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The COMMERCIAL and FINANCIAL CHRONICLE

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Free Exchange and American Economy

By RENE LEON

Mr. Leon, holding we must protect our price structure and discard slogans based on misconceptions, opposes "fixed currencies" as provided in Bretton Woods Agreements. Contends U. S. is in position to maintain independent price structure without resorting to isolationism, and opposes long-term foreign loans as "bad business." Says dollar has become sole word "key" currency and restrictions on gold movements are destroying gold's instrument of exchange and making it object of hoarding and speculation. Advocates removal of tariffs and scaling down of international debt. Pleads for aid to England.

Production and the protection of our price structure are the nation's twin internal economic problems. For the sum total of all goods and services produced and exchanged by all our people, and the level of prices upon which turnover is effected, yield the national income which supports our institutions and our standard of living.

Rene Leon

Of these twin problems that of production is the easier of solution because the rank and file understand or can be made to understand it. Its elements are discernible and of simple appraisal: our natural resources abound, our plants and machinery are modern as is our constantly improving system of distribution; we have the manpower, we have the "know-how." Both management and labor real-

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Make the Dollar as Good as Gold!

A FREE GOLD MARKET, FOLLOWED BY FINAL DOLLAR REVALUATION, THE FIRST STEPS

By LEWIS H. HANEY*

Professor of Economics, Graduate School of Business Administration, New York University

Decrying lack of standard for our currency, Dr. Haney points to present chaos in international monetary standards as arising from fiat "managed money" philosophies. Says parities fixed by members of International Monetary Fund are artificial and excessive and there will be no remedy for "scarce currencies" without a sound money standard such as gold. Holds system of "managed currency," subjects public to "whims" of politicians in fixing purchasing power of their savings. Attacks New Deal monetary legislation and its debt monetization, and concludes return to gold standard is best way to assure economic stability. Foresees no return to lower price levels because of heavy war time increase in currency, but holds it is likely value of dollar will have to be readjusted downward.

The financial problem of the day lies in those Siamese twins, the vast public debt and a vast mass of inconvertible and depreciating currency. This is true in the United States as well as in the rest of the world. In most cases, neither the debt nor the currency means anything very definite, simply because neither is related in any definite way to reserves. In other words, there is no standard for the payment of debt and no standard for the currency.

Lewis H. Haney

It is no mere chance that the two biggest increases in the Federal Reserve Member bank statements are those in "investments" in government securities and in demand deposits. The investments are in government debt, and the deposit currency is based thereon.

The great underlying facts of the past decade have been, first, the wartime monetization of the public debt, and, second, the growth of the idea of "debt management." By the first of these two sinister developments, the governments of the world, as usual in wartime, were forced to abandon the gold standard, and to use their own IOUs in lieu of money. Bond-secured currencies, representing little more than government fiat, have become general. Thus the larger the debt, the more currency we have! We even go so far as to think that the more bonds (debt) the government issues the more security we have. According to the second development, there has arisen a school of thinkers who are turning from the older idea of a managed currency into the newer one of a managed debt. This is a logical development since it follows from the fact

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*An address by Dr. Haney before the Colorado Mining Association, Denver, Colo., Feb. 7, 1947.

Trade and Taxes After the War

By R. C. LEFFINGWELL*

Chairman of Executive Committee, J. P. Morgan & Co. Incorporated

Eminent banker, pointing out astronomical growth of debt and annual budgetary expenses since First World War, declares our national tax policy should aim to raise greatest possible revenue with the least possible pain to taxpayer, with least trouble to Treasury, and with least social and economic disturbance to whole community. Asserts Congress should reduce all income tax rates and tariffs 10% at once, and later eliminate all quirks in the laws.

R. C. Leffingwell

The direct public debt of the United States Government, leaving aside that of States, cities and governmental agencies, is about ten times as great as it was at the peak after the First World War. The *annual* budget is one and one-half times the total debt of the government at the peak after the First World War. Evidently the greatest economy must be exercised by our government in civil expenditures. Countless unnecessary civil employees should be sent back to private life to do useful work. But civil expenditures, even at their present inexcusably swollen level, account for only a small fraction of the total budget. Interest on the debt is a fixed charge which cannot be pared

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*A talk by Mr. Leffingwell to the Alumni Federation of Columbia University, New York City, Feb. 12, 1947.

