certain limitations first because we are concerned with avoiding too great impairment of national revenues, thus making the entire program impractical and secondly, because the needs of small business are most acute and, properly must be given first consideration.

The goal of this program is to generate self-financing on the part of small business.

Most small businessmen recognize that the tax structure no longer permits them the means to grow through internal finance. No doubt dozens of suggestions have been made for correcting this situation. In analyzing the problem, Printing Industry of America has considered most of these suggestions and in this talk I am presenting these ideas which appeal most strongly to us. Perhaps there are other techniques for reaching the same goal, but we will favor these until we can accomplish the same ends through other, better, and more convenient means.

That means that small business—both incorporated and unincorporated—must be given a chance to withhold part of its earnings—tax free—for purposes of investing them in the business.

At present business earnings are taxed regardless of whether they are to be used in the enterprise or not, with the exception—and this is of relatively limited importance to small business—that the portion of corporate income retained within the business avoids double taxation under the income tax laws.

Deduction on Net Earnings

The tax law should be changed in such a way that small businesses are given the opportunity of taking a special deduction based on net earnings reserved for business purposes.

This percentage could reasonably be set at 25% of net income derived from business but not to exceed \$25,000.

Accumulation should be permitted without necessitating use of the reserve in the same business year—but the time lag for the use of such a reserve should be limited to two years. The small businessman should be permitted to pick the opportune time for a capital investment but such discretion must be tempered by administrative considerations as administration of such a tax law would become too cumbersome, if not impossible, if the period of grace for the actual investment of such accumulated reserves is set too long and books would have to remain open too long. Also, a clear definition of proper investments for which such funds might be used would be required.

It has been contended that while this proposal is economically sound and furnishes an answer to the desire of small business to grow, it would be too difficult to administer. Accordingly, if such a plan cannot be accepted, we propose a specific alternative:

Everyone recognizes that corporate taxes are double taxation. This double taxation falls heaviest on the small incorporated business. We, therefore, propose that as a move in the direction of eliminating double taxation and of placing the smallest incorporated businesses on a parity with unincorporated business, the new tax law should exempt the first \$10,000 of corporate income from corporate income taxation. It is worth noting that this principle was accepted in connection with the excess profits tax structure where an exemption on the first \$5,000 and then upon the first \$10,000 was granted.

The logical counterpart to the

proposal for tax-free investment reserves out of earnings or a flat corporation tax exemption for incorporated small business would be a more liberal graduation of corporation tax rates which would favor the small company more than heretofore.

In general, we are thinking in terms of reaching the maximum corporation tax rate at \$100,000 of earnings. We suggest that the tax rate start at no more than 15% for the second \$10,000 of net income and be advanced by categories of \$10,000 until the maximum rate is reached at \$100,000. The present unfair rise between \$25,000 and \$50,000 should be eliminated and in general the maximum tax rate should be reduced as a step in the direction of eliminating double taxation. All business would benefit from this program.

A Carry-Forward Provision

Third step in an overall tax program for small business should be a provision to help overcome the considerable degree of vulnerability of small business to changes in general business conditions. Small business is less depression-proof than big business—again primarily because it has no cushion against business reverses in the form of financial reserves. That can be clearly demonstrated by the fact that smaller businesses show a much larger percentage of current debt to annual total sales than larger enterprises.

Small business, therefore, shows sharp swings in net earnings from year to year. Therefore, it would be only fair if small business taxes are based on an average level of earnings. The established mechanism for such a treatment of earnings is the "carry-forward provision" which permits business to carry forward losses from one year over a specified number of subsequent years.

This provision is nothing new and nothing startling. It was in effect during the war, coupled with a carry-back provision under the excess profits tax system. But it was also in use as straight carry-forward provision in several periods before the war. (In 1921-1929 and again in 1939-1941.)

Due to the frequent sharp variations in earnings from one year to the next, the carry-forward provision should be extended to perhaps seven years.

It is possible that despite the overwhelming support of most business for this measure, the Treasury Department or the Congress may feel that it involves too great risk to the Government in maintaining a proper fiscal balance. In that event we suggest that if necessary to retain the carry-forward provision as a small business measure only, a limit be placed on the amount of taxes paid which may be used for carry-forward purposes. This might be fixed at \$50,000 and would thereby cover a vast majority of the Nation's enterprises. This limiting feature would give smaller business an added role as an economic stabilizer.

There can be little doubt that such a provision would cut down the mortality rate of small business considerably. It is a tremendous economic waste to see and accept as inevitable the fact that for each small business that opens—another closes down.

This leaves only one more point in our proposed platform for an overall small business tax program.

Accelerated Depreciation

That is another provision which has directly to do with the strengthening of the capital structure of small businesses. It is the proposal for accelerated depreciation of new equipment purchased by small businesses.

Here again the principle involved is to permit a larger share of earnings to be used for a strengthening of the capital structure of small businesses.

Accelerated depreciation would be particularly important to small and new businesses because it would materially reduce their risks in connection with capital investment.

Rapid depreciation increases the probability of recovering capital during the reasonably foreseeable future and avoids the necessity of postponing the recovery of capital until the distant and totally unfathomable future.

As far as tax revenues are concerned, accelerated depreciation actually involves merely a temporary loss, or even more correctly, only a postponement of revenue for the Government. Such a temporary reduction in revenue would directly benefit those who are serving society by assuming risks and expanding production, rather than all businesses regardless of their productive activity. That puts such a provision into the category of selective tax cuts—with a decided overall economic benefit.

Here again, however, safeguards must be introduced to prevent abuse.

Accelerated depreciation, in order to remain a small business tax measure could be restricted to the first \$10,000 or \$15,000 of assets acquired in any one year. All businesses—big or small—would enjoy this benefit to this extent, however. This plan would have particular value in encouraging new enterprises.

Care must be taken that it is not applied to used facilities if these are transferred merely for the purpose of increasing depreciation rates. If such care is not taken the same piece of equipment could be written off against income several times over.

As for the method of handling accelerated depreciation, two alternatives are open.

One plan would be to make 50% of the cost of a newly acquired asset chargeable against taxes during the first five years of its life—the other 50% over its entire normal life.

A second plan would be to charge off 35% of its value in the first year, while depreciation of the rest of the cost would be distributed over the normal life of the asset.

The advantages of one of these plans over the other is merely a matter of degree. A 35% immediate depreciation plan would be of particular value, however, if it should become necessary to pull business out of a slump.

This, then, is our tax program for small business.

Summary

We are submitting four specific proposals, designed in their entirety to bolster the financial strength and stability of small businesses—both incorporated and unincorporated. Here they are once more in brief:

1. The tax system should permit small business to accumulate tax-free reserves out of earnings for investment in the business.
2. The tax system should include a graduated scale of corporate tax rates which would favor the accumulation of earnings for investment purposes on the part of small incorporated businesses.
3. The tax system should contain a seven-year carry-forward provision for small business in order to make them more depression proof.
4. The tax system should permit accelerated depreciation for small businesses within closely defined limits.

We believe that this is a sound tax program not only for the commercial printing industry but for small business generally.

We believe in this program to such a degree that we are inviting other small business groups to join us in an effort to put it across.

And we believe so strongly in

the economic soundness of this program that we are inviting the support of all business—big or small. That is one of the reasons

Washington And You

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responsible for Republican coordination arranged a social get-together for the old and new GOP lawmakers where freshmen could rub off a little green and restraint by informal, friendly contacts with the great and near-great of their party.

Free traders have been challenged to pit their philosophy against indisputable World War II evidence that certain vital national defense industries must be nurtured in this country and protected from destruction by foreign competition. Strangely, this invitation was posted by the U. S. Tariff Commission when it forwarded to congressional tariff law writers this week a report stressing the war-time importance of the watch industry and the inroads by Swiss watches into the American market through tariff concessions of the 1936 Switzerland trade agreement.

The Tariff Commission hold Congress . . . "The part played by the domestic watch industry in the last war indicates the need for maintaining a domestic industry capable of making time instruments and other precision devices. But there is no way of determining at what peacetime level such facilities should be maintained so that productive capacity could be expanded. Requirements in any future emergency may differ both in character and magnitude from those of the last war."

Planning Paradox: Potatoes already are in mountainous marketable surplus and Federal economists foresee huge surpluses of other crops within two or three years. Nonetheless, Interior Secretary Krug tells Congress uncounted millions must be spent to reclaim and irrigate new farm lands before 1967 so that the hungry may be fed.

Congressional cloakrooms—filled with smoke—have sprouted plenty of talk that 1947's "new era" of industrial peace should not be endangered by tough labor legislation. That talk isn't just hot air, is (1) in part sincere, (2) in part authored by would-be liberals who never did want labor laws revised. It can't be disregarded, can complicate enactment of sound labor legislation.

Federal Reserve Board may not be hurt but will be mauled by House Banking Committee Republicans. They're haunted by fear of a national economic collapse, blame the Board's policies in part for this specter. Don't be surprised if the committee hears sober proposals that the Board be abolished.

Reserve Board manipulation of member banks is viewed by some lawmakers as dangerous currency rationing. More will be heard of this philosophy when the Banking Committee's projected inquiry into the Board materializes.

Congress won't OK in a hurry New Hampshire Senator Tobey's proposal that loan guarantee authority be shifted from the RFC to the 12 Federal Reserve Banks. Early hearings are to be ordered by Tobey, Republican Chairman of the Banking Committee. Congress will want assurances from him that (1) the Federal Reserve Board would allow guaranteeing the unorthodox type of loan guaranteed by RFC, and (2) the Board would not utilize this new au-

why I was so pleased to present this program to you. I could not have asked for a more understanding audience.

thority as another straight jacket for the nation's economy.

Food processors must talk long and convincingly to block the Hope bill extending the marketing agreement formula to all commodities. The legislation would allow producers to tell canners how much of a given crop they might can and sell. Farm bloc sponsors acknowledge that to be a fact. Even so, they deny it's discriminatory. They'll elbow it through House and Senate unless opposition checks them.

Economy Note: While the government is selling heaps of desks and typist chairs as surplus through the War Assets Administration, other Federal agencies are buying brand new typist chairs of streamlined upholstered aluminum costing \$45 each.

Washington expects another hypodermic for installment buying shortly. It could be in the form of (1) Reserve Board modification of credit restrictions or (2) expiration of the Board controls over consumer credit next June 30. Congress won't extend the controls, and there's a chance the Board may liberalize them in the interval.

Money circulation figures give credence to the doctrine that personal savings from high war pay are being dissipated by cost of living rise. Money in circulation aggregated \$28,265,000,000 the last of January, a \$900,000,000 drop since Christmas Eve. This was a record decline for any similar period. Watch for February figures to confirm the trend.

Every dollar of savings bond sales in excess of redemptions this year will be dedicated to retirement of bank-held Federal debt unless Treasury plans capsize. In the past 11 months the Treasury reduced the national debt by more than 20 billion dollars, seven-eighths of which was held by the banking system.

Human element obstacle to rapid installation and utilization of radar blind landing devices by commercial airlines is pilot resentment. When landing by radar, pilots must relinquish plane control to the ground. They object, fear this practice would relegate them to subordinate role of mere chauffeur. CAB directive may be necessary to convert the fliers.

Federal Reserve Banks may soon learn from Congress why they are assessed to pay the \$12,000 yearly salary of a publicity man carried on the Federal Reserve Board's roster as assistant to the Chairman. He's a former Washington correspondent and said to be the highest paid public information specialist on the Federal payroll. Congressmen pressing for an inquiry into government publicity and propaganda want to know (1) why the Board needs such a costly press agent, (2) why member banks should pay his salary.

Portal pay legislation seems to be flowing into three general channels of thought: (1) limitation of portal pay claims to hours accepted by custom and practice as work time, (2) one year statute of limitation, (3) compromise settlement of claims out of court without hazard to employers. It now seems safe to guess that may be the final shape of portal pay legislation.

A Challenge to Management, Labor and Capital

(Continued from page 741)
 vantage. The progress in this direction over the centuries has been painfully slow and the path tortuous. And it will so continue for the road to the millennium is beset with tremendous obstacles—chief of which is the lack of understanding amongst men.

We have understood but little of the true functioning of the human society. Where progress has been made, it has come through inspired, enlightened and dynamic leadership and education. When that leadership and drive have been lacking, progress and enlightenment have lapsed, and we have slipped a little lower into the well of darkness, painfully to begin again the slow climb upward when leadership once more appeared.

U. S. An "Island of Freedom"

Today, even in those nations where oppression exists and enlightenment is discouraged or forbidden, the eternal yearning of man is, and ever will be, for freedom—for freedom of all types—for, if denied, it removes him only a step or two from the state of the animal, and the dignity of man is destroyed.

In this matter of freedom the United States is rapidly becoming a kind of "island of freedom" in a sea of state supremacy and regimentation. This "island" is surrounded, in most cases, by nations which, under one system or another, one "ism" or another, have herded, or are herding, their people as we herd sheep here. The malignant disease is spreading rapidly and now threatens to strike us.

The beacon light of freedom, still shining brightly here, has been extinguished in many countries and is being dimmed rapidly in other lands. And we have many pseudo-Americans in our midst who would dim or put out the torch of liberty here—and will do so if we are not eternally vigilant!

I believe strongly that through leadership, example and precept we should help our world brethren to keep their lights burning or rekindle those snuffed out. But I believe with all my soul and mind that above all else we should fight like crusaders of old, here and now, to keep our own flame of freedom strong. Only by keeping intact the American cornerstones of the arch of freedom can the oppressed of the world possess the hope of rebuilding their own segments of that arch.

Every true American is against any system which enslaves people anywhere and takes away their right to free expression of themselves, whether it be in religion, work, creativeness or other aspiration. But we can become so worried about the termites' destruction of our neighbor's house that we may fail to see and stop the destruction being done by the same breed of termites to our own house.

Born and bred in freedom as we are here in the United States, it is so much a part of our lives that few of us are any more conscious of this most priceless of assets than we are of the air we breathe. Freedom has become so much a part of our everyday lives that most Americans would ridicule anyone's suggestion that we might lose it. And so, like anything in abundant supply, we are indifferent to, or careless about, it. But if I interpret the news correctly we individually and collectively, must become vigilant, for the enemies of freedom are on the march here as well as in other nations of the Western Hemisphere.

So far, the communist group here is a minority, but it is an energetic, vocal and insidious minority, which is always more potent and effective than an indolent, indifferent, and inarticu-

late majority. The masses, unwarned, can succumb as we saw it happen in Germany, to the Pied Piper's tune of false doctrines and become convinced that "grapes can be plucked from thorns and that figs grow on thistles."

Expressed in the simplest terms, the world ideological struggle seems to revolve around the question of the so-called capitalistic system versus state socialism. Without getting into the vast intricacies of either system I would observe the outstanding and incontrovertible fact that, whatever the evils of either system may be, freedom is identified only with the former and either absolute slavery or some degree of slavery with the latter—depending upon the degree to which the latter system has gained control. But the two forms of government cannot long exist together in one country, and sooner or later one or the other must obtain complete supremacy. In the capitalistic society we find freedom of religion, freedom of movement, freedom of the press, freedom of speech, and the many other freedoms. In the state dictated society the freedoms must be eliminated or greatly curtailed by the very nature of that type of government.

Freedom vs. Sovietism

Most Americans, if they really understood the facts, would rather be ditchdiggers in a capitalistic society, possessing the freedoms that go with it, than to be the highest "Deputy" of a communistic or fascist state, for, based upon all reports, life under such a system is completely regimented and is subject to "liquidation" without notice.

But how much do you think the American masses know about the insidious forces at work in the United States which are planting seeds of discord, insinuating themselves into important departments of our Government and labor unions, inspiring programs the outside coating of which is sugared, with the inside kernel bitter gall and basically anti-freedom?

These radicals know that great oaks from little acorns grow. And they are busy planting lots and lots of acorns of dissension. As dissension grows and spreads here our enemies can follow the old "divide and conquer" technique. And what fools we are to fall for it!

If every adult American would take time out for one hour only and read the Constitution of the Union of Soviet Socialist Republics—if he would give up the radio or the comic strip for just one hour—he would be amazed, shocked, and enlightened. And he would be on guard for himself and, above all else, for his children. Let me read to you a few excerpts from this Russian Constitution:

"Article 1. The Union of Soviet Socialist Republics is a socialist state of workers and peasants.

"Article 2. The Soviets of Working People's Deputies, which grew and attained strength as a result of the overthrow of the landlords and capitalists and the achievement of the dictatorship of the proletariat, constitute the political foundation of the USSR . . .

"Article 4. The socialist system of economy and the socialist ownership of the means and instruments of production firmly established as a result of the abolition of the capitalist system of economy, the abrogation of private ownership of the means and instruments of production and the abolition of the exploitation of man by man, constitute the economic foundation of the USSR . . .

"Article 6. The land, its natural deposits, waters, forests,

mills, factories, mines, rail, water and air transport, banks, post, telegraph and telephone, large state-organized agricultural enterprises (state farms, machine and tractor stations and the like) as well as municipal enterprises and the bulk of the dwelling houses in the cities and industrial localities are state property, that is, belong to the whole people.

"Article 7. . . . In addition to its basic income from the public, collective farm enterprise, every household in a collective farm has for its personal use a small plot of land attached to the dwelling and, as its personal property, a subsidiary establishment on the plot, a dwelling-house, livestock, poultry and minor agricultural implements—in accordance with the statutes of the agricultural cartel . . ."

Under a constitution like this in America, the homes and lands, automobiles and tools of millions upon millions of small people would be taken from them; the millions of farmers in America would relinquish their farms, houses, cattle, and farm machinery to the state; our life insurance companies would be destroyed, taking away the protection given our tens of millions of workers and people of modest means; the savings of these same people would be poured into the communistic pot, controlled by a dictator; our 3,000,000 business enterprises, large and small, would be liquidated and all the millions of stockholders and bondholders, young or old, widowed or orphaned, would be wiped out.

This is the picture from the side of private ownership and, as we all know, practically every adult American is a capitalist in one degree or another. Now what is the picture from the side of the workers? And they are capitalists too. Well, here is article 12 of the Communists Constitution:

"Article 12. In the USSR work is a duty and a matter of honor for every able-bodied citizen, in accordance with the principle: 'He who does not work, neither shall he eat.'"

I can't see in that provision any freedom or liberty for the working man!

Don't you think it would be of incalculable value to our nation if every American had placed before him at least these Articles of the Russian Constitution as quoted above? Might it not inspire all good Americans to think a bit more soberly about their advantages and their freedoms? And cause them to be more anxious to cooperate with each other in preserving what we have and improving it, instead of going around with chips on shoulder—especially where the chips in so many cases are so cleverly placed there by the pro-communist and fellow traveler?

Labor, Capital and Management Should Cooperate

Labor, capital and management need to become more and more conscious that little that is good is possible without cooperation that class war breeds hatred and destruction; that each of the three is necessary to maintain and improve the standard of living for the public at large; that the gift of freedom brings with it the responsibility of freedom; and that the type of freedom that we have is not possible except under our system of cooperative effort where men are free to do creative thinking, free to move and act, and through cooperation, express in concrete and constructive form the results of their creativeness for the benefit of all. Quite naturally the closest cooperation and sympathetic understanding is required on all sides if the team is to coordinate properly, be ef-

fective, and make good progress down the road of better living.

The gullible American who thinks that communism is synonymous with a bed of roses should take time out to read "I Chose Freedom," a book written recently by a former Russian communist named Victor Kravchenko who came to Washington, D.C., in 1943 as a member of the Soviet Purchasing Commission. Eight months later he severed his connections with the Communist Party and renounced his Soviet citizenship. I quote a few enlightening excerpts from his book, which speak for themselves:

"Comrade Yudin (head of government publishing agencies but now representing the propaganda section of the Central Committee of the Party) takes the floor. We listen with every pore of our bodies. In England and America, Yudin tells us, a mighty tide of faith in the Soviet System is rising among the masses. He quotes J. B. Priestley, Harold Laski and others. Neither the Churchills and Roosevelts nor their socialist and 'labor lackeys' can stop it.

"... When the Communist International was ostensibly abolished, in May 1943, I was no longer working in the Sovnarkom. But the explanations at the closed meetings of important Communists were consistent with what men like Yudin had told us. Only in the formal sense, we were given to understand, had the world-wide organization been ended. In fact, the personnel and integration of the International must be strengthened now that it would have to operate underground. 'Throughout the world, comrades, the forces of our revolution are preparing for struggle—and for victory!'