Columbus Stock and Bond Club and Twin Cities Bond Traders Club Pictures on pages 880 and 881.

Outlook for Railroads

By ARTHUR C. KNIES*

Partner, Vilas & Hickey

Characterizing recent stock market changes as adjustments from a wartime economy, Mr. Knies contends hysteria is now giving way to realism. Holds business prospects will continue favorable for long time and railroad securities will sell higher than last year. Sees rails absorbing cost increases through physical improvements and more adequate equipment. Says rail labor problem may be eased if Supreme Court upholds Government in John L. Lewis case and looks for higher rail earnings in 1947. Urges selective buying and points out favorable railroad stocks.

Frankly, aside from one or two changes in public appraisals for 1947's economic outlook, or straws in the wind indicating better operating conditions in the rails, there isn't anything new in the situation from what I would have told you three months ago.

Undoubtedly, had I told you then what I'm going to tell you now, you would have labeled me as an optimist of unbounded faith. Probably bold, brazen or brash would have been more appropriate descriptions.

Arthur C. Knies

I have just completed 25 years with Vilas & Hickey. Over the last few months there have been times when I've wondered whether I had learned anything. I'm sure you've all found yourselves equally flabbergasted.

I'm not going to bore you with a lot of repetition of the sort of stuff you've gotten indigestion and insomnia from.

Back in November, speaking to a group at the Boston Public Library, under the auspices of the State Department of Education, I said, "I don't pretend to be an economist, but since I live with markets, I have some thoughts on the subject. I, personally, believe we are living through an "adjustment" period rather than facing a recession. Many loose practices of a high, wide, and handsome nature developed over the last few years that, more or less, became classified as normal expectancy. We weren't living in a real world and didn't realize it.

"Stocks sold at high levels in relation to earnings and stayed high for months in the face of superficial indications that conditions weren't getting any better. New issues of doubtful quality went to premiums so fast the printing machine was speeded up. 40 cent cotton certainly seemed unreal, as well as high prices for other commodities the world is temporarily without. Government ineptitude and bureaucratic controls fostered inflation to the bewilderment of everybody.

"It is human to blow hot and cold, seemingly without effort. Many people who were absolutely all out bullish last spring are now in the forefront of the bears. It is a natural to plunge from the

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*A talk by Mr. Knies at meeting of the Association of Customers' Brokers, New York City, Feb. 10, 1947.

Bond Prices as a Stock Market Forecaster

By JACQUES COE

Market analyst cites study of 45-year price performance as demonstrating that bond trends have served as good guide to subsequent common stock swings. Concludes that current bond uptrend warrants anticipation of higher 1947 stock market.

During the past 50 years, many articles have been published concerning studies of the relationship of bond prices to stock prices as a market forecaster and the numerous theories expressed and elaborated upon have been useful often enough to command serious attention and wrong at critical times to demonstrate that the theory is anything but foolproof.

Jacques Coe

Our study began with the year 1902, and we found that the major trend of bond prices, in most instances, had been an excellent guide in forecasting broad stock market swings. The record of 45 years indicates about 84% correctness, which, in itself, should entitle the findings to more than passing notice.

There is bound to be a difference of opinion among technicians as to what constitutes a change in trends, whether it is bonds or stocks, and many students of the averages may not agree with our conclusions. A mircoscopic study will detect numerous deflections. In any event, our analysis of the bond trends concludes that there have been 19 major changes in direction of more than incidental nature and that 16 of these major changes accurately have forecast stock market swings—one change in trend was relatively negative and two changes were dreadfully inaccurate and completely misleading.

On the whole, however, we found that advancing bond prices in most instances, pointed the way for advancing security prices and vice versa.

The accompanying statistics speak for themselves.

There was very little trend to the bond market in either direction during 1938, 1939 and 1940. These again were war years with many minor bond trends moving forward and backwards without much stock market significance. Bond prices began to turn up slightly in the spring of 1941, continued quite steady through 1942 and turned definitely up in the spring of 1943; once again followed by a rising stock market from 125 to 205 or 65%.