Task of Businessman

Now with that background I want to talk specifically about the United States, its welfare and future, and the important part I think the American businessman, performer, must play in it, a part that to a very great extent he has utterly neglected. For that neglect, if he persists in it, he and all Americans will eventually pay an appalling price—their all in the coin of Freedom.

We know that an informed public is a dynamic public and that an uninformed public is impotent. But we also know that although we have excellent media for the dissemination of information—the free press, the free radio and the free motion picture—the public gets the views only of those who have gone to the trouble and expense of presenting their own ideas. Thus the public has well balanced and complete information or unbalanced and incomplete information on any subject, depending on who is and who is not vocal. And public opinion can never be any better than the facts possessed by the public when it forms its judgments.

In the main the American people get their views on political and economic affairs from politicians, government spokesmen and labor leaders—either directly or through commentators of the press and radio.

Although the American businessman sometimes discusses publicly political and economic matters, it is a comparatively rare occurrence, and his is not the stentorian or beguiling voice of the others. Nor has he made an art of it as have the others. The American businessman has chiefly concerned himself with the making and merchandising of his products, and has done a magnificent job in both cases. But his articulateness has been mostly confined to the selling of his own products. Last year he spent approximately \$2,500,000,000 talking about the quality, merit and price of his product—in the press, on the radio, and through other media. But the problem we face is much broader,

and much more important, and much more serious because it involves the basic conditions which permit the operation of a free society.

On this question of the people getting their information on political and economic affairs from politicians, government spokesmen, and labor leaders, it is necessary for all of us to be ever conscious that the demagogic politician will not hesitate to lead the people astray on fundamentals, if that should be necessary, in order to get himself elected to office. We all know that, because we have seen a great deal—much too much—of it.

Propaganda Sources

Too frequently the government bureaucrat is only interested in perpetuating himself in a government job, and, therefore, becomes an expert in that type of rationalization which will justify his being continued in his job. One seldom finds a government bureaucrat who will admit that he or his department has made a mistake.

The labor leaders and their cohorts are the most active of all in disseminating their views to the public. They get out pamphlets; they write for magazines; they produce motion pictures with an anti-business slant. Their views on economics, witness the recent Nathan report, are widely publicized by press and radio; and many of their statements are naturally biased.

Labor leaders, indeed, have a plan of action and are dynamic in its execution. For example, recently I viewed one of the most amazing and startling motion pictures I have ever seen. It is called "Deadline For Action," produced by the United Electrical and Radio Workers Union—a CIO organization. The effect created in my mind by this picture was one of the worker ground under the capitalist heel. It seemed to me to be of an inflammatory nature. If it had been designed and written by the best propaganda agent in Moscow a better job could not have been done, from the communistic point of view, in attempting to destroy the confidence of our people in the American way of life. An ordinary workman could not fail to get a distorted viewpoint of business, management and stockholders.

Any businessman, stockholder or worker, unconvinced of the dangers that lie before us needs only witness "Deadline For Action" to awaken to the peril and the effective work being done for eventual chaos while he sleeps in his false paradise of "sales," "earnings" and "dividends."

In the face of these developments it seems to me that the businessmen of the nation are supinely permitting the story of free enterprise to be told too often in a distorted fashion by radicals and demagogues without any effort to counter this technique by an effective presentation of the values of the American Business System.

In the matter of educational work and public relations along broad lines the businessman is the missing link. His new role, if he will assume it, must be one where he takes over his proper share of the burden of telling the public the facts as he sees them—about America, about the American Business System, about the values of our freedoms, about the curse of regimentation, about the evils that grow out of the bureaucratic system, about the value of free markets, about the importance of ethics and high morals, about the importance of the homely and fundamental truths of life, about the importance of work, about the importance to us all of our maintaining the cooperative effort, and about the many other factors so important to us if we are to maintain a free America.

The American businessman should do all of this in enlightened self interest, if for no other reason. After all, the American businessman can perform his work

under the present American Business System only so long as that system is permitted to continue. If he thinks it is good system and wants to continue efficiently to bake bread, make steel or fabricate automobiles under it, then he should go out and "sell" the system as effectively as he sells the product he makes. If his is the thought of "after me the deluge" then he should continue with his nose in his ledger or his bankbook.

The Election Only A Respite

Last November the American Business System was given a respite—but not for long. Government controls were slowly choking it to death. It was well on its way to gradual but certain liquidation—through the excellent sales job done on the public by those in favor of a "planned economy," regimentation and a system of "State" controls. The Roman Emperors' idea of "circuses and bread," the guarantees of all types, including the promises of freedom from responsibility, were the "come on" — the anesthetic to numb men's brains. And the "planners" were actually aided by the business fraternity either through the latter's indifference, their willingness to go along provided they got "theirs," or through their fear of harassment if they didn't go along.

And it should be borne in mind that the public did not give the respite to the American Business System because of any educational work and intense interest and activity on the part of businessmen. That, generally, was missing. No, the travesty of it all is that the public gave the respite because their palates and stomachs craved meat, butter and other things, and they suspected that government controls and regimentation might be the cause of their not getting them. This time government controls so directly affected the individual that he revolted against the regimentation which was interfering with his normal life.

The fact is that many phases of regimentation are artfully hidden so that the public is not conscious of their existence until they begin to squeeze. And then it may be too late. Those who are in favor of America's patterning its system after the planned economies of Europe and Asia will persist in their attempts, especially driving hardest at a time when the public is not affected by a scarcity of essential foods, clothes and housing. Eventually the totalitarians will be able to take over on a permanent basis.

After all, in Germany the business interests at the beginning either cooperated with, or, by default, permitted, the Hitlerites to get control.

It is well to remember that the public has a short memory. Even though the people have found, in the past year, that they were badly fooled and misled by the statements of our bureaucrats as to what would happen to the price of meat, butter and other commodities if OPA controls were taken off, and we returned to the law of supply and demand, it will all be forgotten in another year or two by them. But it won't be forgotten if the businessman assumes his responsibility for the education of the electorate.

Industry's Educational Work

Now on this subject of industry's doing its part in educational work, I have discussed the matter with a number of business leaders who tell me that they are greatly worried about the outlook and are quite in sympathy with the idea that "something" should be done. However, they contend that as "hired" management they cannot appropriate the funds of their companies to carry on the work in the way that it should be done—that they would be subject to the criticism of their stockholders; that stockholders constantly have

their eye on the net profits per share and the dividends, and that, if they, the hired management, spent funds of their company for this type of work, they would be subject to the risk, because of lowered earnings, of being displaced.

I cannot conceive that there is any stockholder, large or small, who could be so stupid as to have a narrow-minded attitude on a situation of this kind or would not encourage hired management to go out, in a two-fisted way, to defend the American business system. Of course, the stockholder watches the earnings of management and is interested in dividends, but surely more important to the stockholder than earnings and dividends must be the perpetuation of our free society—which permits him to own money and invest it.

If the stockholders of this nation are not thinking about this subject, if they are sitting back in a smug way interested only in dividends, if they do not recognize the perils of the future, then it is obvious that businessmen would better start educating the stockholders so that they will have a real perspective and understanding of what is developing in this country. If this is done no thinking stockholder could fail to insist that hired management go full steam ahead on the necessary programs.

It should be very simple to convince the stockholder that in the switchover to a communistic or related system he would be a two-time loser, first as a free American, and second as a possessor of capital.

I don't know what your experience has been but mine is that the average American businessman devotes a great deal of time to complaining about many of the unsavory and dangerous conditions I have touched upon. So far as I can see, however, precious little has been and is being done by them to counteract them. Then, too, I think it is a weakness of businessmen to speak chiefly to their own kind about the unfortunate developments in government and labor circles, whereas the need is not for one businessman to educate another businessman but rather for all of them to get busy in helping to educate the public to fundamental facts, and to take a constant, active, and profound interest in the welfare of the nation as a whole.

It is self-evident that, much as we have progressed in America in technical research, mass production, efficiency, and other arts, we have a stupendous job before us in the field of human relations. It would seem that, whereas we have graduated from college from the standpoint of the mechanical arts, we are still in kindergarten in the matter of human relations.

Educational Advertising

There has been a smattering of work done along the lines I am talking about. For example, in the direction of educational advertising, not concerned with specific brands or products, but about an industry that has and is rendering great service to everyone in the nation, the electric light and power companies have recently run an advertisement pointing out the great service those companies have rendered over the years to the public. I quote a part of this advertisement, which illustrates the idea of "selling" the American business system, as follows:

"When Edison opened the first power-plant in 1882, electricity cost 25 cents a kilowatt-hour. This year, as we mark the 100th anniversary of the great inventor's birth, the average price of household electricity across the country is only 3½ cents per kilowatt-hour.

"Thanks to Edison's imagination and enterprise—thanks to the courage and initiative of many men and women, working

under the American business system—this country enjoys the most and the best electric service in the world. And all our lives are richer, safer, more productive."

In the field of labor relations, I have studied with a great deal of interest the marvelous work done by the American Rolling Mill Company. It is understandable, when one reviews the character of work it has done and is doing in labor relations, why it has a fine "family" spirit among all classes of workers within its organization, untroubled for many years by labor disturbances.

Another example of very constructive public service is that of some of the great insurance companies who are tearing out great areas of slums in New York City and erecting fine apartments for people in low income brackets.

But one has to look far and wide to find even examples of this character of educational and human relations effort.

We must remember always that it is better for private industry to move ahead with progressive steps in the interest of the public welfare, than to have the "State" take over. Private industry can always do the job better and cheaper than the fumbling and bungling bureaucrats.

As I mentioned earlier, the advertising bill of the nation is approximately \$2,500,000 per annum. In the main this money is spent by business in talking about the quality, utility and the price of its products. If only a modest percentage of this total expenditure were devoted to a program of educating the American people on the benefits derived directly and indirectly from our American business system, including a standard of living not even approached in any other country, and the reasons why we should continue it, it would be a long step in the right direction—a step that is urgently necessary.

But it is not for me to detail what business managers should do, either in education work, labor relations, public relations, or human relations generally, for those are not my fields. There are experts in each who will tackle the problems effectively if given the "go" signal by industry. However, I do try to follow closely the national scene and I see danger, grave danger, ahead. I would be derelict in my duty as an American citizen were I not to express my alarm to my fellow Americans and urge them to action.

Summary

Summing up, then, American businessmen have an undeveloped frontier, almost entirely unexplored, in the matter of their relationships with the various segments of our society. Businessmen, individually and collectively, must take such steps as are necessary to halt the forces of discord which are rapidly developing in America and will envelop it if not checked. American businessmen must begin to devote time, money and energy to take action to sell the American way of life and the value of the American business system in making that way of life possible. American businessmen must help the public in America to avoid being misled by false prophets. American businessmen must forge the missing link between the educator and American business of which he has little real knowledge.

In a word, the American businessman must awaken to the fact that his importance in the community is not dependent solely upon whether he makes cheaply a good loaf of bread, a good can of soup, or a good ingot of steel. His importance is not solely dependent upon whether his stockholders get as many dividends or more this year than last year, but rather on helping to create an understanding of fundamental truths, principles, and economics which will insure the stockholder's abil-

ity to possess money and stock as well as the retention for all of us of our free method of life as contrasted with that which exists in slave or semi-slave countries.

Let us, then, rededicate our lives to the task of actively working to preserve and to protect our free society. We must renew in our consciousness the knowledge and the truth that, far surpassing the importance of money and material things are the spiritual free-

dom, the educational freedom, the creative freedom, and the moral values given us in our Constitution and the Bill of Rights. These freedoms dignify mankind. They are the true and priceless assets we possess—a heritage handed down to us from which we have benefited and which we, in all good faith, must protect and hand down to those who will, in a very, very few years, follow us.

Current Conditions Affecting Investments

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how often is a possible change in the purchasing power of the currency mentioned in a will or trust deed? Yet in periods of great changes, economic and political, a change in the purchasing power of the currency is the most important determining factor overshadowing all others, so far as the beneficiary of a trust is concerned.

Relatively speaking, the beneficiary of a trust deed in the United States has fared reasonably well. In other countries, he was either wiped out entirely or his real income was drastically reduced. There is no need of considering those countries where the inflation was so wild that it destroyed the purchasing power of the currency entirely. In France, for example, a country rich in natural resources, and with a very thrifty population, official commodity prices today are about eight times higher than in 1939. Prices in the black market are substantially higher. In 1939 commodity prices in France were about six times higher than in 1914. Hence, 100,000 francs today have as little purchasing power at official prices as 2,100 francs had in 1914. An individual left with a trust of 100,000 francs in 1914 may still have the same number of francs today, but whereas the average return on 100,000 francs in 1914, i.e., 4,000 francs, enabled its owner to lead a relatively comfortable life, the income derived from 100,000 francs at present is not sufficient to eke out even a miserable existence for one month.

The above illustration clearly indicates how much the decline in purchasing power of a currency can affect the owner of fixed-income-bearing securities and beneficiaries of trust deeds which restrict the trustee to the purchase of legal obligations.

Pensioners Increasing

The effects of inflation or of a decrease in the purchasing power of a currency are more far-reaching today than ever before. The number of pensioners is constantly increasing, due primarily to the fact that more and more companies find it desirable to establish pension funds for their officers and employees. Pension funds are economically sound and socially highly desirable. Management of business concerns have recognized this fact, with the result that pension plans are being adopted in increasing number by American business concerns. Millions of Americans are protected by the provisions of the Social Security Act, and more will be added in the not distant future. While the size of estates has tended to decrease, the number is bound to increase. The middle class in the United States has grown in recent years; and many people, realizing that they are not competent to handle their own financial affairs, have entrusted them to capable trust companies. The volume of life insurance outstanding is huge and growing at a rapid rate. Holdings of assets expressed in a fixed number of dollars, such as time and demand deposits or United States Govern-

ment obligations, are very great. It is obvious, therefore, that a great many people should be more interested than they are in the purchasing power of the dollar. Despite the fact that the welfare of so many people is involved in the constant gyrations of the purchasing power of the dollar, however, it is not receiving the attention it deserves, and few trouble themselves to consider the economic and political consequences.

Is Inflation Over?

Trust men may well ask: "Why bring this up now? The danger of inflation seems to be over. Prices of commodities are beginning to decrease, and there are reasons to believe that the purchasing power of the dollar will increase, accompanied by a moderate firming of interest rates." Such a question seems justified because, as conditions are at present, the principal cause of inflation seems to be over, at least for the time being. The budget for the current fiscal year is, for all practical purposes, balanced. In the Budget Message for 1947-48, a modest surplus of \$200,000,000 is envisaged. The lowest point in interest rates has been passed. With the return of a buyers' market, prices of many articles have already begun to decline and the quality of commodities is improving.

But particularly because the immediate danger of inflation has passed, the time seems ripe to consider the question from two angles: (1) how to bring about a decline in prices of commodities, thereby increasing the purchasing power of the dollar, and (2) how to prevent another inflationary period.

Prices are too high, and a reduction is necessary in order to increase the real income of many people. Demands are already arising all over the country for higher wages which if granted but not accompanied by increased productivity, are bound to lead to still higher prices or, under the best of circumstances, will at least prevent prices from declining. The farm bloc is again active in its efforts to prevent a decline in prices of agricultural commodities. Now is the time for all those who have been adversely affected by the constant decline in the purchasing power of the dollar to do everything possible to bring about a reduction in prices.

Second, now, when the peak of inflation seems to have been passed, and when there are reasons to believe that the cost of living will decline, is the time to consider measures to prevent a recurrence. As a general rule, nothing is done during periods of good business activity to preclude an emergency; but when one arises, hasty measures are taken. We have by no means eliminated the swings of the business cycle. Other emergencies will arise in the future; and when they do, they may be so much more serious than in the past because the public debt will be so

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much larger than it was in 1930 when the last depression set in.

A second question may be asked: "If inflation is so serious and has such an adverse effect on the welfare of so many people, why don't more of them complain about it? Why doesn't Congress act to prevent it?" This question, too, is fair. Despite sharp increases in prices, little was heard from our Congressmen, although some lip service was rendered. The question of inflation and its effects on the broad middle class of the United States played no role during the last election. Trust officers as a rule did not hear the question, "How can we prevent inflation?" but rather, "How can one protect one's self against inflation?" The phenomenon of inflation was taken for granted.

Organized workers and their union leaders asked for higher wages, hoping that it would protect them against ravages of inflation and assure them a consistent standard of living, and, in many instances, allow a higher standard of living than before. Did they realize that their actions fostered a spiral between prices and wages? While they could protect themselves momentarily against the adverse effects of inflation, their savings suffered. Farmers wanted a free play of the law of demand and supply so long as prices were going up. When commodity prices began to decline, they requested their Congressmen to take measures to protect farm income, despite the fact that farm prices have risen much faster than any other group of commodities. The individuals who lived on a fixed income suffered quietly, and very little was heard from them. They truly are the "forgotten men."

Little Interest in Inflation Process

The relative lack of interest in the process of inflation is due to several causes, principal of which is human greed, or, if one is charitably inclined, human weakness. Second is the lack of understanding of the full meaning of a constant decline in the purchasing power of the currency. Which of these two factors is the more important is impossible to state. It is certain, however, that human greed played a very important role, for many individuals undoubtedly profited from the rise in prices. The owner of goods sees in constantly rising prices, higher profits. The farmer sees his land and equipment appreciating in value and prices of commodities raised by him constantly increasing. While he, too, has to pay higher prices for commodities which he buys in the open market, yet during the last few years, prices of commodities sold by the farmer increased much faster than prices of commodities bought by him. The factory worker and the union leader see, in rising prices, prosperity, full employment, and the possibility of higher wages. Representatives of the Government find that rising prices are accompanied by prosperity, high national income, large tax collections, and the opportunity to spend more and more and thereby "win friends and influence people." The owner of equities finds that rising prices are often accompanied by rising prices of stocks and larger dividends, and cares very little that he pays more dollars for food, clothing, shelter, and luxuries. Little do all these people realize the harm this process does them, how it affects their savings and the security of those dear to them. The claim that a mild dose of inflation is good for body and soul.

This attitude on the part of so many is due to the fact that few individuals take the trouble to understand the full mean-

ing of inflation. Should any one suggest to them that they rob a widow or an orphan, steal the food from an old man living on a pension, they would shudder in horror, yet this is exactly what they are doing. This is actually what higher prices and the decline in the purchasing power of the dollar do to people who live on a moderate fixed income. To be sure, inflation does not destroy wealth; it merely redistributes it. It robs the creditor; the thrifty; the individual who holds fixed-income-bearing obligations, life insurance, savings deposits, and beneficiaries of trusts deeds—for the benefit of the debtor or all those who understand the meaning of inflation and who can and do take advantage of this phenomenon. It helps a wasteful government which has borrowed and spent freely and which has increased the public debt, because rising prices lead to higher national income in terms of money and thus make the carrying of the debt much easier.

Obviously, civilized people do not like to rob widows and orphans. Obviously, those who last summer withheld all kinds of goods in expectation of higher prices, those in government who so recklessly spent billions of dollars, labor leaders who constantly ask for increases in wages without increasing productivity, do not for a moment think they are rendering any harm to some of their fellow citizens. Those who clamored for more featherbedding, for more subsidies, actually claimed they were working for the people and did not consider that they might hurt others or themselves in their old age when they will be unable to earn a current income.

Inflation—An Economic Disease

Inflation is probably the greatest economic disease and has far reaching economic as well as political consequences. An analysis of economic and political conditions prevailing in the rest of the world will soon prove the truth of this statement.

What can be done to prevent such an unjust distribution of wealth and income and what tasks does this impose on trust officers? The prevention of a redistribution of wealth through inflation is primarily the task of society. The present task is to reduce prices of all commodities. I am not un-mindful of the law of demand and supply, of the huge productive capacity of the country, nor of the fact that competition is bound to be keener in the future than ever before. I am apprehensive, however, that the law of demand and supply may not be permitted to operate when commodity prices begin to decline. Above all, now is the time to eliminate those factors which were responsible for the increase in the cost of living. (1) The budget must be balanced, not with a surplus of \$200,000,000 but with a substantially larger surplus, thus enabling the Government to retire maturing obligations held primarily by the commercial banks. (2) This is not the time to reduce the high excise taxes on luxuries. (3) Now is the time to increase productivity of machine and labor in order to reduce costs of production and make possible a reduction in prices. This is the function of management as well as labor, for it has a direct bearing on the standard of living of the people as a whole. (4) Now is the time to restudy the entire agricultural program and to adopt measures which not merely push prices upward or prevent them from declining, but which also make possible a decline in prices whenever the supply is larger than the demand. (5) Monopoly and free competition do not mix. Strong anti-monopolistic measures should

be taken against industry, labor as well as cooperatives, particularly those which handle necessities of life.

(6) The foreign trade policy of the United States should favor both exports and imports. Reciprocal trade agreements which foster foreign trade in general tend to keep prices down through the free operation of international competition. This phase of our economy deserves particular attention now when the world is gradually emerging from the greatest catastrophe in history and when influential voices are being raised to scrap the reciprocal trade agreements. It is desirable to strengthen the forces of competition, to encourage invention, which in turn leads to write-offs of plant and equipment and creates demands for new machinery. Measures could be taken to reduce costs of distribution which in many lines are too high. Some of these developments will occur by themselves if left to the forces inherent in the system of private enterprise. In order to achieve the others, the public conscience will have to be aroused.

Reduction of Public Debt

Of the various measures suggested above, a reduction in the public debt during the period of prosperity is probably the most important. The pent-up demand for housing and durable goods and the large demand from abroad cannot last indefinitely. Sooner or later we will have to live an current income, and competition from abroad is bound to be keener. We simply cannot afford to allow another depression of the magnitude of the early '30's. If we wish to preclude the coming era of prosperity from becoming merely the Indian summer of the system of private enterprise, we had better give careful thought to the prevention of a depression in the future.

What does all this mean to the trust officer? It means simply that we are living in a rapidly changing world, physically and spiritually. Who, for example, can tell how atomic power will in the future affect present economic values? Who can tell whether state capitalism which prevails in some countries, controlled capitalism in others, and the system of private enterprise in the United States, will be able to cooperate? Because we are living in a rapidly changing world, the policies of trust companies also must be flexible and adaptable to changing conditions. The lessons that I wish to drive home, briefly, are these: First, it is unwise on the part of grantors or testators to restrict trustees to the acquisition of legal obligations only. This provision is intended to preserve the estate merely in terms of dollars without considering its real value in purchasing power. It is intended to transfer the estate intact to the remainderman, irrespective of the effect it may have on the life tenant who is probably more dependent on the income from the trust than the former. The rule not to use principal seems unwise. Often it is desirable to reduce principal, even though the remainderman receives less. This is particularly true in periods of rising prices.

More Flexibility in Trusteeships

The second lesson that I learn is that in matters of investments, the grantor should grant full and absolute discretion to the trustees in order to enable them to adapt themselves to rapidly changing conditions. This, of course, raises the question of equities versus bonds and mortgages. There is no question that equities offer better protection against a constant decline in the purchasing power of the currency than fixed-income-bearing obligations. They do not

afford a complete and adequate hedge, however. For example, during the last six months of 1946, prices of commodities witnessed the greatest increase since the outbreak of the war, yet prices of equities declined sharply. Investing in equities is not easy, and even the most skilled are bound to make mistakes. Hence the prudent man's rule is advisable in order not to hold trust companies responsible for things that could not have been foreseen. Surrogates is some states may have to change their attitude. The practice of measuring the performance of trustees by market values of trusts on accounting days in comparison with inception values does not seem to be sound, particularly in periods of rapid economic and political changes. Such a practice fosters too great caution at the expense of initiative. Notwithstanding the difficulties and hazards involved in investment in equities, if handled by a skillful and well-trained organization, as a modern trust company is, such a policy does offer better protection to the beneficiary in a rapidly changing world. If a trust company has freedom of action, is not restricted by the fear of recession suits, and if it is well equipped, it can protect the purchasing power of an estate with greater success than where it is restricted entirely to the purchase of fixed-income-bearing obligations.

What is said about equities applies with equal force to credit bonds which tend to appreciate rapidly in periods of rising prices and prosperity and to decline when prices decrease and business activity is downward. All this may be summed up briefly as follows. Trust companies must have the legal power as well as the ability to adapt their investments to rapidly changing economic conditions. Above all, it is necessary to impress on everybody the fact that one cannot obtain individual security unless there is collective security and that we all have work for a more stable economy.

Conclusion

Beneficiaries of trust funds have been hard hit by the rise in prices, the decline in interest rates, and high taxes. The decline in the purchasing power affected not only this group of people, however, but also those who have savings or life insurance or come under the provisions of the Social Security Act. And yet, despite the fact that the decline in the purchasing power of the dollar has caused losses to almost everybody, this phase of our economy has received only little attention primarily because many groups thought they not only could protect themselves against a decline in the purchasing power of the currency but also that in the end they would profit from it.

Trust companies must drive home to their customers the facts that: (1) it is more important to protect the life tenant than the remainderman; (2) that in order to give the beneficiary of a trust some modicum of protection against a decrease in the purchasing power of the currency, their investments must not be restricted by legal stipulations nor must they be under the constant threat of recession suits. Well-equipped trust companies, with freedom to act, while they cannot entirely protect the beneficiary against a decline in the purchasing power of the dollar, can at least seek partial protection for him; (3) finally, all must learn that there can be no hedge against inflation by the individual, that the real protection lies in seeking ways and means to prevent wide swings in commodity prices and to stabilize our economy as much as possible.

Warren York Opens Office in New York

PHILADELPHIA, PA. — The Philadelphia Stock Exchange firm of Warren W. York & Co., Inc.,



P. C. Fredericks, Jr.

Allentown, Pa., announces the opening of an office in New York City at 39 Broadway, under the management of Paul C. Fredericks, Jr., Vice-President. Mr. Fredericks was formerly in charge of the firm's Philadelphia office, now closed. The firm also maintains offices in Harrisburg, Scranton and Easton, Pa.

C. Harold Thompson With Cruttenden & Co.

CHICAGO, ILL.—Cruttenden & Co., 209 South La Salle Street, members of New York Stock Exchange and other principal exchanges, announces the association of C. Harold Thompson with their firm.

Mr. Thompson began his investment career with Folds, Buck & Co. in 1924 and was subsequently Vice-President of Max McGraw & Co. Prior to the war he was head of Thompson, Davis & Phipps which firm was absorbed by Cruttenden & Co. in 1942. During the war, Thompson was engaged in the manufacture of material for the armed forces.

World Bank Payment to Harold Smith's Estate

WASHINGTON, Feb. 5 (Special to the "Chronicle")—In a recent meeting the Executive Directors of the World Bank decided to make a payment to the estate of the late Harold Smith, who served as the institution's Vice-President for seven months. Bank officials decline to disclose the amount of the payment, considering it a private matter.

So far as can be learned, the payment almost approximates Mr. Smith's \$22,500 annual rate of pay.

N. Edward Veron Joins Goldwater & Frank

N. Edward Veron, formerly with Dunne & Co., is now associated with Goldwater & Frank, specialists in real estate securities at 39 Broadway, New York City. He will handle mortgage certificates and wholly owned mortgages.

Completes Half Century Of Service in Wall St.

Dominick & Dominick, members of the New York Stock Exchange, announces the retirement of Harold Blakelock after his completion of 50 years of continuous service with that firm. Since beginning his association in 1897, Mr. Blakelock has served Dominick & Dominick in many capacities, finally being in charge of the firm's private wire system which at times was nationwide.

The Vanishing Paycheck

(Continued from first page) course, was the only reason of any importance for the pay increase. From the moment the sound of the wedding bells had died away and Johnny had received his first paycheck, his financial troubles began. We are taken through some dozen pages of thickening gloom, with each step into the fiscal murk set out succinctly in cartoon and caption form.

The first blow is the withholding tax which, with the social security tax, takes \$4.55 out of the weekly \$45. For the year these Federal taxes will total \$236.60, and Johnny discovers right off that he must work more than five weeks out of the year for the Federal government. This should have started him thinking about cause and effect. But it only made him sore at the size of the hole in his earnings.

The story of income tax and social security tax withholding is told by exhibiting a supposed facsimile of a wage statement as run off on the ordinary business accounting machine. The miscellaneous heading under deductions is carefully left blank, which suggests a rigged exhibit in view of the general use of the check-off, or withholding of union dues by the employer. As we have noted, this is a tale of how Johnny was robbed by unfair taxes. Yet, he can get, from the President's Budget and the annual Report of the Secretary of the Treasury a more detailed accounting of what happened to the money that the government takes from him than he is ever likely to get from his union officials for the money which they take from him through the check-off.

Johnny's soreness over his taxes increases as he learns about state income tax, sales tax, excise taxes, and the real estate tax which his landlord is supposed to be passing along to him in the rent. There are various errors in this story to which we shall return presently. To conclude the sad tale, it appears that when Johnny has added up everything, he finds that he will pay \$734.80 out of his yearly income in taxes of all sorts. His wage increase since 1936 has been \$780, but he figures that his tax increase has been \$498.24 in the same time, leaving a net wage increase after taxes of \$283.76, or only an 18½% rise from 1936 to 1946. Johnny comes to the conclusion that wage earners are paying too much in taxes, regardless of the costs of government. He decides that employers and corporations should pay more while people like himself should pay less, no matter what it costs to run the government.

There are two points about this amateur detective story which require comment. The first is its errors and its misleading inferences, which add up to a fine lot of misrepresentation. The second is the conclusion, which is likewise guilty of missing the main issue.

It is understood that the Johnny Poore whose tax woes are set forth in this CIO document is an imaginary person, although we do not find the caution that is usually supplied with fictional writing, to the effect that any resemblance of a character to a living person is purely accidental. Presumably, Johnny represents the average worker who is earning \$45 a week. In this case, however, his tax burdens and problems should be those of the average person. But the alleged tax expert who prepared the material did not stop with average or typical tax situations. On the other hand, he gave Johnny the works by combing the country and picking out all of the taxes to be found anywhere and loading them into this one taxpayer's account. So, if one were to look for

Johnny's address, it would have to be "Erehwon," which is the way Samuel Butler spelled "Nowhere."

This illusory location can be demonstrated by noting the combination of state taxes which Johnny is supposed to have paid in 1946. Here is the list as set out by the CIO tax expert:

- (1) A state income tax, levied at 2% on taxable income after an exemption of \$2,000 to a married person;
- (2) A state sales tax of 3%;
- (3) A state gasoline tax of 5 cents per gallon.

This combination of taxes and tax rates does not exist in any state. The State of Washington levies sales tax at 3% and gasoline tax at 5 cents per gallon; but it does not have an individual income tax. Thirty states were taxing individual incomes in 1946, but in none of them is there a combination of a \$2,000 exemption to a married person with an initial rate of 2%. Moreover, all but eight of these states allowed deduction of Federal income tax in determining taxable income for state tax purposes. Johnny's tax expert did not tell him about this deduction in figuring his state income tax.

Since we cannot find a local habitation for our out-of-luck taxpayer, except in "Erehwon," it seems proper to re-christen him as "The Little Man Who Wasn't There."

The story about all of the taxes that could not possibly have been paid by The Little Man Who Wasn't There implies that the total shown was the regular, annual tax burden to be carried henceforth, as long as the present system and the existing rates are maintained. An examination of the list of taxes brings out a serious error in this connection.

For example, Johnny had done the right thing by getting both an engagement ring and a wedding ring. The lady bought a new suit case for the honeymoon trip, and shortly after getting settled she put her savings into a fur coat. As newlyweds they bought furniture and a car when the remodeled bungalow was ready. The Federal excise taxes and the state sales taxes on these forms of family capital assets were given as follows:

Fur coat	\$57.50
Automobile	56.00
Jewelry	27.60
Furniture	23.40
Refrigerator	12.00
Luggage	6.90
Radio	2.50
Electric toaster .....	.50
Total	\$186.40

Nowhere is it suggested that these taxes are non-recurring items. The family's regular tax bill, after the first year of heavy buying for durable consumer equipment, will not again contain any of them for years to come. Hence a more accurate account of the steady drain on the family income under existing taxes would be one which recognized the above tax items as special and extra, in the same way that the outlay for the car, the fur coat, and the refrigerator were special and extra. Neither these costs nor the taxes paid in respect of them will be present in the next year's budget of family expenditure. They don't tell Johnny this. The purpose is better suited by just letting him boil over about it.

It becomes necessary, however, to revise the regular tax bill of the Poore family. On the basis of data provided in the pamphlet, the regular tax bill under existing rates, and assuming that Johnny could be in enough places to get caught for income tax, sales tax, and gasoline tax at the rates indicated, would be \$548.40, and not \$734.80. The increase in Johnny's

taxes over what he estimated that he paid in 1936 should be reckoned at \$309.84, and not at \$496.24, which was what the shop steward's figures indicated. Incidentally, Johnny always goes to the shop steward with his puzzles and troubles. The net increase in wages since 1936 should be put at \$470.16 after taxes, which is an increase of 30%.

We have indicated the way in which this tax bill from Erehwon has been padded by including non-recurring items and by switching one taxpayer and one income about from one place to another, including some places not on the 1946 tax map. A further minor instance of such padding may be noted. It is estimated that the Poore family will use 1,000 gallons of gasoline and 12 gallons of engine oil in a year. The retail price of the new car was \$1,120, which indicates that it was a small, light-weight model that would operate at 18 miles or so to the gallon of gasoline. On this basis, it will be necessary to travel some 18,000 miles, which is a lot of mileage for anyone who does make his living on the road. The couple live on the edge of town, so the travel to and from the job and the markets would not account for it. Moreover, Johnny must have been stuck with an oil burner, if his new car must have almost a quart of oil per week during the year.

So much for the story. The data which are set out as facts are unreal; they are garbled and distorted; and they are not representative or typical of the taxes which any given family at this income level would pay. It is particularly fraudulent to set up the non-recurring taxes paid on durable equipment as part of the regular, annual, family tax bill.

The principal purpose of the document is not so much to present a plain, honest account of the effect of the present tax system upon the average wage earner as it is to foment resentment and channel this resentment along the particular direction desired by its sponsors. Hence, it does not suit their purpose to have Johnny ask himself or anyone else why such taxes are necessary. It is much more to their point to have him get good and sore at the way in which his money vanishes in taxes. So the story ends with his acceptance of the CIO contention that employers and corporations are not paying their fair share, while the wage earners are paying too much, regardless of the costs of government.

Suppose, now, that instead of falling into the hands of the kind of tax expert that the CIO employs, Johnny had met up with some one who was prepared to tell him all of the facts, and keep them straight, rather than needling him with a 3% sales tax at breakfast, a 5 cent gasoline tax at lunch, and an excise tax at dinner. Oh, yes! The Poore's went to a night club where they were caught with the 20% entertainment tax. An intellectually honest guide through the tax maze would have said: "Sure, taxes are high, much higher for everybody than they were in 1936. But you remember, don't you, that we have had a war. We have a public debt on which the interest alone is more than the entire cost of the Federal Government 15 years ago. The war is over but the peace is not yet here, so we must keep a reasonably strong army and navy. The countries that were wrecked by the war need help."

Such a guide would have pointed out that for reasons like these our taxes must be higher than they were 10 years ago. But he would also have said that they are higher, in the opinion of competent students of public affairs,

than can be justified on the grounds and for the reasons mentioned above. In other words, our taxes are high because the federal spending is still at a rate far greater than is required for the efficient performance of the federal functions. Very little has been done, as yet, to reduce the number of federal agencies that were created for special purposes during the war. Very little has been done to reduce the number of employees on the federal payroll, even where there is little or nothing for them to do except to draw their salaries. Very little has been done to reduce or eliminate the federal subsidies which originated in, and were to some extent justified by, the depression conditions of the 1930's, notwithstanding the vast change which now renders such payments unnecessary.

Since we know that Johnny Poore is fiction, and pulp fiction at that, because he could not live anywhere in this country and pay all of the taxes which the CIO tax expert has laid on him, we may as well forget about him and look at the tax program which his creator and sponsor, the CIO, is advocating. The principal point at issue here is the manner of making the tax reductions this year. Everyone agrees that such action as can be taken promptly must be simple and involve as little structural change in the tax law as possible. Not even the CIO can force the Congress to engage upon a general tax revision at this time.

The first plank in the CIO program is one of violent opposition to the flat percentage cut. This is an easy and simple method of quick tax relief. There was a 25% tax cut, across-the-board, in 1924, and a similar 5% cut in 1946. The flat percentage reduction is not a proper substitute for a thorough revision of the surtax scale, but it is not offered as such. Under it everyone would pay 20% less income tax. Johnny Poore's federal income tax at existing rates is given as \$213.20. With the 20% cut, he would pay \$42.64 less, and his take-home pay would be greater by this amount. The CIO gripe is that the president of the company would have a bigger cut, in dollars, than any of the employees. But he earns more money than any of them, and none of them is competent to take his place.

The simon-pure milk of the coconut oozes out in the next CIO plank. It is a demand that the exemptions be raised to \$2,000 for married persons and to \$1,000 for single persons, while keeping the exemption for each dependent at \$500. In short, the CIO does not want to pay income tax. The revenue loss at present national income levels and under existing tax rates would be some \$10 billion to \$11 billion, were such exemptions granted. It would largely destroy the individual income tax as a revenue producer.

The reason given in support of the demand for higher exemptions is that the cost of living has gone up. But a demoralization of the federal revenues, through making such an increase of the exemptions, would compel resort to further deficit financing. This would renew the inflationary expansion of credit, and eventually, of prices. And where would all of the Johnny Poore's be then? They could lose more income and purchasing power by engaging in another round of costly and destructive strikes, but this would not save them. Poor Johnny Poore's paycheck would vanish completely during the strike, and its buying power would be much less after his union leaders had won another victory for their followers.

Another plank in the CIO tax platform is a reduction of the first bracket tax rate on such income as would be taxable after increasing the exemptions. No specified degree of reduction is specified, but the prewar rate of 4% is men-

tioned with approval. There would go much of the little income tax yield that would remain after raising the exemptions.

Then, too, the CIO wants all sales taxes repealed. This type of tax is today the principal source of revenue for a number of states. We are not told what kind of tax might be substituted for the sales tax, or who would pay it.

Finally, the CIO wants excise taxes on necessities repealed. They mention expressly the taxes on telephone service, cigarettes, automobiles, refrigerators, radios, and toasters. There would go another large chunk of Federal Revenue.

Suppose we put together the CIO tax proposals in terms of their effect upon the Federal Revenue. The following figures are preliminary estimates, but they are indicative and not too wide of the mark of current national income levels:

CIO TAX PLANK	Revenue Loss (Billions)
(1) Increase of exemptions.....	\$10-\$11
(2) First bracket rate of 4% instead of 19% on taxable income.....	3
(3) Repeal excise taxes on necessities.....	1.5
Total revenue loss.....	\$14.5-\$15.5

The President's budget for the fiscal year 1948 is \$37.5 billion. Heroic measures will be required to get it down even as low as \$30 billion. For the fiscal year 1949 a budget of \$25 billion is possible, under further severe fiscal surgery. At current national income levels, the normal revenue yield of the existing Federal tax system is about \$36 billion, aside from non-recurring receipts such as sales of surplus property and collections of back excess profits taxes. The CIO tax program would reduce the yield of the Federal tax system to some \$20.5-\$21.5 billion. It is an utterly unreal and fantastic set of tax proposals when measured against present needs, however prudently these needs are defined. The CIO badly needs a couple of new, and better, tax experts.

The tragic element in the situation is that the CIO has set itself up as the leader, counselor, and friend of a substantial segment of the workers. These workers look to their union heads for help and advice. Johnny Poore is depicted as consulting his shop steward at various stages as his tax troubles unfolded. The members who rely for factual information and wise counsel about taxation on such union leadership are getting stoned for bread. They are getting phony and fraudulent claptrap about taxes and a tax program that would wreck the national finances. When the blind lead the blind, both fall into the ditch together.

Ernest Cornell Resumes Practice of Law

CLEVELAND, OHIO—Ernest Cornell, chief of the Division of Securities of the State of Ohio in 1945 and 1946, announces that he is resuming the practice of law at 1145 Union Commerce Building.

Joins Schirmer Atherton

(Special to THE FINANCIAL CHRONICLE) BOSTON, MASS.—Hadley S. Ward has been added to the staff of Schirmer, Atherton & Co., members of the New York and Boston Stock Exchanges, 50 Congress St.

With Lincoln McRae

(Special to THE FINANCIAL CHRONICLE) ROCKLAND, MAINE—Harold H. Harrington has become affiliated with Lincoln E. McRae, 449 Main Street.