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No General Price Decline Probable

By H. C. KUTHE

Mr. Kuthe contends price rise in last few years was result of increased money supply and causes other than scarcity of civilian goods. Holds present money supply is excessive and there is money hoarding, which, when released, will lead to further upward pressure on prices. Views present bearish psychology as temporary since it has no factual basis, and points out difficulties in applying effective anti-inflationary measures.

H. C. Kuthe

At the present moment nearly the total business community, as well as most economists, are convinced not only that the rising trend in the general price level of the country which characterized the last six or seven years has come to an end but that a certain recession of most prices will soon occur. The principal basis for these convictions is supplied, in so far as farm products are concerned, through the present gradual increase in the agricultural production of foreign countries and through the consequent impending decline in food exports from the United States, while, with respect to manufactured goods, the expectation of stable or even falling prices principally rests on the substantial expansion now under way in the domestic output of such goods.

The corollary to this argumentation is, of course, the belief also generally being held at present that the basic cause for the rise in the general price level of the country during the last few years was the scarcity of civilian goods which existed at that time under the influence of the war. The latter belief clearly involves, how-

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Margins, Trading Hours and Commission Rates

By JAMES F. BURNS, Jr.*

President, Association of Stock Exchange Firms

Mr. Burns, in commenting on margin regulations of Federal Reserve System, points out insignificant volume of credit involved in loans to customers by Stock Exchange firms. Contends Federal Reserve Board may have exceeded its authority in prohibiting margin trading and extols cooperative attitude of Securities and Exchange Commission. Calls attention to need of adjusting commission fees and other charges to meet increasing operating costs and discusses effects of a five-day trading week. Stresses need of close personnel relationships and loyalty of employees.

James F. Burns, Jr

The Board of Governors of the Association of Stock Exchange Firms, composed of members from all parts of the country, is assembled here this week for the purpose of sober deliberation of problems which, if properly solved by our industry, will enable us more adequately to meet the conditions of today. It is concerning some of these matters that I wish to talk to you.

One matter of major importance concerns the use of credit by our industry. In the statement of Jan. 18, 1947, announcing relaxa-

*An address by Mr. Burns, a partner in Harris, Upham & Co., at a dinner given by the Chicago Stock Exchange, Chicago, Ill., Feb. 6, 1947.

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Outlook for Motion Picture Industry

By PAUL RAIBOURN*
Vice-President, Paramount Pictures, Inc.

Motion picture executive refutes idea industry has reached peak. Points out public in good and bad times has kept up relative expenditure on motion pictures. Holds enlarged consumer income favors motion picture patronage and economies in picture production will lead to greater profits. Refers to increased leisure time as a favorable factor and sees no danger in competition of foreign pictures.

For some several months there have been a continual flood of statements that the motion-picture business had reached its peak and was on its way down; in fact, some of the estimates would indicate that it was far on its way down.


Paul Raibourn

On the second or third of January one the large statistical services issued a statement, for the benefit of its customers, in which it stated that the intelligent people would get out of the consumer industries and put their money into the heavy-goods industries. It mentioned specifically the liquors and the amusement securities as ones to be avoided.

Within the next week, three or four large wire houses sent out bulletins to their local correspondents, and of course it reached their customers in New York, saying that the customers should get out of consumer securities, and specifically mentioning the liquors and amusement securities.

That flood of prognostications for the amusement business began to produce some trouble for me. For the next week my life was a flood of telephone calls from concerned stockholders wishing to know what background there was for this seemingly widespread information that the motion picture business was rapidly on its way back to the Indians.

I have been in the motion picture business for some 27 years. I have been through the depression conditions in 1921, the minor depression conditions in the later 1920's, the depression of the early 1930's, and the minor one in 1939. I don't think I have ever seen a period during all that time, when there was such a widespread diffusion of the idea that we were rapidly on our way to perdition.

There must have been a reason for these things, and I am sure it is the reasons behind those that you are interested in; because that was what every stockholder who called up or who came in wanted to know. They wanted to know how much truth there was in these dire predictions and what we thought about the situation.

You are representatives of

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*An address by Mr. Raibourn before the Association of Customers' Brokers, New York City, Feb. 4, 1947.