With King Merritt

(Special to THE FINANCIAL CHRONICLE) JEFFERSON CITY, MO.—Edwin D. McCammon has been added to the staff of King Merritt Co., Jefferson Building.

Adjusting SEC Requirements to Business

(Continued from page 736)
 porate honesty, full disclosure, and decent markets. Keep those standards high and enforce them vigilantly and you keep open the flow between savings and enterprise. Debase them and abuse them and you block that flow.

In that sense modern business calls upon its managers for the exercise of qualities best summed up, I believe, in the word "statesmanship." You all recognize what I mean when I say that the corporate manager is no longer a superforeman whose function it is to see merely that the machines are well oiled and in good working order. The American corporation has become the focus of a great many social interests. Those interests are often at loggerheads and the reconciliation of their conflicts in the light of the best possible efficient and honest running of the business has come to require the exercise of qualities of statesmanship. And in the meaning of that word lies imbedded the notion of responsibility.

Responsibilities of Management

A good many of you are undoubtedly weary of having reiterated to you over and over again the idea that, as business men, you have obligations extending beyond the metes and bounds of your plant. For once you would like to hear what those in government are thinking and doing in recognition of their responsibility to the American economy. I will come to that, and I think I can promise you the fullest measure of satisfaction in what I have to say. But I would be striking a false note, I would be giving you a thoroughly inadequate picture of where we stand and where we must go if I did not place my remarks in their proper setting. There is, in corporate management, as in all other fields, a set of temptations to which mere human beings may easily yield. The greatest of these is to forget the responsibilities that are implied in the manager's position, to forget that the ultimate ownership of the business may be in the hands of large, unvoiced interests, to forget that when he administers the affairs of the enterprise he is not doing so on his own behalf, but on behalf of others.

There are certain provisions in our laws designed to implement those natural responsibilities. I use the word "natural" advisedly. The Securities and Exchange Commission did not invent these requirements, and not even the Congress which passed the laws invented them. I think you will see, as I review them, that they are the inevitable consequences of the new position into which history has put the modern corporation and the corporate manager.

If you plan to make a public issue of securities with certain exceptions, you have got to file a registration statement which gives the basic facts an investor needs to know to appraise the investment. If the facilities of a national securities exchange have been opened up to your company's securities through listing and registration, certain disclosure, proxy, and insider trading requirements must be obeyed. Listing can be accomplished only through the filing of a full registration statement, and, after listing, certain current reports must be filed. If a security is listed neither the company's managers nor any other persons seeking to solicit proxies from the holders of the listed securities may do so without the use of a proxy statement disclosing material facts necessary for an intelligent vote, to afford ample opportunity to indicate preferences, and to make certain facilities available to security holders who wish to circulate a short statement to their fellow security holders. Officers and directors of any company that has an equity

security registered on a national securities exchange and every holder of 10% or more of such security have to file reports showing changes in ownership of the equity securities of the company.

Affords Information to Investors

These provisions are keyed to the view that an honest business will tell investors what they should know about what they are buying and about what they are voting on, and will afford investors an opportunity to reach their fellow investors on important corporate problems. They are keyed to the view that the special advantages of position and information occupied by corporate insiders are advantages held in trust for the company. They are natural standards legislatively expressed and administratively and judicially enforced.

Sometime last month I sent to the President of your Association a letter inviting your Association to send representatives to a meeting with the Commission to discuss a program for formulating a set of desirable and workable changes in the Securities Act of 1933 and the Securities Exchange Act of 1934 for submission to the Congress. Your Association was selected, together with others, as representative of the issuers of securities — as representative of that segment of our economy which needs capital for production and expansion and which calls upon the American investor to provide that capital. It is part of our program to confer also with investors, underwriters, and the national securities exchange. We are still in the process of conferring and soliciting suggestions and we are by no means prepared at this stage to state what the specific proposals will be. In general, however, some discussion is possible of the broad problems being faced.

What Registration Means

Under the Securities Act of 1933 registration is accomplished by the filing of a registration statement on a prescribed form. Unless otherwise ordered, registration becomes effective after 20 days or such shorter time as the Commission may, under particular circumstances, fix. The Commission does not "approve" the issuance of securities. It exercises no judgment whatsoever over whether securities are fit to be sold; it limits itself to an inspection of the information submitted with respect to the securities to determine whether that information meets the statutory standards of adequacy and accuracy.

Under the law securities which must be registered cannot be offered or sold in advance of registration, and they may not be initially sold without the use of a statutory prospectus. The aim of the statute is unimpeachable and its general purpose has received, as far as I am aware, universal acceptance. That does not mean, however, that the statute and our procedures under it cannot be improved; both in the direction of securing better investor protection and of facilitating and easing the burdens of compliance.

Improvement can take place in several directions: in continual reappraisal of our forms to cut down the variety of information required to that which is really essential for the protection of investors, and in continual reappraisal of the effects of our regulation to see whether we are accomplishing our job well and efficiently. To a great extent improvement does not require recourse to statutory change but may be procured by internal readjustment. To some extent statutory changes may be necessary. Let me review for you some of the steps which have already been taken by the Commission under its existing powers.

Reforms in Registration

Recently we scrapped several forms for securities registration under the Securities Act. Those have gone into the waste basket, and as soon as we have done the basic work, others are to go, and still others will be consolidated; and a similar general program is under way for other forms. At the same time we have streamlined the form most frequently used for registration — the form known as S-1. That form, which previously consisted of two parts, has been boiled down to one part; and even that part has been reduced to eliminate from the form a good deal of data which have been, in our experience, of only casual interest to the general investor. We have eliminated lengthy descriptions of underwriting contracts previously required, cut out miscellaneous information describing the charter, killed some of the items with regard to remuneration to higher employees, options, share ownership, funded debt, historical financial information and so on.

The registration form is approaching the basic minimum that can be required for adequate disclosure. That minimum when condensed into readable and intelligible form will be the prospectus.

Changes in Offering Methods

Proposals have been made looking toward changes in the law relating to methods of offering securities publicly. Underwriters have proposed, as a basis for discussion with the Commission, changes which would permit solicitation of investment earlier in the stages of registration than is now permitted by the law so as to facilitate primary distributions. What the ultimate recommendations will be can be known only after we have completed the program. But I can tell you now that the Commission has no intention of seeking to place unnecessary additional burdens on companies in supplying data, that the Commission is sincerely in sympathy with the desire to improve the securities distribution mechanisms, and that it will wholeheartedly join in recommending to the Congress such proposals as will accomplish those ends while preserving and fostering the basic aims of the laws as now drawn to protect the investor.

I have given you only the barest sketch of the problems that might be opened up in our forthcoming statutory revision study. I invite those of you who have an interest in it to use your opportunity to give us your individual comments and suggestions. But before I close tonight I want to talk briefly about one segment of the program which is, in our opinion, vital.

Proxies and Reports

I think it axiomatic that the public security holders of large corporations should be informed about the affairs of their company and that their legal rights to a voice in its affairs should be implemented by the application of decent standards to proxy solicitation. The need of stockholders to have adequate information about their companies' affairs, and their need to be given an adequate statement of facts and issues when they are called upon to vote does not, in any real sense, depend on whether a company has securities listed on a national securities exchange. These are needs that are universal to the security holders of all large companies whose securities are widely held by public investors. Further, if the legal concept that a stockholder has the right to voice his views on matters of management policy is to be made a real right, the security holder should be provided, at his expense, an opportunity to circulate among his fellow security holders a reasonable statement

addressed to corporate policies. That is not a revolutionary provision, it has been in operation for years under SEC regulation and it is an important part of the companies bill now being considered by the House of Lords in England.

These, and other protections, will be considered in the course of our revision program. Like all the other issues in that program they will be considered openly and squarely, they will be laid on the table and subjected to full scrutiny in order to shape them in the best and fairest way possible.

The topic suggested to me by your President for tonight's talk was "Adjusting SEC Requirements to Present Day Business Needs."

It is a good topic and it represents a live idea. What I have tried to get across to you today is that that idea makes no sense in a vacuum. The SEC and honest businessmen are engaged in a common endeavor—the protection of the investor. The SEC has never conceived that the interests of honest business and the interests of investors conflict, and the SEC will never abandon its duty of protecting the investor from the submarginal fringe in business or in finance. We face the choice of doing that in an ivory tower or of soliciting the help and suggestions of those who can fruitfully contribute to our work. My presence here today is an indication that we have chosen the latter course.

"Open the Door, Mr. Hanrahan, and We'll All Go to Never, Never, Land!"

(Continued from page 735)

describe the philosophy and advice given out by most of them, and that is PLAIN NUTS!

Last Thursday's "Chronicle" carried the speech made by the new Commissioner, Edmond M. Hanrahan, before the Association of Customers' Brokers, New York City, Jan. 29, 1947. I didn't hear it. I only read it in "The Chronicle." Now there is no good point in attacking anyone personally, and this is not an attack on the well-meaning Commissioner. It is what he advocated that is going to be taken apart not only here but by every experienced broker, dealer, or customer's man who heard the speech or who read it in last week's "Chronicle." And the result won't be flattering to Mr. Hanrahan—the poor guy is living in a dream world—Someone should edit his speeches from now on—someone who knows something about this business, and not an SEC ghost writer either.

Now let's get down to it! *Point number one:* Get this! (Quote): "As Chairman Caffrey indicated in his address before the Investment Bankers Association on Dec. 4, 1946, this end can best be obtained (the objectives in the Securities Acts) 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." Caffrey said it first—Hanrahan follows. CAN YOU IMAGINE A CUSTOMERS' MAN SELLING SECURITIES THIS WAY? If I had a salesman, or customers' man who insisted on trying to sell securities in such a manner, the first thing I would do is TAKE HIM OFF A DRAWING ACCOUNT AND LET HIM PEACEFULLY STARVE TO DEATH. I may not know very much about SEC law but I'll stake my 20-odd years of all kinds of security selling experience in every type of firm, from large Stock Exchange members to underwriting houses and the small organization I am running today, that if you sent out salesmen to bore hell out of people trying to sell stocks or bonds by sitting down with them at their desks and laboriously turning the pages of income accounts, balance sheets, records, history, and the various sense and nonsense that is contained in those prospectuses, it wouldn't be long before your salesman would tell you to take your prospectuses and jump in the river.

Look, little boys at the SEC, there is only one thing a prospectus is good for, AND THAT IS TO ENLIGHTEN THE PROFESSIONALS—THE INSTITUTIONAL BUYERS, AND THE BROKERS AND DEALERS THEMSELVES. As far as the general public is concerned, they are just a waste of paper, printing and time. THE ONLY PERSON WHO CAN PROTECT THE INVESTOR IS THE BROKER OR THE DEALER. The successful broker or dealer, customers' man or salesman doesn't ask his customer whether he approves of every good point concerning a security and accepts every consideration that is unfavorable. The facts are that most investors don't want to pick out their own securities.—they rely upon their broker or dealer. The only investors that I've ever known who wanted to sit down with me and pull securities apart before they bought them were people with an engineering, statistical or technical background. If I would have tried to do what Messrs. Caffrey and Hanrahan are suggesting I would have long ago been a failure in this business of selling securities. Such a procedure would make failure inevitable. That's putting 20-odd years at my game of SELLING STOCKS AND BONDS up against SEC theory—and I've tried both methods in my day.

Point number two: Why does every one of these fellows think that no speech is complete unless they talk down to their audience. TO LECTURE, IF YOU WILL? I don't think I am any more sensitive than the rest of the people

who are making their livelihood in the securities business, but I honestly believe that most of us are getting mighty well fed up with the same old preaching about the "few disreputable representatives that we have in this business" and that we've got to be so careful, oh, so careful to take care of our customers and treat them right. JUST WHAT DO THESE SEC PSALM SINGERS THINK THAT WE DO IN THIS BUSINESS, SIT UP NIGHTS TRYING TO FIND WAYS TO FLEECE OUR CUSTOMERS SO THAT EVENTUALLY WE WON'T HAVE ANY CUSTOMERS OR ANY BUSINESS LEFT? Isn't it about time that the whole lot of them forgot that once they had a case before the U. S. Court of Appeals against some fellow by the name of HUGHES? Who was HUGHES, anyway, KILROY'S BROTHER?

Mr. Hanrahan rightfully says (quote): "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." Then why does the SEC shove out press releases with such abandon whenever it gets a chance to tell the world that some broker or dealer has broken a rule, violated a technicality or in some other way given the agency a chance to GET ITS NAME IN THE PAPERS. If even 5 to 10% of the securities industry was off the beam, it would probably be in line with most other businesses in the country, including the legal profession. But I'll venture the guess that the ethical standards of the securities business are higher than almost any other line. WHAT DO THESE FELLOWS WANT—THAT WE SHOULD WEAR WINGS?

Point number three: Somewhere in that speech Mr. Hanrahan stated that the seller should go over the material on page one of the prospectus first with his client before he starts in on that long, tedious grind of wading through 20-odd pages or more of black, thick mud. (Quote again): "After considering and explaining the information concerning the offering appearing on the FACING PAGE, I would turn to the financial statements, etc." WHAT HE MEANS IS THAT WE SHOULD POINT OUT HOW MUCH UNDERWRITING PROFIT IS INVOLVED IN THE DEAL FIRST. That is a honey, isn't it? CAN YOU IMAGINE ANYONE IN ANY OTHER BUSINESS SAYING TO HIS CUSTOMER, "I WANT TO SELL YOU THIS CAR, OR NECKTIE, OR BEDSPREAD, BUT BEFORE I DO, HERE IS THE AMOUNT OF GROSS PROFIT THAT I AM MAKING BY SELLING IT TO YOU"? Start an argument right away, put your cart before the horse, beat your brains out, but do it because the SEC wants it that way. I SAY NUTS, AND NUTS AGAIN. I say it is nobody's business HOW MUCH underwriting profit there is in a deal. I SAY THAT WHOLE PROVISION SHOULD BE STRICKEN FROM SEC DICTUM BY CONGRESS. If not, then every other business in the whole United States should be forced to disclose its gross profit on every item sold to the public. IS THAT SENSE, AND IF NOT, WHY NOT? WHO ARE THESE PEOPLE WHO SELL SECURITIES FOR A LIVING? ARE THEY LEPERS APART AND DIFFERENT FROM ALL OTHER AMERICANS IS THE PROPERTY WHICH THEY BUY WITH THEIR OWN MONEY AND SELL TO OTHERS NOT PROPERTY THAT HAS THE SAME RIGHTS OF PROTECTION UNDER THE CONSTITUTION AS ANY OTHER PROPERTY? Maybe Mr. Hanrahan, and Mr. Caffrey, and the others should look into this . . . or should Congress do it for them?

Well it's off my chest . . . and this isn't a joke, son. . . "If you want to learn how not to sell securities see the SEC!" (Signed) AN ANONYMOUS DEALER.

MacCulley Elected By Equitable Securities

Ira B. MacCulley has been elected an Assistant Vice-President of Equitable Securities Corp., 2 Wall Street, New York City. He has been with the firm for some time in charge of preferred stocks.

A. B. Harrison Associated With Daugherty, Cole & Co.

(Special to THE FINANCIAL CHRONICLE) PORTLAND, ORE.—A. B. Harrison has become associated with Daugherty, Cole & Co., 729 South West Alder Street. Mr. Harrison was previously with the Oregon State Department of Securities.

With Kidder, Peabody Co.

(Special to THE FINANCIAL CHRONICLE) BOSTON, MASS.—Ernest T. Johnson is now with Kidder, Peabody & Co., 115 Devonshire Street.

Raymond Myrer With Crosby Corporation

BOSTON, MASS.—Raymond L. Myrer has become associated with the Crosby Corp. Mr. Myrer was previously with the Parker Corp. and prior thereto was Vice-President of the Keystone Corp.

Van Tuyl & Abbe Wire to Cayne, Robbins in Cleveland

Van Tuyl & Abbe, 72 Wall Street, New York City, announce the opening of private wires to the offices of Cayne, Robbins & Co. in Cleveland and Chicago.

Joins Newhard Cook Staff

(Special to THE FINANCIAL CHRONICLE) ST. LOUIS, MO.—John P. Cummings has been added to the staff of Newhard, Cook & Co., Fourth & Olive Streets, members of the New York and St. Louis Stock Exchanges.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Break-through on up side, as forecast, merely follows a technical pattern. It doesn't point to higher prices. It may, instead, lead to a reaction.

To become bullish at this time appears the easiest thing in the world. Not only would

N. Y. State Electric & Gas Preferred Offered By Harriman Ripley

A group headed by Harriman Ripley & Co., Inc., are offering publicly today 150,000 shares of New York State Electric & Gas Corp. 3 3/4% cumulative preferred stock at \$102 a share and accrued dividends. The group won the preferred stock on Tuesday on a bid of 100.139.

Part of the proceeds from the sale of the preferred stock will be used by New York State Electric & Gas for the redemption of all the outstanding 120,000 shares of 5.10% cumulative preferred stock, par value \$100 a share. General Public Utilities Corp., parent of New York State Electric & Gas Corp., is making a capital contribution of \$7,500,000 to the corporation. The corporation recently sold \$13,000,000 new first mortgage bonds, 2 3/4% series due 1977, with the proceeds from the sale of these bonds to be used to redeem all the issued and outstanding first mortgage bonds, 3 3/4% series due 1964. After funds have been deposited for the payment of the preferred stock and bonds to be called and for the payment of the redemption premiums, dividends, interest and certain costs and expenses of the financing, the balance remaining, estimated to be approximately \$9,100,000, will be deposited in escrow for new construction.

Following the refinancing plan, New York State Electric & Gas will have outstanding \$53,387,000 of funded debt; 150,000 shares of new preferred stock; and 46,484 shares of common stock of no par value with a stated value of \$22,000,000. New York State Electric & Gas Corp. is an operating utility engaged principally in the production, purchase, transmission and distribution and sale of electricity, natural gas and manufactured gas. The company's operating properties are located entirely within the State of New York, and serve areas approximating 16,700 square miles or about 35% of the area of the state. Within these areas the company serves 13 cities, 145 villages and 387 towns which include numerous rural areas in the south-central, eastern and western parts of the state.

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it be popular but it would also be backed by financial statements now coming to the fore.

But despite the cheerful outlook that appears all around, particularly with the market acting as it does, all the bullish signs are on the surface. Underneath there seems to be something boiling which doesn't fit into the bullish picture. What this is, I can't say. And it isn't modesty that prevents my telling you.

Last week this column said that the market was close to a break-out on the up-side. But this up-side break-out would probably not lead to any large advance. What was more likely was an advance through the old highs followed by a decline before the advance really got going.

Up to this writing you have already seen the advance and you have also seen a hesitation across the old highs. This alone is suspicious. A market all ready to advance doesn't act that way. After it has built a pattern during which it absorbs stock for sale, it increases its tempo by bidding for the higher stock. In such situations this bidding usually attracts the public who see only a translux moving up. It is the public who, remembering all the bullish yarns, then hops in.

This pattern isn't new. It is as old as the market. Only the people who buy and sell are new. Occasionally a new development, in the shape of news, gives the impetus an added fillip. It might at times even distort the picture. But such distortion doesn't hold for long, and the basic reasons again take hold.

The averages are now about 181. A few weeks ago they were at about 170. During the time they advanced these 10 points the margin rules were changed and the labor-management picture took on a rosier hue. With it a Republican Congress started to beat the drums for lower taxes. Added together it made a bullish package. I have a feel-

ing that most of this 10-point advance was fed by these developments.

But markets cannot discount, or go up, on the same news twice. There must be something else to constantly feed it. Basically the problem of industry is still the same. To produce for the demand but at the same time not produce so much as to damage the price structure.

A year or so ago it was common knowledge that there was a huge latent demand for consumer products like autos, refrigerators, washing machines, etc. In the interim, however, the prices for necessities have climbed so high that the average buyer of consumer heavy equipment no longer has the money for that new car, ice-box, washing machine, etc. Surveys of potential markets have already shown that. Shortage of cash has also been demonstrated by the heavy cash-ins of series "E" War Bonds.

One way out of this is a return to credit selling. The buyer can put down a deposit a lot quicker than he can pay all cash. There is some effort being made to reduce restrictions on partial payments. If it succeeds, the market will get another shot in the arm. But right now it looks like the market is coasting along on past glories rather than on future prospects.

You now hold two stocks, Anaconda and Dresser Industries, neither being exactly a world-beater. I would perhaps prefer to recommend the steels or the motors. But I'm not going to get caught in a situation until I see more daylight ahead. So I suggest you continue holding both stocks, also keeping in mind that the stops given you in the past still apply.

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.]

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Political and Monetary Aspects of Real Estate Situation

(Continued from page 735)

our original investment and with a wealth of real estate experience which we think will serve us well in the immediate future.

Now, as you no doubt realize, we in the life insurance business are authorized by law to invest in real estate equities, that is, directly and deliberately instead of accidentally through foreclosures. We are authorized by the laws of New York, under which we operate, to invest up to 10% of our assets in housing and up to 3% of our assets in income-producing real estate for domestic or commercial housing. You have seen a recent illustration of the exercise of this new power in the purchase by one of our companies of a large department store on Fifth Avenue. This type of investment is a substitute for our previous mortgage investment. We take the title at a price with a long term lease at a net rental which gives us a fair return on the amount we invested, plus additional sums which we can use to write down the investment on our books.

If properly limited, this type of investment of life insurance funds in real estate equities protected by the obligation of a dependable leasee seems to be an excellent substitute for a mortgage investment which was limited to two-thirds of the appraised value. But speaking for my own company at least, I assure you that we are not going to use this power to invest in real estate too freely. We expect to confine it to those cases in which we have the obligation of a lessee whose debenture we would be wanting to buy for a period similar to the length of the lease, all of which means that in buying such real estate, we are depending not alone on the value of the land and building involved, but also and, indeed, principally, on the earning power of the business conducted in the property.

Housing Projects

The other field in which we life insurance folks are now authorized to own the equity in real estate is that used for domestic housing. We would like to provide the housing needed in this city and throughout this country. It would be a good investment for our funds as well as a great public service. Indeed, in the past we, as mortgage investors cooperating with you as builders, owners and brokers, have provided practically all of the housing that the people of this city and of this country now use and enjoy. Only a small portion of presently existing housing has come from that activity which we call government. Our friends who run the government, national and local, talk a good deal about housing but they have not been strong on production. Every politician in or out of office has had a housing program in his pocket but few of them have produced houses to meet the existing needs even of our veterans. If we boast a little of the housing that we have produced in the past, we may fairly be asked why are we not presently producing housing of similar quality and quantity. There are some reasons, over which we have no control, for our recent hesitation in the housing field.

Difficulties of Good Politics and Bad Economics

Speaking generally, one of our difficulties has been that we are confronted by government policies, rules and regulations that may be good politics but certainly are bad economics. We who invest other people's money, most often the hard-earned savings of the thrifty people in our population,

cannot take the responsibility of providing housing just because it is needed or just because politicians and government officials call for it. We must be sure that the investment of our funds is reasonably justified by present and probably future conditions. One of the difficulties encountered by all of us engaged in private enterprise is the extent to which everything we do these days is subject to some kind of government control and regulation, and much of this control and regulation is founded in foolish, if not vicious, theories. It is an unfortunate thing that there are so many instances in which unsound economics seem to be sound politics. There is our own five cent fare in a subway that does not pay its way. That certainly is bad economics but up to date it has proved to be good politics. Then there is the idea that you can raise wages without raising prices, which is nonsense in economics but which seems up to date to be good professional politics. It is said that owners of housing in this city, notwithstanding increased costs of construction, maintenance and operation, can continue to provide those who choose to come to New York with housing at constantly level or reduced rentals. This is all utterly unsound economics but at the moment seems to be sound politics. I feel sure that in the long run that which is so clearly nonsense in economics will be recognized as equally foolish as a basis of public policy or as a platform for politicians.

We would like to provide more housing than is presently being made available in this country. It is interesting to note that the Senate's Small Businessmen's Committee yesterday passed a resolution containing several recommendations. One of them was that rent ceilings on new construction ought to be abolished. It would seem that in any reasonably sane community that recommendation ought to be finally adopted and put into effect within 24 hours. Certainly that should be the cornerstone of public policy, if private enterprise is to provide new housing. Another of this Committee's recommendations was that Congress should encourage private ownership to develop housing to meet the needs of the people. We would all subscribe to the desirability of private owners being encouraged by Congress and everybody else to provide housing, both domestic and commercial, but you can't encourage private enterprise to provide such housing and especially administrators of other people's money to take the responsibility of providing such housing merely by talking about its desirability or recommending it.

Evils of Government Regimentation

There are certain things that need to be done, and especially certain things that need to be done by those who are responsible for public policy in this country. Speaking generally, I'm sure we all subscribe heartily to the fundamental idea which His Honor (the Mayor of Cincinnati) has presented here tonight. Namely, that government is or ought to be an instrument of the people; the people are not and should not be considered the tools of the government. Now as a matter of practice, we have come dangerously near to the position that the government planners determine in detail too many matters that ought to be left to individual conscience and discretion. In the past, the problems that confronted a builder of housing

were problems the solution of which could be predicted by reasonable consideration of the business world and its trend. Our trouble today is that we have to predict not what will happen in the affairs of reasonable and practical men, but what will be the political situation in the future. Every problem is so saturated with politics that one has to be a politician or a prophet to predict or foresee the results of present housing plans. We businessmen are not experts in politics and we cannot predict the future, if the future is completely in the control of politics.

In the brief time available to me tonight, I'd like to mention just a few of the public policies and government controls which involve these political questions and make us hesitate where otherwise we might proceed enthusiastically with our housing plans.

In the first place, there is the recent trend in this country to place too much power in the Federal or national government. That government was never intended to have control over local matters. As your previous speaker has said, our Federal government, under our Constitution, is one of limited powers and generally those powers relate to matters as distinguished from local concern. Included in those powers are the extra-ordinary war powers which extend to matters which but for the war emergencies would be of local concern, subject to local government. The time has come to recognize the fact that the war is over and that war powers ought to come to an end. Our Supreme Court ought to so declare, if Congress does not shortly do so.

Typical of Federal government regulation resting wholly on war powers is its control over rents. That control ought speedily to be returned to the local governments. I realize that State control may be similar to Federal control but it will have to be reasonable and therefore adjusted to local conditions. It is easier for the distant expert to justify his controls in general than it is for the local legislator to justify his control in particulars.

There is another method by which our Federal government has, during the war years, been drawing into its own hands powers that our Constitution meant to leave to the State and local governments. This is through a modern, broadened definition of interstate commerce. One of the chief powers vested in our Federal government was control over interstate commerce. Until a few years ago our Supreme Court and Congress interpreted the phrase "interstate commerce" narrowly and excluded from it such matters as manufacture or local production. Under that restricted definition of interstate commerce, Congress had no power to regulate labor standards in buildings in which goods were manufactured to be later shipped in interstate commerce. During the last few years, however, there has been a deliberate effort to widen as much as possible the field brought under Congressional control by this power to regulate interstate commerce. Acts of Congress and the decisions of what is left of our Supreme Court support these widened definitions of interstate commerce and as a result, we get Federal regulation of purely local matters and nationwide dealing with labor conditions that ought to be settled locally. Specifically, the Fair Labor Standards Act and the Wagner National Labor Relations Act ought to be amended to confine their provisions to that which is in reality interstate commerce; that is, transportation and communication over state lines.

There are other like illustrations of public policies developed by politics in recent years which make for doubt and delay in encouragement and progress in pri-

vate production and development of housing.

Monetary Phase of Real Estate Investment

There is just one more extent to which I want to call your attention. That is the monetary phase of real estate investment. Real estate investments are necessarily long term investments and when long term investments are expressed in terms of money, those who take the responsibility for such investments must necessarily have confidence in the soundness of the currency in which our contracts are written and are to be performed in the future.

Now, what is the position of money and currency in this country today? I start with a declaration after which you may put a question mark if you choose. We have too much money in the country today; we have \$170 billions of bank deposits and money in circulation. About \$2 billions in coins and about \$27 billions of paper money are in circulation and about \$142 billions of bank deposits on which someone can draw. That is the money supply of this country today.

Before the war the money supply was around \$40 billions. You cannot expect a dollar to buy as much in goods or services when there are \$170 billions of them as when there were \$40 billions of them. Long ago a Governor of South Carolina said it is notorious that the value of money, like everything else, bears an inverse ratio to its increase. This huge supply of money resulting from the financing of the war just naturally brought higher prices, higher wages and larger funds seeking investment. It affects all real estate operations and it is the principal reason for a declining rate of interest on life insurance investments resulting in decreased dividends and higher net cost of insurance. It is interesting to consider how did we get that huge supply of money. We got it because the commercial banks of the country create new money when they buy government or other bonds or make loans to the government or to other borrowers. They bought government bonds from the government until they were prohibited from subscribing in 1943. After they lost the right to subscribe to bond issues, they bought government bonds on the market. And the combination is responsible for this huge supply of money. It is important to note that nearly \$50 billions of bank holdings of government bonds and therefore \$50 billions of current money resulted from these purchases by the banks on the market for the purpose of their own earnings.

Much of the money made available to the government by the banks went into war production which was promptly destroyed. When the banks bought \$100 millions of government bonds they paid for them not by using existing money but by creating bank deposits in favor of the Treasury. When the Treasury drew down those deposits and paid them out for wages and materials, the amount of such payments became a part of the money supply of the country. Take for example such deposits drawn out by the government to pay for a great carrier like the Hornet which performed magnificently for a few months then went to the bottom of the Pacific. I am not emphasizing the fact that this war production was destroyed. I'm calling to your attention the fact that the money created to pay for the Hornet did not expire with its destruction. That money created for the purpose of paying for that carrier still stalks through the United States and will continue with us until the government by some method takes out of the commercial banks the bonds which were sold to produce the deposits which paid for the vessel.

The President of the Southern California Edison Company said the other day, speaking of this money situation, that these bank deposits and their creation of new money have the same result as if a gang of counterfeiters produced a large volume of money and for a while got away with it. So long as the people have confidence in it, it is money even though it does not represent any existing contribution to the economic life of the community. It represents nothing and yet it has to be recognized as purchasing power in the hands of those who hold it. Well, it is true the commercial banks, by their purchases of government bonds on the market in a sum which has exceeded \$50 billions, have added that amount to the money supply of the country for no other purpose and with no other result than the improvement in the banks' earnings.

Reducing Money Supply

If I am right in saying that we have too much money, too much of our values have been liquefied, then the question arises how can the money supply be reduced? There are only two ways.

1. By the government's creation of a surplus out of revenue, and using that surplus to pay off some of these bonds in the commercial banks. You know how hard it is to produce a surplus, let alone to balance a budget. It means keeping up taxes that nobody wants to keep up and it means bringing down expenditures which nobody wants to bring down, except in general, and when you get the surplus, there are a lot of people who would like to use it for some much more interesting purpose than paying off prosaic existing debts.

2. The only other way that you can bring down that money supply is for the government to sell long term bonds to non-bank investors and use the proceeds to pay off some of those bonds now held by the banks because, until that paper is taken out of the banks, there will be no reduction in the money supply.

A few days ago Mr. Eccles, Chairman of the Federal Reserve Board, announced that the peak in the money supply had been passed, that the inflationary danger was over; and therefore the Board would permit a 25% decrease in margin on security operations.

Now, I submit the facts are these. A year ago the money supply of this country was \$175 billions, or thereabouts. There was the same \$28 or \$29 billions of paper money and coin and \$148 billions of bank deposits. Of these bank deposits, \$24 billions belonged to the Treasury of the United States and \$124 billions belonged to the people and their corporations.

Today, or in the last report of the Federal Reserve Board, the money supply of the country was \$170 billions. \$142 billions of that was bank deposits, of which the Treasury of the United States held \$5.7 billions and the other \$137 billions were held by the corporations and the people who were depositors. In other words, the money supply in the hands of the people, as distinguished from the United States Treasury had increased from \$124 billions to \$137 billions and in so far as that great holding of money, of liquid purchasing power, is an inflationary force, as it is, it is greater today than it was a year ago.

Mr. Sproul, head of our New York Federal Reserve Bank, in a speech to the Jersey Bankers the other day, said that the matter was "out of our control." I do not know exactly whom he meant by "our". But what he said was we are no longer master of our own house, our hands are tied. The banks are in control of the expansion of bank credit and, therefore, of the total money supply in

the country. We in the Federal Reserve can do nothing.

Well, that is true only because of the policy the Federal Reserve Board has heretofore adopted and which it does not wish to change. Its hands are not tied by what anybody else has done. Its hands are tied by what it itself has done. The Federal Reserve now has the power to take control of this matter of money supply in this country, but it does not do it. Why? Because of the political decision that the interest rate on government bonds must be kept down at all costs. If any increase in interest rates takes place, say those Federal Reserve officials, it will be on the short term stuff held by the banks and not on the long term stuff held by the non-banking investors. This means an encouragement to the banks to continue to hold government paper, to continue the present money supply or its increase, to the detriment of the saving elements in the country. The savings banks and life insurance companies get not an increase in interest rate for their long term non-banking investments, but the same or a less return. This is inflationary and unfair to the thrifty, saving people.

What I have said refers to the existing supply of money resulting from bank holdings of government bonds. Current bank purchases of government bonds on the market to restore to their portfolios the losses resulting from government redemptions of maturing government obligations are increasing the money supply or at least preventing the reduction which ought to take place as the government reduces its debt. During the past year the Treasury has reduced the government debt by over \$20 billions but there has been no similar reduction in the money supply. That is because the banks have bought other government bonds and have made larger commercial loans. What Mr. Sproul probably meant when he said the banks are in control was that under present Federal Reserve policy, the banks which sell their short term government paper to the Federal Reserve, get additional funds, the use of which may and currently does maintain or increase the money supply. It is true then that the Federal Reserve has lost its control of the money supply but it has lost it by maintenance of its own policy of blindly supporting the Treasury's fanatical desire to have low interest rates at any cost.

That is an issue in which we are all interested, whether we manage real estate, deal in real estate, or invest in real estate. Can we depend on the money in which our contracts, our holdings, our income is expressed? Well, we cannot if we proceed along the current lines. If we continue to increase the money supply, there must be continued inflation, because that is what inflation is, inflation of the money supply. That produces increase in prices, increases in wages, and one follows the other. It results that you have prosperity for a time; we are having a wonderful time now in the primary or early stages of inflation. With this big money supply we can really go places.

Now - a - days I tell my life insurance agents that it ought to be a cinch for them to write much larger volumes of insurance than were ever written in the past. Can the insurance that you now carry be depended upon to do that for which you bought it? Our agents have sold life insurance to men to send their children through college 15 or 16 years from now. The policyholder had better give careful attention to the question of whether the amount of money that he will receive at that time under that policy will buy a college education, and if it won't, well,

then our agent will very efficiently sell you some more.

We Are in an Inflationary Period

But my point to you tonight is that we are in an inflationary period because of this huge supply of money, which is left to us after the war and its financing. I am not now complaining of that. I am just asking you to recognize the situation that we have this huge supply of money, that it represents inflation of our currency, that it endangers the future soundness of our currency, and that somebody ought to do something about it.

The Federal Reserve authorities have surrendered to the Treasury, the principal borrower in the country. The Federal Reserve policy is nothing whatever at all

except to support the Treasury's desire to borrow these huge sums of money at a ridiculously low rate of interest, whatever the consequences otherwise to the public welfare of the country.

I submit that unless somebody does something about it we are in for a wonderful ride for a while on this big and expanding money supply, and then we are in for a depression—and what a depression it will be! Nobody wants that sort of thing, because if that kind of a crisis comes in the money of the United States, then all of these beautiful pictures that His Honor has been painting tonight about the history of this country, about this great republic, will fall in smash, and only a dictatorial government can pull us through.

If we are not to have this hap-

pen then the Congress of the United States ought to study this matter promptly and thoroughly, ought to study the present situation of the money supply and the currency of the country, ought to study the operation of the Federal Reserve System to see if it operates as the Federal Reserve Act intended, and if not, to reorganize in and put it and the administrators of it in a position where they will operate it for the general good of the whole people of the United States, rather than for the good of a particular administration of the Treasury of the United States.

Now, just one other word. That was a fine reminder that His Honor gave you tonight, that this is a Republic that the Constitution

has given to us provided you wanted to preserve it. That does mean you and me; there is nobody else to do the job, unless we do our share individually and personally. Democracy is not something that is God-given; it is something you must work for. It is something that individuals must make for themselves. That is the reason that I so emphatically say to you that the trend towards centralized government, toward expert government on the banks of the Potomac should cease, and we should return to local government where representative government has a chance and where the people have an opportunity to participate in the preservation and administration of democracy.

World Bank Reports on Finances

Submits balance sheet and six months profit and loss statement to forty member governments.

The Executive Directors of the International Bank for Reconstruction and Development announced Jan. 30 that the financial statements of the Bank, which include the balance sheet as of Dec. 31, 1946 and the statement of profit and loss for the six months ended Dec. 31, 1946, have been submitted to the forty Member Governments.

During the three months ended Dec. 31, 1946, the subscribed capital stock of the Bank increased \$120,500,000 as a result of the increase of 750 shares in the subscription of France and the subscriptions for 350 shares by Colombia and 105 shares by Venezuela.

The balance sheet and profit and loss statement as of Dec. 31, 1946 follows:—

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT		
BALANCE SHEET, DEC. 31, 1946		
		Expressed in U. S. Dollars
ASSETS—		
Due From Banks—		
Member currency—United States	\$5,768,853.83	
Member currencies—other than United States—Note A	77,462,773.80	
		\$83,231,627.63
Investment Securities—		
United States Treasury Certificates of Indebtedness (at cost less provision for amort. of premium)	\$147,316,172.95	
Accrued interest	384,098.75	
		147,700,271.70
Receivable From Members—		
Non-negotiable, non-interest-bearing, demand notes—Note B		
Payable in member currency—United States	\$248,285,000.00	
Payable in member currencies—other than United States	290,218,289.68	
		\$538,503,289.68
Calls on subscriptions to capital stock—Note C—		
Due on or before Feb. 25, 1947:		
Payable in member currencies—United States	\$158,750,000.00	
Payable in member currency—other than United States	230,672,130.32	
Due prior to December 31, 1946—Note D	1,968,950.00	
Pending request for deferment—Note E	596,000.00	
Payments deferred—Note F	6,777,500.00	
		398,764,580.32
Uncalled Subscriptions To Capital Stock—		
Payable in member currency—United States	\$158,750,000.00	
Payable in member currencies—other than United States	230,775,000.00	
Payable in gold, United States dollars, or other currencies required to meet obligations of the Bank	6,232,400,000.00	
		6,621,925,000.00
Miscellaneous Assets		47,859.28
Total Assets		\$7,790,172,628.61
LIABILITIES AND CAPITAL		
Liabilities—		
Accounts payable and accrued expenses	\$129,809.00	
Deferred credit—Note G	100,000.00	
		\$229,809.00
Capital—		
Capital stock—\$100,000 par value—Authorized 100,000 shares—Subscribed 77,905 shares	\$7,790,500,000.00	
Deduct: Deficit—		
Balance, July 1, 1946	\$125,158.36	
Excess of expense over income for the six months ended December 31, 1946	432,022.03	
		557,180.39
Net Capital		\$7,789,942,819.61
Total Liabilities and Capital		\$7,790,172,628.61

Note A—Converted to U. S. dollars at rates of exchange in effect on dates of deposit.

Note B—Member Governments were permitted, upon the approval of specified documents, to substitute non-negotiable, non-interest-bearing, demand notes for such amounts of currencies required to be paid on the 3% and 5% stock subscription calls payable on or before Nov. 25, 1946, as were not then necessary in the operations of the Bank. The amount of such currencies for which notes could not be substituted was 1% of 18% of the subscription of each member.

Note C—2% of the subscription to the capital stock of the Bank was payable in gold or United States dollars, 1/100th of 1% of the subscription being payable at the time the agreement was signed and the balance being payable on or before Aug. 25, 1946. 3% and 5% of such subscriptions, payable in the currency of the respective members of the Bank, were called as of June 25, 1946, and Sept. 25, 1946, respectively, for payment on or before Nov. 25, 1946. A further 5% of such subscriptions, payable in the currencies of the respective mem-

bers, was called as of December 25, 1946, for payment on or before Feb. 25, 1947.

Note D—As of Dec. 31, 1946, Honduras and Uruguay had not paid the 8% calls which were payable in their currencies on or before Nov. 25, 1946, and Venezuela, which became a member on Dec. 30, 1946, had paid on its subscription only the initial deposit of 1/100th of 1% thereof. Subsequent to Dec. 31, 1946, Uruguay has advised that it has made arrangements to make payment at an early date.