Socialist John Bull Takes Stock

By HERBERT M. BRATTER

Mr. Bratter holds British White Paper, joint product of employers and unionists and published by the Government, is intended to shock management and workers into greater effort for direly needed production increase. British editorial comment hails document as evidencing first admission by Government and unions that country is in bad fix. Notes Socialists' complete confusion and absence of remedial plans.

On Jan. 21 there appeared on the counter of His Majesty's Stationery Office in London a tuppence nine-page white paper which, despite its quaint 18th-Century-sounding title, immediately attracted nationwide and indeed world-wide attention. The paper goes by the name, "Statement on the Economic Considerations Affecting Relations Between Employers and Workers." Despite the newsprint shortage the staid London "Times" reprinted the white paper in full. The conservative "Financial Times" noted the pamphlet with a two-column headline: "Grave Position of the U. K. Economy," while from its cover page "The Economist" exhorts the nation to face the present crisis.


Herbert M. Bratter

The white paper, whose gist is that Britain needs to step up production quickly and materially, is a product of the National Joint Advisory Council consisting of 17 representatives of the British Employers' Confederation, and 17 representatives of the Trades Union Congress. Its publication by the Government is intended to shock the nation, and particularly the workers, into lasting greater effort. Whether it will have that effect remains to be seen.

The Surrounding Critical Economic Conditions

The white paper comes in the midst of as severe a winter as Britain has endured in half a century. It appears when the nation's coal shortage is acute, when factories are being shut down for lack of enough fuel, when the country is still pondering official revelations of the shortage of hard currencies to finance British trade needs, and when British living conditions are as grim as ever in wartime, if not grimmer. This is the situation as Britain undertakes, through conversations in India and elsewhere, to implement the undertaking in the American loan to make sterling freely convertible in July. This is the environment from which will come the British delegation to the international trade discussions at

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The Rights of Property

By ABRAHAM LINCOLN, March 31, 1864

"Property is the fruit of labor;
property is desirable:
It is a positive good in the world.
That some should be rich shows
that others may become rich, and
hence is just encouragement
to industry and enterprise.
Let not him who is houseless
pull down the house of another,
but let him work diligently
and build one for himself,
Thus by example assuring
that his own shall be safe
from violence when built."

The real moral in these words of Lincoln is that a politician need not be a hypocrite or a demagogue to advance his public career as so many men in public life today seem to think.

Washington . . . And You

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

Vote-getting tax tinkering seems to have displaced equitable tax relief on the congressional agenda. Hallelujah Democrats have taunted Republicans into confusion and conflict. Apostles of the 20% cut across-the-board are finding converts few and inarticulate, are losing or have lost their crusade to the camp meeting orators who invoke tax mercy for the small income citizen. As of today, certainly, the sawdust trail to tax reform promises greater reward to the low income bracket people than their higher bracket neighbors.

* * *

Compromise or no tax reduction at all looks unavoidable. Consider these facts: (1) Republican proponents of the across-the-board reduction know that most Democrats and many Republicans are against them; (2) they realize President Truman may veto any revenue reducing legislation; (3) they're reasonably sure neither Senate nor House has enough across-the-board advocates to override a veto. Presently, at least, they can foresee no other alternative than some sort of a concoction sufficiently tasty to tempt a counter veto two-thirds vote.

* * *

Only compromise with enough vote appeal to offset White House *status quo* sentiment looks like a graduated income tax revision favoring millions of small taxpayers who elect the Congressmen.

* * *

Strategic purpose of Treasury Secretary John Snyder's press conference proposal that Congress make a long-range study of tax relief for family heads was to reinforce the President's position against any tax whittling at this time. Congressional tax reducers received the Snyder blandishment with affable disregard, went right ahead with their dickerings.

* * *

Moving picture executives are disturbed by congressional hacking at the reciprocal trade program, fear it will provoke foreign nations to fence out American films. Already beset by government restrictions abroad, the motion picture industry foresees

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The Public Debt and National Income

By ARYNESS JOY WICKENS*
U. S. Bureau of Labor Statistics

Mrs. Wickens, in pointing out national debt has grown from 45% of annual national income in 1919 to 150% of current national income, stresses importance of reduction of debt balance by its retirement. Notes Federal Government has other expenditure commitments and that taxes consume about one-quarter of national income. Looks for moderate decline in price level and calls attention to distortion of price structure. Says pinch of debt burden will come when dollar value of national income falls, and sees continued necessity of taxing low incomes.