Note E—Yugoslavia has requested deferment of the balance of 1 1/2% of its subscription pursuant to Art. II, Section 8 (a) (ii). This request is still under consideration.

Note F—Deferment until March 24, 1947, of the balance of 1 1/2% of the subscription of Czechoslovakia has been approved pursuant to the provisions of Art. II, Section 8 (a) (ii). Deferments until June 25, 1951, have been granted to five members for the payment of 1/2% of their subscriptions pursuant to the provisions of Art. II, Section 8 (a) (i).

Note G—Costa Rica has paid 5% of its subscription which has not yet been called.

STATEMENT OF PROFIT AND LOSS FOR THE SIX MONTHS ENDED DEC. 31, 1946

Income—		
Interest earned on investment securities		\$289,889.57
Deduct:		
Expenses—		
Salaries:		
Executive Directors and Alternates	\$128,020.65	
Officers and others	233,206.16	
		\$361,226.81
Expense allowances—Executive Directors and Alternates		3,882.06
Provision for taxes on salaries and expense allowances		59,399.98
Travel:		
Transportation and moving to and from seat of Bank—Executive Directors and Alternates	\$6,982.04	
Board of Governors and Alternates	51,100.80	
Executive Directors and Alternates	5,424.68	
Others	16,712.76	
		80,220.28
Rental of office quarters		31,744.04
Furniture and equipment purchased		75,453.57
Stationery, printing and supplies		27,289.83
Cable charges		5,566.80
Repairs, maintenance and alterations, rented quarters		12,736.98
Handling charges and storage of gold		41,078.33
Expenses (other than travel) annual meeting Board of Governors		10,455.21
Miscellaneous expenses		12,857.73
		721,911.60
Excess of Expense over Income		\$432,022.03

Income Payments to Individuals at New High in November

Income payments to individuals rose to a new high in November, the Department of Commerce announced on Jan. 13—The Department's index of income payments, which makes allowance for seasonal influences, mounted to 259.3 in November from October's previous high of 254.5 (1935-39=100). This made the fifth straight month in which the index of individual incomes exceeded the wartime peak of 245.2 reached in February, 1945. The November index represents a 13% increase in the postwar low of September, 1945. The Department under date of Jan. 13 added:

"Income payments to individuals include wages and salaries, net incomes of unincorporated business (both farm and non-farm), dividends and interest, net rents received by landlords, and other types of individual incomes. Agricultural income which has been the dominant factor in the increase of total income payments over the last five months continued to rise in November. Although prices received by farmers declined slightly, a less than seasonal drop in the volume of crop and livestock marketings boosted cash income above October levels. "Non-agricultural income payments, which comprise the bulk of income payments to individuals,

also expanded during November. Rising factory payrolls and increased disbursements by trade and service establishments more than offset the continued decline of military and federal civilian payrolls and the loss of wages to bituminous coal miners resulting from the work stoppages which began in November.

"For 11 months of 1946 income payments, to individuals were equivalent to the annual rate of \$163.7 billion, almost 2% above the 1945 annual total of \$160.7 billion. The decline of wage and salary income, which for 11 months of 1946 was 6% below the comparable 1945 period, is wholly attributable to shrinking military and federal civilian payrolls. Wage and salary payments made by private industry in this period were more than 6% greater than during the 1945 period.

"Total income payments to individuals in November were equivalent to an annual rate of \$174.2 billion, compared with the annual rate of \$170.9 billion in October and of \$158.3 billion in November, 1945."

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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 debts 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 Power Club Bulletin, Inc., Paterson, N. J. (3/1)

Feb. 4 (letter of notification) 5,000 shares of common stock (no par). Underwriters—None. Price—\$15 per share. To publish a bulletin for and about aviation, etc.

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.

● Ameri-Cana Mines Inc., New York (2/7)

Jan. 31 (letter of notification) 240,000 shares (\$1 par) capital stock. Price, \$1.25 a share. No underwriters. For mine development, etc.

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 100,000 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.

● Atlas Imperial Diesel Engine Co., Oakland, Calif.

Jan. 27 (letter of notification) 8,500 shares common on behalf of Lucille E. Simon, Los Angeles. Price—At market. No underwriting at present. If underwriter is selected, name will be supplied by supplemental letter. Proceeds—Go to the selling stockholder.

● Australia (Commonwealth of) (2/19)

Jan. 30 filed \$45,000,000 of 15-year 3½% bonds, due 1962. Underwriter—Morgan Stanley & Co., New York. Price—By amendment. Proceeds—Proceeds will be used to redeem \$44,902,000 of Commonwealth of Australia 4½% gold bonds external loan of 1928, due May 1, 1956. In lieu of cash payment for bonds, the Commonwealth will accept from the underwriters Commonwealth of Australia 4½% gold bonds external loan of 1928, due May 1, 1956, with coupons due May 1, 1947 and subsequently, at 102¼%.

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.

● Bassett (Pa.) Furniture Industries

Jan. 30 (letter of notification) 2,941 shares of common. Underwriter—Scott, Horner & Mason, Inc., Lynchburg, Va. Price—\$34 a share. To be sold on behalf of J. D. Bassett, Jr., 1st Vice-President.

Beaunit Mills, Inc., New York

Sept. 27 filed 180,000 shares (\$2.50 par) common. Underwriter—White, Weld & Co., New York. Price—By amendment. Proceeds—Of the total, 140,000 shares are being sold by St. Regis Paper Co., New York, and the remaining 40,000 shares are being sold by I. Rogosin, President of Beaunit Mills, Inc.

Berbiglia, Inc., Kansas City, Mo.

Sept. 12 (letter of notification) 41,000 shares of 5% cumulative convertible \$6 par preferred. Offering price, \$6 a share. Underwriter—Estes, Snyder & Co., Topeka, Kans. To pay outstanding indebtedness and expenses and to open five additional stores in Kansas City, Mo. Offering postponed indefinitely.

Berg Plastics & Die Casting Co., Inc. (2/7)

Oct. 31 (letter of notification) 74,531 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.

● Berkey & Gay Furniture Co., Grand Rapids, Mich.

Feb. 3 filed 733,575 shares (\$1 par) capital stock. Underwriting—None. Offering—Company said all of the shares are issued and outstanding. The purpose of the registration statement is to enable holders to effect sales by use of the prospectus.

Berkey & Gay said the shares had been sold in 1944 and 1945 to a group of about 50 persons who represented they were purchasing the shares for investment and not for distribution.

So far, 231,204 shares have been sold in the open market and the Commission had raised the question as to whether such sales had the effect of making the entire offering public. The Commission staff stated that regis-

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NEW ISSUE CALENDAR*(Showing probable date of offering)***February 7, 1947**

Ameri-Cana Mines, Inc. Capital Stock
 Berg Plastics & Die Casting Co. Common
 Piasecki Helicopter Corp. Capital Stock

February 10, 1947

Ross-Frederick Corp. Common

February 11, 1947

Forest Units, Inc. Common
 Missouri-Kansas-Texas Equip Trust Cdfs.
 New York Central RR Stock
 United Air Lines, Inc. Preferred

February 12, 1947

Miller & Rhoades, Inc. Preferred

February 13, 1947

Gordon Foods, Inc. Common
 Wheeling & Lake Erie Ry.
 Noon (EST) Equip Trust Cdfs.

February 14, 1947

Highway Automobile Association Common

February 15, 1947

Morton Oil Co. Common

February 19, 1947

Australia, Commonwealth of Bonds
 Southwestern Public Service Co. Pref & Common
 York Corp. Preferred

February 20, 1947

Deerfield Packing Corp. Debentures and Pref.
 Hercules Steel Products Corp. Common

March 1, 1947

Air Power Club Bulletin Inc. Common

March 3, 1947

Book-of-the-Month Club, Inc. Capital Stock

tration is required if any of the remaining 733,575 shares are to be sold. Price—At market. Proceeds—Go to selling stockholders. Business—Manufacture of furniture.

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.

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., N. Y. (3/3-7)

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.

Capewell Manufacturing Co., Hartford, Conn.

Feb. 3 (letter of notification) 29,968 shares (\$5 par) common. Price, \$7.50 a share. No underwriting. To reduce bank loans.

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.

Canyon Lode Mining Co., Walla Walla, Wash.

Jan. 27 (letter of notification) 1,500,000 shares of common. Price—10 cents a share. No underwriting. For mine development.

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 7½ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. Proceeds—Working capital, etc. Offering indefinitely postponed.

Chadbourn Hosiery Mills, Inc., Charlotte, N. C.

Jan. 30 (letter of notification) 800 shares (\$1 par) common on behalf of R. H. Moeller, Vice-President. Underwriter—J. S. Dickson & Co., Charlotte. Price—\$12 a share. Proceeds go to the selling stockholder.

Chesapeake Airways, Inc., Salisbury, Md.

Jan. 30 (letter of notification) \$75,000 2-year 4½% convertible notes to be offered to stockholders at par. No underwriting. For acquisition of property or improvements, discharge of all bank loans.

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 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.

Columbia Aircraft Products Inc.

June 26 filed 150,000 shares (\$4 par) 30¢ 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 59,585½ 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 90,414½ shares and 58,850½ shares not subscribed to by common stockholders will be offered to the public through underwriters. Price—\$5 a share. Proceeds—Approximately \$50,000 for payment of Federal taxes; \$250,000 for payment of Lincoln-RFC loan; \$50,000 as a loan to Palmer Brothers Engines, Inc., a subsidiary; balance for purchase of machinery and equipment and working capital.

Commonwealth Telephone Co., Madison, Wis.

Sept. 23 filed 16,071 shares (\$100 par) \$4 cumulative preferred. Underwriters—Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. Offering—Shares will be offered for exchange for \$5 cumulative preferred, on a share for share basis, plus cash adjustment. Shares not exchanged will be sold to underwriters. Price by amendment. Proceeds—To redeem at \$110 a share, plus divs., all unexchanged old shares.

Continental Car-na-var Corp.

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.

Christina Mines, Inc., New York

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.

Dearborn Homes, Inc., Lawrenceburg, Ind.

Jan. 27 (letter of notification) 1,000 shares (\$100 par) common and 1,000 shares 4% (\$100 par) preferred. Price—\$100 per share. No underwriting. To finance business of company.

Deerfield Packing Corp., Bridgeton, N. J.

(2/20-21)
 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.

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.

Diamond Portl'd Cement Co., Middle Branch, O.

Jan. 31 (letter of notification) 24,000 shares (\$1 par) common. Underwriter—Merrill, Turben & Co., Cleveland. Price—\$12.50 a share. To finance general rehabilitation and expansion program.

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 incorporated 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.

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, (Continued on page 782)

UNDERWRITERS—DISTRIBUTORS—DEALERS

Industrial, Public Utility, Railroad
and Municipal Securities**Hemphill, Noyes & Co.**

Members New York Stock Exchange

NEW YORK	ALBANY	CHICAGO	INDIANAPOLIS
PHILADELPHIA	PITTSBURGH	TRENTON	WASHINGTON

(Continued from page 781)

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

Florida Airways, Inc., Orlando, Fla.

Jan. 27 (letter of notification) 60,000 shares (\$1 par) common. Price—\$5 a share. No underwriting. To retire indebtedness, purchase hangar, shop and equipment and to provide working capital.

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—Cohn & Torrey. Price by amendment.

Forest Park Homes, Inc., Bridgeport, Conn.

Jan. 30 (letter of notification) \$300,000 of 5% non-cumulative preferred. Price—\$50 a share. No underwriting. For junior financing of garden apartment development in Bridgeport, Conn.

Forest Units, Inc., New York (2/11)

Feb. 4 (letter of notification) 91 shares of common stock. Underwriters—None. Price—\$500 per share. Proceeds—For purchase of plot of land, Forest Hills, N. Y., as well as building erected or to be erected thereon.

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.

Glenclair 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 (10¢ 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.

Gordon Foods, Inc., Atlanta, Ga. (2/13-14)

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.

Greater Southwest Corp., Dallas, Texas

Jan. 27 (letter of notification) 5,500 shares (\$10 par) 6% preferred. Price—\$10 a share. Underwriting—To be sold by W. W. Greer, President, on behalf of the company. To provide expansion capital.

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.

Hastings (Mich.) Manufacturing Co.

Jan. 31 (letter of notification) 300 shares (\$2 par) common on behalf of Peter De Paolo, Los Angeles. Price, \$16 a share. No underwriting. Proceeds go to selling stockholder.

Hathaway Bakeries, Inc., Cambridge, Mass.

Jan. 15 filed 120,020 shares (\$1 par) common. Underwriters—James S. Borek, 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 (10¢ 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.

Highway Automobile Association, Camden, N. J. (2/14)

Feb. 4 (letter of notification) 7,500 shares of common stock (par \$10). Underwriters—None. Price—\$10 per share. Proceeds—To be used to advertise, open and operate branch offices throughout New Jersey, etc.

Hines-Frederick Corp., Washington, D. C.

Jan. 27 (letter of notification) 25,000 shares (\$10 par) preferred and 25,000 shares (\$1 par) common. Price—\$11 per unit, consisting of one share of each. No underwriting. For working capital.

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 (letter 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 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.

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.

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.

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.

Lapaco Chemicals, Inc., Lansing, Mich.

Jan. 27 (letter of notification) 21,666 shares (\$1 par) common. Price—\$2 a share. No underwriting. For plant expansion and working capital.

Macco Corp., Clearwater, Calif.

Jan. 31 (letter of notification) 1,200 shares (\$1 par) capital. Shares will be sold by Edward A. Pellegrin, a director, to Dean Witter & Co., Los Angeles. Cover short account for sales previously made to public. Proceeds go to the selling stockholder.

Macco Corp., Clearwater, Calif.

Jan. 31 (letter of notification) 1,000 shares (\$1 par) capital. Stock to be sold by Fred H. Brown, Vice-President, Treasurer and director, to Dean Witter & Co. to cover short account. Proceeds go to the selling stockholder.

Mada Yellowknife Gold Mines, Ltd., Toronto

June 7 filed 250,000 shares of capital stock (par 40¢). Underwriters—Mark Daniels & Co. Offering—Stock will be offered publicly in the U. S. at 40¢ 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.

Maple Leaf Gold Mining Co., Inc., Spokane, Wash.

Jan. 24 (letter of notification) 400,000 shares of common. Price—15 cents a share. Underwriting—Ernest H. Carl-

son, President of company, and Lane G. Candler, a director. For exploration and development of mining property.

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 3 3/4% 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 3 1/2% 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.

Miller & Rhoads, Inc., Richmond, Va. (2/12)

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.

Morton Oil Co., Casper, Wyo. (2/15)

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.

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 4 1/4% preferred stock at \$109 a share plus dividends. Indefinitely postponed.

Mutual Aviation, Inc., Buffalo, N. Y.

Jan. 29 (letter of notification) 30,000 shares (\$1 par) capital stock. To be offered to public at \$3 a share and for subscription to stockholders at \$2.25 a share in ratio of one share for each 10 shares held. No underwriting. For equipment.

Nampa Tower Hotel, Inc., Nampa, Idaho

Jan. 20 (letter of notification) 30,000 shares (\$10 par) stock. Price—\$10 a share. To be sold through agents, names not disclosed. For construction and equipment of hotel.

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 License Plate Corp., Boston

Jan. 31 (letter of notification) 75 shares of common. Price, \$180 a share. No underwriters. For development of patented license plates and cases.

National Plumbing Stores Corp., New York

Jan. 15 (letter of notification) \$250,000 15-year 3 1/2% 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 alternate 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.

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) 4 1/2% 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 87,000 outstanding preferred shares of Pacific and the 47,800 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. Marلمان to all salaried employees. Issue may be withdrawn.

Palmetto Fibre Corp., Washington, D. C.

August 16 filed 4,000,000 shares (10c 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.

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.

Piasecki Helicopter Corp., Sharon Hill, Pa. (2/7)

Jan. 30 (letter of notification) 31,811 shares of capital stock. To be offered for subscription to stockholders. Underwriters—None. Price—\$9.30 per share. Proceeds—For working capital, etc.

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.

Quebec Gold Rocks Exploration Ltd., Montreal

Nov. 13 filed 100,000 shares (50c par) capital stock. Underwriter—Robert B. Soden, Montreal, director of company. Price—50c 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.

Rayner Publishing Co., New York

Jan. 28 (letter of notification) 500 shares each of \$100 par 5% preferred and \$1 par common. Price—\$101 per unit (presumably one share of preferred and one share of common). To be sold through officers of company. For publication of magazine, "American Culture."

(Continued on page 784)

(Continued from page 783)

● **Raytheon Manufacturing Co., Newton, Mass.**

Feb. 3 (letter of notification) 1,050 shares (\$5 par) common. Price, at market. No underwriting. Proceeds to be added to general funds.

● **Refrigerated Cargoes, Inc., New York**

Feb. 3 filed 25,000 shares (\$100 par) 6% cumulative preferred and 25,000 shares (no par) common. Underwriter—John Martin Rolph, Vice-President and director of company. Price—The stocks will be sold at \$105 per unit consisting of one share of preferred and one share of common. Proceeds—To be used in organization of business. Business—Transportation of fruits and vegetables by means of refrigerated vessels and trucks.

● **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. 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.

● **Rochester Consolidated Mines Co., Dayton, Nev.**

Jan. 28 (letter of notification) 50,000 shares of capital stock. Offering—25,000 shares at 45 cents each and 25,000 shares at 50 cents each. No underwriting. For mining operations.

● **Ross-Frederick Corp., Mineola, N. Y. (2/10)**

Feb. 3 (letter of notification) 300,000 shares of common stock (par \$1). Underwriters—None. Price—\$1 per share. Proceeds—For working capital and purchase of new tools, dies, patents and development of new products.

● **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.

● **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.

● **Signature Recording Corp., New York**

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.

● **Signature Recording Corp., New York**

Feb. 3 (letter of notification) voting trust certificates for 405,600 shares of preferred (par 25¢) and 489,400 shares of common (par 25¢). David Coleman and Robert Thiele, trustees.

● **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.

● **Southwestern Public Service Co., Dallas, Texas (2/19)**

Jan. 31 filed 20,000 shares (\$100 par) cumulative preferred and 64,438 shares (\$1 par) common. Underwriter—Dillon, Read & Co., Inc., New York. Offering—Preferred shares will be offered publicly. The common shares initially will be offered for subscription to common stockholders. The subscription rate will be disclosed by amendment. Unsubscribed shares will be offered to the public. Price—By amendment. Proceeds—Net proceeds, together with other funds, will be used for construction of additions and improvements to properties of the company. It anticipates spending approximately \$9,300,000 for expansion program during fiscal year ending Aug. 31, 1947. Of this amount \$1,734,801 was expended up to last Nov. 30.

● **Standard Factors Corp., New York**

Feb. 3 filed \$250,000 of 4¾% 15-year convertible subordinated debentures, due 1960, and 60,000 shares (\$1 par) common. Underwriter—Sills, Minton & Co., Inc., Chicago. Price—By amendment. Proceeds—For additional working capital. Business—Commercial credit.

● **Stone Container Corp., Chicago**

Oct. 24 filed 300,000 shares of (\$1 par) common. Underwriter—Hornblower & Weeks, Chicago. Offering—Of the total, company is selling 200,000 shares and stockholders are selling the remaining 100,000 shares. Price by amendment. Proceeds—Of net proceeds, company will use \$1,225,000, plus a premium of \$12,250, together with accrued interest, for payment of a bank loan, and \$493,500, together with accrued interest, for discharge of its 10-year 6% debentures. Any balance will be added to working capital.

● **Street & Smith Publications, Inc.**

July 17 filed 197,500 shares of common stock. Underwriters—Glore, Forgan & Co. Offering—The offering represents a part of the holdings of the present stockholders. Indefinitely postponed.

● **Swern & Co., Trenton, N. J.**

Aug. 28 filed 195,000 shares common stock (par \$1). Underwriter—C. K. Pistell & Co., Inc. Offering—Company is selling 45,000 shares, and eight selling stockholders are disposing of the remaining 150,000 shares. Price—\$10.50 a share. Proceeds—From 45,000 shares sold by company will be applied to working capital initially. Offering date indefinite.

● **Tinto Mining & Development Co., Inc., Goodsprings, Nev.**

Jan. 27 (letter of notification) 25,000 shares (\$1 par) common. Price—\$1 a share. No underwriting. For prospecting and developing ore deposits.

● **Toledo (O.) Edison Co.**

Oct. 25 filed \$32,000,000 first mortgage bonds, due 1976, and 160,000 shares of (\$100 par) cumulative preferred. Underwriters—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; and Smith, Barney & Co. Price to be determined by competitive bidding. Proceeds—Net proceeds together with \$4,500,000 bank loan and if necessary, the \$5,000,000 to be contributed by its parent, Cities Service Co., will be used to redeem outstanding debt and preferred stock, involving a payment of \$53,906,590, exclusive of interest and dividends.

● **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.

● **Tri-United Plastics Corp., Irvington, N. J.**

Jan. 28. 20,000 shares (50c par) common on behalf of Samuel Saline, New York. Price—At market. No underwriting. Proceeds to go to the selling stockholder.

● **United Air Lines, Inc. (Chicago) (2/11)**

Jan. 20 filed 94,773 shares (\$100 par) cumulative preferred. Underwriting—Harriman Ripley & Co., New York. Offering—Common stockholders of record Feb. 11 will be given the right to subscribe for the stock in the ratio of one share for each 19.5 shares of common held. Rights expire Feb. 25. 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 to public for preferred \$5 per share. Employees will be permitted to purchase preferred at \$4.50 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 conversion 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.

● **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.

● **York (Pa.) Corp. (2/19)**

Jan. 30 filed 160,000 shares (\$50 par) cumulative convertible preferred. Underwriters—Union Securities Corp. and Stone & Webster Securities Corp., New York. Price—By amendment. Proceeds—Proceeds will be used to prepay \$7,000,000 of bank term loan notes. The balance will be added to general funds. Business—Engaged in refrigeration and air conditioning business.

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)

● American Tobacco Co.

Feb. 5 reported company planning an issue of substantial proportions, thus placing it in a position to take care of its inventory requirements, which have been financed through bank loans. Traditional underwriter, Morgan Stanley & Co.

● Australia, Commonwealth of

Feb. 1, the next and final step in Australia's refunding plan will come, probably in June, with an offering to replace the \$36,000,000 of 5s due 1957. These bonds will become subject to call on Sept. 1 at 102. Probable underwriter, Morgan Stanley & Co.

● Belgium, Kingdom of

Feb. 4 rumored that plans are being discussed for floating a sizable bond issue in the American market, with Morgan Stanley & Co. as probable underwriters.

● Denmark, Kingdom of

Feb. 4 press reports state that informal discussions have taken place with New York bankers for the flotation in the American market of an issue of bonds. Morgan Stanley & Co. may be underwriters.

● Idaho Power Co.

May 7 stockholders will vote on authorizing an additional 100,000 shares of preferred stock and 450,000 shares of common stock. The additional shares are to be sold publicly from time to time to finance a substantial portion of the cost of extensive property expansion now under way. The management proposes to offer the new stock in amounts small enough not to jeopardize its dividend policies, yet sufficient to meet cash requirements for construction.

● Iowa-Illinois Gas & Electric Co.

Feb. 4 company filed an application with the SEC seeking authorization to sell, competitively, \$22,000,000 of first mortgage bonds due in 1977. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glone, Forgan & Co.; Blyth & Co., Inc.; Harriman Ripley & Co.

● Missouri-Kansas-Texas RR. (2/11)

The company has issued invitations for bids to be received Feb. 11 for \$3,900,000 1-to-15-year equipment trust certificates. The certificates are designed to finance a portion of the purchase price of new equipment costing an estimated \$4,875,000. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Brothers & Hutzler.

● Montreal (City of)

Feb. 5 expected early filing with SEC of registration statement covering \$77,811,000 new bonds for purpose of retiring outstanding higher cost debt. The First Boston Corp. is expected to head the underwriting group.

● Netherlands, Kingdom of

Feb. 4 rumored that plans may be revived for a sizable bond issue, probably \$50,000,000, to be floated in the American market by a syndicate of investment banking houses headed by Kuhn, Loeb & Co.

● 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.

● Norway, Kingdom of

Feb. 4 press reports state that discussions with American bankers have taken place for the issuance of between \$10,000,000 and \$20,000,000 "new money" loan in the American market. Probable underwriter, The First Boston Corp. or Harriman Ripley & Co.

● Public Service Co. of Colorado

Feb. 1 J. E. Loiseau, President, stated that \$8,750,000 will be spent during 1947 for extension, construction, etc., which will necessitate raising new and additional capital. Probable underwriters of securities include The First Boston Corp. and Halsey, Stuart & Co. Inc.

● South Carolina Power Co.

Feb. 1 the South Carolina P. S. Commission approved company's proposal to sell publicly 200,000 shares of common stock. Proceeds of the sale would be used to help finance the company's construction program. All the 600,000 common shares now outstanding are owned by Commonwealth & Southern Corp. No definite plans have been formulated as yet with respect to sale of new common by South Carolina or to divestment of its stock held by the parent.

● Thrifty Drug Stores Co., Inc.

Jan. 23 stockholders approved splitting company's outstanding 300,000 shares of common stock (par \$1) into 600,000 shares (par 50¢), increasing the authorized cumulative (\$100 par) preferred stock from 49,214 shares to 100,000 shares and the 50-cent par value common stock to 1,500,000 shares.

● Wheeling & Lake Erie Ry. (2/13)

The company has issued invitations for bids to be received before noon (EST) Feb. 13 for \$1,680,000 in equipment trust certificates. The certificates will mature serially from Sept. 1, 1947 to March 1, 1957. Probable bidders, Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

UNITED STATES GOVERNMENT,
STATE, MUNICIPAL AND
CORPORATE SECURITIES

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Britain's Reassurance to U. S. on Loan Agreement

(Continued from page 746)

sterling balance settlements. These difficulties cannot, however, be regarded as justifying commitments which contravene the terms of the financial agreement. Otherwise, as I am sure you will agree, the entire agreement could be rendered meaningless.

Secondly, you point out that in the past Argentina has regularly been a large net earner of sterling and that the probability of a deficit between Argentina and the sterling area during the next four years is hypothetical. Your letter suggests, accordingly, that the inclusion of clause 1.B. (6) in the Anglo-Argentine Agreement has little practical significance. While this may prove to be the case, this argument overlooks the fact that clause 1.B. (6) itself may furnish an incentive to Argentina to incur a payments deficit vis-à-vis the sterling area. Moreover, I must confess that I am unable to reconcile with the spirit of the United States-United Kingdom Agreement any commitment which under certain contingencies, even though remote, might require action at variance with the Agreement.

Insists on Strict Observance

In the light of the not inconsiderable resistance that had to be overcome before we obtained Congressional ratification of the Financial Agreement, I think you can realize our concern over this matter and the importance we must attach to the fulfillment of the obligations undertaken therein by your Government. I am sure you will appreciate also the difficulties which must arise if future agreements involving settlements

of accumulated sterling balances should contain provisions similar in intent to that of clause 1.B. (6) of the Anglo-Argentine Agreement. I would therefore welcome some statement from you indicating that your Government has no intention of including such a clause in future agreements.

May I also point out that if and when there is reasonable probability that Argentina will incur a current deficit with respect to the sterling area, this Government would expect the United Kingdom to make appropriate adjustments with the Argentine Government, so that no discrimination at variance with the United States-United Kingdom Financial Agreement would in fact, arise.

I have spoken frankly because of my fear that instances of this kind, if permitted to recur, may make more difficult the maintenance of further development of those close and friendly relationships between our two countries which, I am sure both of us wish to foster.

Chancellor Dalton's Reply

On Feb. 4, Chancellor Dalton communicated to Secretary Snyder as follows:

Thank you for your letter of Jan. 27 about our agreement of Sept. 17, 1946, with Argentina. I am glad you have written frankly to me; I am more anxious than yourself to maintain and develop the most close and friendly relations between our two countries.

In your letter, you ask me for an assurance that, in future agreements about sterling balances, we have no intention of including

such a clause as clause 1.B. (6) of the Anglo-Argentine Agreement. I am happy to give you this assurance.

I also note that, if and when there is reasonable probability that Argentina would incur a current deficit with respect to the sterling area, the United States Government would expect the United Kingdom to make appropriate adjustments with the Argentine Government, so that no discrimination at variance with the U.S.-U.K. Financial Agreement would in fact arise. I can readily assure you that it would always be our desire to avoid such discrimination, though I feel bound to say once more that I think that this is a theoretical but not a practical contingency.

General Index Limited As Tax Relief Basis

Referring to a number of recent excess profits tax relief cases, the Excess Profits Tax Council ruled on Jan. 27 that corporations should not, except in unusual cases, use general business indexes as a measure for supporting their claims to tax relief. Use has erroneously been made by some corporations to prove that their own earnings should have been higher than they actually were in the so-called profits tax base period years.

The general indexes should be employed, the Council stated, only when other supporting data are not available. The Council thus gave its stamp of approval, advices to the "Journal of Commerce" from its Washington bureau pointed out, to earlier regulations by the Bureau of Internal Revenue which call for reconstructing base period earnings in the following order of preference:

1. The taxpayer's own experience;

2. The experience of a closely comparable concern;
3. The combined experience of several comparable concerns;
4. Appropriate industry experience.

The Council indicated, according to the same advices that:

"A general misapprehension of its position on the use of the business index had arisen as a result of the East Texas Motor Freight Lines case, in which the use of the index formula had been approved."

Likewise from the "Journal of Commerce" Washington advices we quote: "It is believed that its use in that instance may have led to the assumption that the use of this formula is acceptable as regular procedure," the Council commented, adding:

"However, this is not the case. The Council has made no change in the bulletin (issued by the Revenue Bureau) in this respect."

In another ruling, the Council denied a company could take account, in computing base period earnings, of the operations of new stores which it opened in early 1940, to which it was not already committed on Dec. 31, 1939. The ruling was made notwithstanding the fact that, due to its fiscal year, the company's base period extended to July 31, 1940.

House Passes Excise Freeze

Wartime levies on liquor, furs, jewelry and many other items are to continue indefinitely under provisions of legislation voted by the House on Jan. 29 by an overwhelming vote of 373 to 35, according to Associated Press Washington advices. If concurred in by the Senate the freezing of high excises indefinitely would prevent an automatic rollback July 1 that would cost the Treasury \$1,-

300,000,000 annually, according to the bill's author, Representative Grant (R.-Ind.), who also declared that the bill was necessary because many businesses were suffering while consumers delayed purchases in anticipation of reduced excises in July.

The proposed legislation, the same advices continued, would apply as follows:

Liquor—Prevent a drop in the excise levy July 1 from the present rate of \$9 a proof gallon to \$6.

Furs, Luggage, Jewelry and Toilet Preparations—Hold the tax at 20% retail, forestalling a reduction to 10%.

Admissions (to theaters, sports events, etc.)—Keep tax at 1 cent for each 5 cents charged, instead of a drop to 1 cent for each 10 cents paid at the ticket window.

Night Clubs—Continue at 20%, instead of 5%.

Wines—Varied tax reductions according to type would be forestalled.

Beer—Remain at \$8 a barrel, not dropping to \$7.

Telephone—Long distance, rate stays at 25%, not dropping to 20; local service, 15%, instead of 10%.

Transportation of Persons—15%, not 10%.

Dues and Membership Fees—20%, not 11%.

Initiation Fees—20%, not 11%.

Electric Light Bulbs and Tubes—20%, not 5%.

Domestic Telegraph, Cable or Radio Dispatches—25%, not dropping to 15%.

Leased Wires—25%, not 15%.

Wire and Equipment Service—3%, not 5%.

Billiard and Pool Tables and Bowling Alleys—\$20 per year per table or alley, not dropping to \$10.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Once again prices of government securities turned away from recent tops after several days, in which quotations were crowding these highs. . . . The market had been edging higher on good volume, as the January investment demand was making itself felt. . . . While there was no great scarcity of securities the demand was good, which brought about a moderate, but steady, advance in quotations. . . . As the market was moving on toward recent trading highs, there was more and more talk about the vulnerability of prices at these levels, that the monetary authorities did not like it too well to have quotations staying so long in that area. . . .

The talk about changes in the short-term rates became more vigorous and the recent remarks of a Central Bank official on this subject were given greater attention. . . . There was talk about intervention by the monetary authorities to keep prices from getting out of line, in order to prevent a recurrence of what had taken place last year. . . .

There were some well placed and apparently well supported arguments by some of the large dealers as to why the market should not go through recent tops, and was vulnerable to a sharp and sizable setback. . . . "Open Mouth Operations" were going great guns, and was a bit puzzling why prices remained around previous highs with all this bearishness in the situation. . . . The market was being talked down, but it had not given ground yet. . . .

NEW ISSUE REVIVAL

Then came published reports that a new issue of long-term bonds was due, and down went prices of government securities. . . . There was nothing definite, positive or official about this predicted new issue; it was merely a forecast that there would be an offering in the near future. . . . This was supposedly based on information obtained after some of the recent conferences between investment managers and Treasury officials. . . . The final blow came to the market in the form of this predicted new issue of long-term bonds. . . . There was, however, nothing in this forecast of a new offering of securities that was not already known by even casual followers of the money markets. . . .

"Open Mouth Operations" had laid the groundwork for a change in trend, and the predicted new offering was the clincher that tipped the market over. . . . "Open Mouth Operations" should not be confused with "Open Market Operations," although they both have an effect on the government market. . . .

These talking campaigns have been used to affect the action of the market in both directions, and this injects another element of control into the money markets. . . . As long as there are contingencies overhanging the situation, "Open Mouth Operations" can be useful to help create conditions that will serve the purposes of the powers that be. . . . It will be very much with us in the future. . . .

HOW LONG?

How effective and lasting will be the results of this campaign of talk that creates hesitation and then uncertainty remains to be seen. . . . The threat of a new issue of long-term bonds will tend to keep the market in line and prevent a runaway price advance such market because it could be used to stop the market on the up-side while talk of the abandonment of a new issue would tend to rally quotations. . . .

GAINS ELIMINATED

Prices of government issues moved down from their tops very sharply, on very light volume, with the most substantial amount of the decline in prices being accounted for by the drop in quotes. . . . The Feb. 1 money squeeze was a contributing factor to the decline along with a poor psychological market condition, as well as some lessening of demand as prices pushed ahead. . . . The recession wiped out about all the gains made since the end of last year, so that the effects of the January investment buying on the market have been quite fully eliminated. . . .

With quotations down to levels that were not considered too high, in the not distant past, there has been some short-covering, repurchases by sold-out bulls, as well as by institutional investors. . . .

SCALE PURCHASES

After a sharp setback such as this one, on very light or practically no trading, there is again a feeling of caution and even outright admissions on the part of some of the inability to figure out the future trend of prices. . . . This scarce has caused others to expect quotations to go back to the lower limits of the trading range. . . .

On the other hand, investment managers as a whole are looking for buying spots, which may be right here, or at slightly lower levels. . . . Scale purchases have been and will continue to be made. . . . The level of prices is favorable and, despite the uncertainties, the technical position of the market is good. . . .

NEW ISSUE NOT IMMINENT

Also until the budget has been decided on and expenses and income long-term issue, in the near future, there is very likely to be little if anything done until the trend of business and commodity prices is clearer than it will be for some months ahead. . . .

The Treasury does not need money and the passing of the inflation fear particularly, among the monetary authorities, is quite likely to mean that debt reduction will be confined pretty much to maturities and very little resort to refundings through the sale of long-term issues to non-banks, unless inflationary trends should develop. . . .

Also until the budget has been decided on and expenses and income agreed upon, the Treasury is not in a position to do very much. . . . Cash surpluses of the trust funds must likewise be known in order to gauge the amount of debt that can be retired. . . . While it is believed that about \$5 billions of debt could be retired this year, the amount and the aggressiveness of the debt elimination policy will be determined by basic economic conditions. . . . A recession in business would not be helped by deflationary decreases in bank deposits. . . .

Then again there are levels below which the short-term hold-

ings of the banks should not go, which could result from a too rapid retirement of the debt. . . .

Also there seem to be enough government securities available for sale to keep prices from running away, which would appear to make unnecessary an immediate issue of long-term securities for market control purposes. . . . In fact all that has been needed is to talk about a new long-term issue, and down go prices. . . .

KATE DEFROSTING

Defrosting the certificate rate is a very important topic of discussion and one of the many uncertainties that are being kept alive apparently for market control purposes. . . . Here again any change in this rate seems to be very much dependent upon the Treasury's own position of income and outgo and cash surplus, which are not yet clear. . . . Political consequences are probably the most important factors, since the struggle to reduce expenditures and thus cut taxes, does not allow for increased debt charges, which would be the case with higher certificate rates and long-term high coupon bonds, for debt retirement. . . .

An increase in the debt burden would not be exactly a vote-getting measure, and since both parties have their eyes on 1948, there will probably be a very careful weighing of the indicated effect of such an increase in interest charges, before they take place. . . .

The position of the money markets as well as the government securities market, must also be considered in making a change in the certificate rate. . . . Would split rates hinder "roll overs", would they have an adverse effect on the whole debt conversion program? What would happen to long-term interest rates, with short-term rates going up? . . .

WORTH READING

One of the large conservative New York City commercial banks in a brochure entitled "A Study of Certain Factors Affecting Bank Eligible Bonds," has some pertinent and timely remarks about the eligible issues, that should be of interest and value to all investors. . . .

It indicates that unless there is a satisfactory expansion of loans or the Treasury issues some intermediate-term securities eligible for the commercial banks, there could develop between now and 1951 a scarcity of bank eligible obligations. . . .

Savings Bank Asset Gains in 1946

Assets of the 531 mutual savings banks in the United States increased \$1.7 billions during 1946 according to A. George Gilman, President of the National Association of Mutual Savings Banks. This brings mutual savings bank assets to a new high total of \$18 2/3 billions. The advices from the Association on Jan. 27 further reported:

"The largest part of the increase in assets was reflected in an addition of more than \$1 billion to investments in United States Government securities. Holdings of mortgage loans, of cash, and of non-governmental securities also increased. Changes for the year are shown in the following table:

	Dec. 31, 1946	Dec. 31, 1945	Changes
	(millions of dollars)		
Cash	815	606	+ 209
U. S. Gov't Securities	11,745	10,650	+1,095
Other Securities	1,373	1,257	+ 116
Mortgage Loans	4,451	4,202	+ 249
Other Loans	75	62	+ 13
Other Assets	203	185	+ 18

Total Assets ---- 18,662 16,962 +1,700

"The year 1947 will certainly afford substantial opportunities to invest more widely in mortgage loans," Mr. Gilman stated. "I welcome the resurgence of greater emphasis on this traditional form of investment for savings bank funds."

Treasury Gives Tax Refund in Portal Suits

Treasury Secretary Snyder on Jan. 22 announced, in response to a request by a company not identified, a ruling that employers who must pay back wage claims under portal-to-portal suits may charge the payments off against taxes for the year involved. Inasmuch as corporate taxes were considerably higher through 1945 than since that time, because the excess profits tax was then in effect, higher refunds will be the result than if the deductions were taken from current tax rates, the Associated Press pointed out in its dispatch from Washington. The press advices also said:

"The excess profits tax imposed a net levy of 85 1/2% on corporate earnings above the 1936-1939 average. The regular income tax for corporations through 1945 was 40%. Effective with 1946 earnings,

corporations pay a regular rate of 38% and no excess profits tax."

The following is the statement of the Treasury Department ruling:

"After careful consideration, in view of the circumstances herein outlined, it is held, under the authority conferred in the last clause of the excerpt from Section 43 hereinbefore quoted, that taxpayers may be permitted to allocate the amounts of overtime pay and liquidated damages for prior taxable years necessitated by the decision in *Anderson v. Mount Clemens Pottery Company*, *supra*, to the year or years in which the services to which such payments relate were rendered.

"For the purposes of this ruling, all suits which have been filed against employers and all answers or other pleadings thereto filed by employers may be regarded as directed to the ascertainment of the proper amount of overtime work to be compensated for rather than as a denial or contest of the fact of liability or the fundamental basis of computation."

Sale of U. S. Wool Under Parity Urged

Secretary of Agriculture Anderson told the House Agriculture Committee on Jan. 22 that because of the restriction against selling government-owned wool at less than parity prices, imported wool, free of sales restrictions, is crowding American wool from the market, and requested that Congress immediately pass legislation permitting the sale of government stocks under parity. Mr. Anderson informed the Committee, according to an Associated Press dispatch from Washington, that Commodity Credit Corporation owns about 460,000,000 pounds of wool out of more than 1,250,000,000 pounds purchased since 1943, and that with the increase in parity in recent months the government selling price has been forced up sharply. As a consequence, the Secretary continued, American mills are buying large quantities of imported wools because they are cheaper. A "disastrous" situation may result two years from now if the government owned wool is put on the market at the end of the parity price control program, Mr. Anderson declared. (Parity is calculated to give a farmer a favorable return for his products, in terms of what he has to pay for goods.)

Reminding the Committee that

the wool purchase program expires April 15, the Agriculture Secretary stated that it would not be continued "unless Congress especially directs us to do so."

Hails Women's Conference

President Truman sent a message to the Women's Patriotic Conference on National Defense to greet the members on the occasion of their 21st annual conference and express praise for the united purpose of the 29 organizations represented, according to Associated Press Washington advices of Jan. 24. The President assured the conference that it was "performing a most useful public service." The Associated Press quoted the President as saying:

"The policy of this nation continues to be one of firmness and patience in the right. To that cause is dedicated the united will of our citizens. In helping to express our united will, the Women's Patriotic Conference on National Defense is performing a most useful public service."

From the Associated Press account, as given in the New York "Times" we also take the following:

Among the organizations participating are the American Legion Auxiliary, the Daughters of the American Revolution, National Society Daughters of the Union, Ladies of the Grand Army of the Republic, National Society Daughters of the Revolution, National Ladies Auxiliary of the Jewish War Veterans, Gold Star Mothers, National Auxiliary of United Spanish War Veterans.

"Instalment Loans to Small Business"

Robert M. Hanes, Chairman of the Small Business Credit Commission of the American Bankers Association, who is also President of the Wachovia Bank & Trust Co., of Winston-Salem, N. C., announced on Jan. 15 the publication of a new bank study entitled "Instalment Loans to Small Business," sponsored by the Small Business Credit Commission of the ABA and prepared by the Committee on Consumer Credit, which will be available to member banks of the Association upon request. Whether or not we can maintain high levels of production, consumption, and employment in the years ahead, or whether we return to the normal of the 30s after our immediate wants are supplied, said Mr. Hanes will depend entirely on the joint effort of distribution and finance. He also stated in part:

"We are now in a period of new competition, new products, new markets, new customers, new wholesalers and retailers, new merchandising methods, new packaging and display ideas, and new lending requirements. These trends offer an opportunity for real service and profits to bankers all over the country. It is an obligation of banking to invite small business operators to discuss their financial needs and to give them the benefit of sound advice when a loan is not the solution to their problem." The advices of the Association also state:

"A recent study made by the Consumer Credit department of the American Bankers Association shows that 6% in number, and 10% in amount of loans now routed through the consumer credit and instalment loan departments of banks are actually small business loans. Many banks have done considerable research work and have developed the philosophy and credit formulas applicable to this type of lending. These banks, and thousands of others, have been serving small business through the medium of instalment credit; but, with few exceptions, none have analyzed their experience and formalized this type of lending."

Our Reporter's Report

The rank and file of underwriters and dealers though content that volume business will develop in due course, are riding high under wraps currently with a smattering of new issues absorb their time. Flotations have been relatively light since the turn of the year and there is no present indication when the tide of new offerings may be expected to start running over swiftly.

Not the least of the reasons for the prevailing dullness, according to people who get around and hear things, is the disposition on the part of the underwriters themselves toward ultra caution.

Evidently some of the more venturesome, judging by conjecture, took rather severe licks when the market suddenly backed up early last fall leaving them with pretty full shelves.

And there is no disposition to encounter repetition of that experience. Meanwhile many prospective issuers are not of a mind to undertake the sale of new securities under prevailing conditions.

Apparently they would rather chance waiting for more propitious conditions marketwise than to adjust their ideas to price levels now prevailing. This becomes evident from the recent report by the Securities and Exchange Commission on withdrawals of registrations.

The Commission's report showed that a total of 60 registrations have been withdrawn since the market break, covering an aggregate value of \$236,000,000 in contemplated securities.

Oklahoma Sale Deferred

Standard Gas & Electric, though citing no particular reason, has decided to defer sale of its holdings of Oklahoma Gas & Electric

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Co. common stock until after the middle of the month.

This business, involving a total of 890,000 shares, including 140,000 shares for the account of Oklahoma Gas itself, had been expected to be up for bids late this week.

Last indications were that three large groups would seek this business and there is nothing to suggest any change in the banking line-ups as a consequence of the delay in marketing.

New York State Electric & Gas

Lively bidding marked the sale, in competition, on Tuesday of New York State Electric and Gas Corp's 150,000 shares of preferred stock.

Three groups sought the stock and the bidding turned out fairly close. The successful group bid 100.139 specifying a 3/4% dividend rate.

Two other groups fixing a 3.8% dividend offered to pay 101.14 and 101.10 respectively. The successful group was expected to reoffer the issue, subject to SEC approval of price and terms, possibly today at 102 to yield about 3.68% to the buyer.

Montreal Bonds in Registry

The City of Montreal finally went into registration yesterday to cover its projected issue of \$77,811,000 of new bonds to be sold in the American market before the end of the month.

This big undertaking has been in process of negotiation for several months and was finally decided upon after recent talks between city officials and the bankers who will handle the business.

Scheduled to reach investors around February 25, proceeds will be used by the City to finance retirement of outstanding higher-coupon issues.

American Tobacco

A number of potential issues are reported well-along in the dis-

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cussion stage, with perhaps the largest that which is understood to be contemplated by American Tobacco Co.

Falling in the new money category this financing is expected to assume substantial proportions and place the company in a position to take care of its inventory requirements which have been financed through bank loans temporarily.

Another large piece of financing came definitely into sight when Iowa-Illinois Gas & Electric

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK
On January 28, 1947, a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable April 1, 1947, to stockholders of record at the close of business March 13, 1947. Transfer Books will remain open. Checks will be mailed.
R. A. BURGER, Secretary.

American Woolen Company

INCORPORATED

225 FOURTH AVE., NEW YORK 3, N. Y.

At a meeting of the Board of Directors of the American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of \$1.00 per share on the \$4 Cumulative Convertible Prior Preference Stock payable March 14, 1947 to stockholders of record February 28, 1947.

A regular quarterly dividend of \$1.75 per share on the 7% Cumulative Preferred Stock payable April 15, 1947 to stockholders of record April 1, 1947.

A dividend of \$1.50 per share on the Common Stock payable March 14, 1947 to stockholders of record February 28, 1947.

Transfer books will be closed on February 28, 1947 and will reopen March 26, 1947. Transfer books will not close for the 7% Cumulative Preferred Stock dividend.

Dividend checks will be mailed.
F. S. CONNETT, Treasurer.

February 5, 1947.

BRITISH-AMERICAN TOBACCO COMPANY LIMITED

NOTICE OF DIVIDENDS TO HOLDERS OF STOCK WARRANTS TO BEARER FOR ORDINARY AND PREFERENCE STOCK

NOTICE IS HEREBY GIVEN that the Directors in their Annual Report have recommended to the Stockholders the payment on the 31st March 1947 of a Final Dividend on the issued Ordinary Stock for the year ended 30th September 1946 of one shilling per £1 of Ordinary Stock (free of income tax) and have declared a first interim dividend on the issued Ordinary Stock for the year from the 1st October 1946 to the 30th September 1947 of one shilling per £1 of Ordinary Stock (free of income tax) also payable on the 31st March 1947.

In order to obtain these dividends (subject to the Final Dividend being sanctioned at the Annual General Meeting to be held on the 7th February next) on and after the 31st March holders of Ordinary Stock Warrants must deposit Coupon No. 199 with the Guaranty Trust Company of New York, 32 Lombard Street, London, E.C.3, seven clear business days (excluding Saturday) before payment can be made.

Both dividends will be paid against the deposit of one Coupon only, namely, Coupon No. 199.

Holders of Stock Warrants to Bearer who have not exchanged Talon No. 3 for Talon No. 4 but have deposited Talon No. 3 with the Guaranty Trust Company of New York in New York, in accordance with the arrangement which has been announced in the Press, are notified that Coupon No. 199 will be detached from the corresponding Talon No. 4 and cancelled by the Company in London as and when the dividends to which they are entitled are paid.

The usual half-yearly dividend of 2 1/2% on the 5% Preference Stock (less Income Tax) for the year ending 30th September 1947 will also be payable on the 31st March 1947.

Coupon No. 87 must be deposited with the National Provincial Bank Limited, Savoy Court, Strand, London, W. C., for examination five clear business days (excluding Saturday) before payment is made.

DATED the 15th day of January, 1947.

BY ORDER OF THE BOARD.

E. G. LANGFORD, Secretary.

Rusham House, Egham, Surrey.

Co filed this week in preparation for the sale of \$22,000,000 new first mortgage bonds and 35,000 shares of \$100 par common.

The bonds will replace old 5 1/2 and 6% obligations while sale of the stock will yield the company funds for new construction activities.

DIVIDEND NOTICES

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.

GREEN BAY & WESTERN RAILROAD CO.

The Board of Directors has fixed and declared five per cent to be payable on the capital stock, out of net earnings for the year 1946, payable at Room No. 3400, No. 20 Exchange Place, New York 5, N. Y., on and after February 20, 1947. The dividend on the stock will be paid to stockholders of record at the close of business February 10, 1947.
W. W. COX, Secretary
New York, January 31, 1947

United Shoe Machinery Corporation

The Directors of this Corporation have declared a special dividend of \$1.00 per share on the Common capital stock, payable February 28, 1947, to stockholders of record at the close of business February 4, 1947.
WALLACE M. KEMP, Treasurer.

THE UNITED STATES LEATHER CO.

The Board of Directors at a meeting held January 29, 1947, declared a dividend of 50 cents per share on the Class A stock, payable March 15, 1947, to stockholders of record February 14, 1947.
C. CAMERON, Treasurer.
New York, January 29, 1947.

THE ATLANTIC REFINING CO.

COMMON DIVIDEND NUMBER 166

At a meeting of the Board of Directors held February 3, 1947, a dividend of thirty-seven and one-half cents (37 1/2c) per share was declared on the Common Stock of the Company, payable March 15, 1947, to stockholders of record at the close of business February 21, 1947. Checks will be mailed.
RICHARD ROLLINS
Secretary

February 3, 1947

GROUP SECURITIES, INC.



43rd CONSECUTIVE DIVIDEND

The following dividends on the various classes of shares of Group Securities, Inc., have been declared payable February 28, 1947 to shareholders of record February 14, 1947.

Class	For First Quarter	Regular*	Extra*	Total
Agricultural . . . . .	.065	.015	.08	
Automobile . . . . .	.065	.015	.08	
Aviation . . . . .	.03	—	.03	
Building . . . . .	.08	—	.08	
Chemical . . . . .	.065	.015	.08	
Elec. Equip. . . . .	.09	—	.09	
Food . . . . .	.04	.01	.05	
Fully Admin. . . . .	.04	.05	.09	
General Bond . . . . .	.09	—	.09	
Indust'l Mach. . . . .	.02	—	.02	
Instit'l Bond . . . . .	.08	—	.08	
Investing Co. . . . .	.10	—	.10	
Low Priced . . . . .	.055	.015	.07	
Merchandising . . . . .	.13	—	.13	
Mining . . . . .	.05	.01	.06	
Petroleum . . . . .	.01	.05	.06	
Railroad Bond . . . . .	.035	.005	.04	
Railroad Equip. . . . .	.05	—	.05	
Railroad Stock . . . . .	.04	.01	.05	
Steel . . . . .	.015	.045	.06	
Tobacco . . . . .	.04	—	.04	
Utilities . . . . .	.015	.035	.05	

*Regular dividends are from net investment income and extra dividends are from net realized profits.

Paine, Webber Admitting
BOSTON, MASS.—Paine, Webber, Jackson & Curtis, 24 Federal Street, members of the New York Stock Exchange and other leading exchanges, will admit William A. Paine II to limited partnership as of March 1.

DIVIDEND NOTICES



Borden's

DIVIDEND No. 148

An interim dividend of sixty cents (60c) 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



THE FLINTKOTE COMPANY

30 Rockefeller Plaza
New York 20, N. Y.
February 5, 1947

Preferred Stock

A quarterly dividend of \$1.00 per share has been declared on the \$4 Cumulative Preferred Stock of this corporation, payable on March 15, 1947 to stockholders of record at the close of business March 1, 1947. Checks will be mailed.

Common Stock

A dividend of \$.25 per share has been declared on the Common Stock of this corporation, payable on March 15, 1947 to stockholders of record at the close of business March 1, 1947. Checks will be mailed.

CLIFTON W. GREGG,
Vice Pres. and Treas.

HILTON HOTELS Corporation

Dividend on Common Stock
Notice is hereby given that a dividend of 25 cents per share on the Common Stock of Hilton Hotels Corporation has been declared for the quarter ending February 28, 1947, payable March 1, 1947, to holders of such stock of record at the close of business February 20, 1947.

Dividend No. 3 on 4% Preference Stock
Notice is hereby given that a dividend of 50 cents per share on the 4% Convertible Preference Stock of Hilton Hotels Corporation has been declared for the quarter ending February 28, 1947, payable March 1, 1947, to holders of such stock of record at the close of business February 20, 1947.
C. N. HILTON, President
January 29, 1947

NEW YORK STOCKS, INC.

The following distributions have been declared on the Special Stock of the Company, payable February 25, 1947, to stockholders of record as of the close of business February 5, 1947.

Agricultural Series	\$.05
Alcohol & Dist. Series . . . . .	.10
Automobile Series . . . . .	.05
Aviation Series . . . . .	.00
Bank Stock Series . . . . .	.07
Building Supply Series . . . . .	.08
Business Equip. Series . . . . .	.08
Chemical Series . . . . .	.06
Electrical Equip. Series . . . . .	.07
Food Series . . . . .	.10
Government Bonds Series . . . . .	.06
Insurance Stock Series . . . . .	.07
Machinery Series . . . . .	.06
Merchandising Series . . . . .	.10
Metal Series . . . . .	.07
Oil Series . . . . .	.00
Public Utility Series . . . . .	.00
Railroad Series . . . . .	.06
Railroad Equip. Series . . . . .	.08
Steel Series . . . . .	.04
Tobacco Series . . . . .	.10
Diversified Investment Fund . . . . .	.18
Diversified Speculative Shares . . . . .	.05



48 WALL STREET, NEW YORK 5, N. Y.

UFE Offers to Arbitrate Differences With A. M. Kidder & Co. as Negotiations Break Down

By EDMOUR GERMAIN

Union, an AFL affiliate, gives firm 10 days in which to reply to request for arbitration. Threat implied here is that if company rejects arbitration union might conceivably make use of a cancellation clause in its contract with New York Stock Exchange. Same union plans to open negotiations soon for new contract with Cotton Exchange. Irving Trust Co. still refuses to agree to arbitration in its dispute with Financial Employees Guild, CIO. Guild stages two mass demonstrations within week in front of bank.

The two rival unions seeking to organize the employees of Wall Street's financial institutions have both reached something approaching impasses in their efforts to obtain important first contracts, one, the United Financial Employees, an AFL affiliate, with a brokerage house, and the other, the Financial Employees Guild, CIO, with a bank.

Both unions have offered to arbitrate their differences. In the case of the UFE, the offer is a recent one, having been made on Monday, and the union is now awaiting word on the matter from the brokerage house involved, A. M. Kidder & Co. In the case of the Financial Employees Guild, the offer has been rejected by the bank involved, the Irving Trust Co.

The UFE is giving A. M. Kidder & Co. ten days in which to reply. The threat implied here is that the union might conceivably make use of a provision in its contract with the New York Stock Exchange whereby, if a member firm refuses to arbitrate or even to reply to a request for arbitration within a specified ten-day period, the union may, upon notice, cancel its contract with the New York Stock Exchange within 30 days. A. M. Kidder & Co. thus has until Feb. 13 to consent to arbitration. Should A. M. Kidder & Co. refuse to arbitrate then—or should the firm refuse to reply to the request by that time—the union would be faced with the necessity of making a decision as to whether or not to avail itself of the cancellation clause in the NYSE contract.

The CIO union yesterday noon staged a mass demonstration in front of the Irving Trust Co. to press its case with the bank. It was the second demonstration of the sort within a week as it had put on a similar show last Thursday noon. The demonstration yesterday, however, was extended to the bank's six branches in the city. Members of the United Office & Professional Workers of

America with which the union is affiliated came from their places of employment all over New York, the union said, to give body and force to the demonstration.

The New York State Mediation Board has attempted without success to date to mediate the differences in both these disputes. In the argument between the UFE and A. M. Kidder & Co., the mediator is reported to have tried to get in touch with Emil Schram, President of the New York Stock Exchange, who is on the West Coast.

The only really new developments in the CIO-Irving Trust dispute, other than the demonstrations, this past week were an exchange of notes between R. H. West, Vice-President of the bank, and the officers of the union in which each party charged irresponsibility on the part of the other and efforts by union members at the various branches to persuade the managers of those branches to use their good influences in their behalf with the other officers of the bank.

Negotiations for a new contract between the UFE and the New York Cotton Exchange for a new contract to replace the present one which expires on March 3 are expected to get under way soon, probably next week. The union contends it is seeking here a 30% increase in salaries to bring earnings of Cotton Exchange employees to a level more or less commensurate with those of its members at the New York Stock Exchange and the Curb Exchange who received pay increases last November.

With Hornblower & Weeks

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William A. Corbett has been added to the staff of Hornblower & Weeks, 39 South La Salle St.

SEC Consents to Trial Liberalization of One Of Rules Restricting Floor Trading at NYSE

Board of Governors, therefore, rescinds rule, effective on Monday, which restrains a floor member who has bought stock on an "up tick" from selling that stock until the second succeeding business day and which imposes similar restraint on repurchases after sales on a "down tick" and adopts new Rule 374, also effective Monday, which prohibits a floor member from making a purchase of stock at a price higher than the sale unless that member is acting as a specialist, odd-lot dealer or the like.

Announcement was made yesterday by John A. Coleman, Chairman of the Board of Governors of the New York Stock Exchange, that, after consultation with the Securities & Exchange Commission and with the approval of the Commission, the Board had voted to rescind on a trial basis, effective next Monday, one of the three rules restricting the activities of floor traders on the Exchange and to substitute another, more liberal, rule, in its place, Rule 374, printed below.

"In August, 1945," Mr. Coleman's statement said, "the Board of Governors of the Exchange adopted three rules with respect to trading by Exchange members while on the floor of the Exchange. The first rule requires an Exchange member desiring to buy stock to establish or increase a position to step aside, as well as to relinquish any precedence based on size, when there is a public or 'off-Floor' bid or offer. The second rule states that the privilege of 'stopping' stock shall not be accepted by a member acting for his own account. The third rule restrains an Exchange member who has bought stock on an 'up tick' from selling that stock until the second succeeding business day. A similar restraint applies to repurchases after sales on a 'down tick.'

"These rules were promulgated on a study basis in an effort to ascertain their effect on the market. The experience of the Exchange, based on actual operation and observation, has indicated that the third rule has worked unsatisfactorily through the reduction in the continuity, liquidity and stability of the market. Ac-

cordingly, the Board of Governors has rescinded the third rule, effective Feb. 10, 1947, and effective on that day has adopted, on a trial basis, in lieu thereof a rule which prohibits an Exchange member while on the Floor from making a purchase of stock at a price higher than the last sale, i.e., a 'plus tick,' unless that member is acting as a specialist, odd-lot dealer, etc.

New Rule 374

"Rule 374. (a) No member, while on the Floor of the Exchange, shall initiate for any account in which he has an interest a purchase or purchases of stock at a price higher than the last sale, i.e., a 'plus tick.' (b) The provisions of this rule shall not apply to purchases made:

(1) by a specialist in a stock in which he is registered as a specialist to maintain a fair and orderly market in accordance with Rule 365; (2) by an odd-lot dealer in a stock in which he is registered as an odd-lot dealer; (3) to effect or facilitate a distribution of securities, if such transaction is made pursuant to Regulation X-9A6-1 or if such transaction and such distribution are made pursuant to the approval of the Exchange; (4) to cover a 'short' position; (5) to offset a transaction made in error; (6) for bona fide arbitrage; (7) with the prior approval of a floor official to permit the member to contribute under unusual circumstances to the maintenance of a fair and orderly market."

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