The total debt of the Federal Government in October 1946 was $263½ billions, all but $1 billion of which was interest bearing. This includes all those bonds, notes, certificates of indebtedness and special issues commonly classified as "public debt" by the Treasury Department, but not guaranteed securities. It embraces all indebtedness in that category which the Congress has, by statute, limited to a total of $275 billion.

Aryness Joy Wickens

At this point I wish to direct my remarks to this category of the Federal public debt, and later to take account of the implications of Mr. Woodward's point that our Federal financial obligations far exceed our contractual debts in this formal sense—a point of view with which I entirely agree. But the debt problem is difficult enough without compounding trouble at this point.

To dramatize the growth of the debt and to help you to appre-

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

Observations . . . .

By A. WILFRED MAY

INTERNATIONAL TRADE AT THE CRISIS STAGE
Belly Politics Versus Ideology

This country's progress on the way toward genuine international trade agreement is becoming increasingly obstructed by political obstacles. These factors, whose practical effects sometimes are not realized, are now decisively determining the world's economic and political future.

A. Wilfred May

The world's central issue is one of quantitative restrictions; avoiding detailed administered control of imports by other countries, with their discrimination against the hard-currency nations like the United States. And it must not be forgotten that unilateral policies and bilateral trading pave the way to economic, and hence military, warfare.

This country's particular simply-stated basic problem consists of the fact that if we as the largest creditor nation in history, do not shortly develop an excess of imports over exports, a repetition of our previous periods of default by our foreign debtors must ensue. Barring the use of subsidies, in new and even more intensified degree than before, our exports must decline; with insufficient overall use of our enormous plant capacity and a favoring of inefficient, and a penalty on efficient, home industries. Also we must recognize that to an even greater degree than formerly, we will be forced to renew the practice, indulged in ever since the First World War, of shouldering costly though hidden susidies like the inter-Allied debts, our private loans, and our gold buying.

The British position makes help from expanded and multilateral international trade an immediate and more genuine need. No less an authority than Professor Lionel Robbins, eminent British economist, has recently stated (in Lloyds Bank "Review" for January, reproduced elsewhere in this issue of the "Chronicle") that in spite of the American Loan, Britain's dollars and reserves are going to run very short in the absence of drastic remedial steps. The exact causes of Britain's postwar exchange position troubles, like the rise in our commodity prices making the purchasing power of her borrowed dollars worth less, and like the German burden, are not material; the point is the wide extent of their repercussions.

Before World War II the United Kingdom's visible imports from America greatly exceeded her visible exports to us; in 1938 the former were six times as great as the latter. The UK met its deficit principally by the conversion into dollars of the proceeds of the British surplus of visible exports to other countries. But now, because of the absence of supplies from other war-damaged countries, the increased imports from the United States are accompanied by difficulty in converting the favorable balance of other countries into dollars.

Domestic Political Influences

On our domestic political scene we find that the next important act will be comprised by the Feb. 24 opening of a "full-dress investigation" of the Administration's reciprocal trade program by Representative Knutson's House Committee, the majority of whose members have consistently voted against international agreements.

Perhaps in line with the true processes of democracy, the move of every legislator, seems to be motivated by the fixation of both his eyes on the coming 1948 election. The epochal compromise offered last week by the two key Republican Senators, Messrs. Vanderberg and Millikin (published in full in this issue of the "Chronicle"),

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With Slayton & Co., Inc.
(Special to THE FINANCIAL CHRONICLE)
ST. LOUIS, MO.—Renus Olson has been added to the staff of Slayton & Co., Inc., 408 Olive St.

House Committee to Investigate Federal Money Operations

Will clarify American loan policies and NAC's activities.

WASHINGTON (Special to the "Chronicle")—The House Banking and Currency Committee will probably make a study of credit as it is created and controlled by the Federal Government, Chairman Jesse Wolcott of Michigan informs this correspondent. As a result of such a study the Committee probably will offer legislation to clarify the status and purpose of the National Advisory Council on International Monetary and Financial Problems—the so-called NAC—which was created by the Bretton Woods enabling act and which "coordinates" American foreign loan policies and activities. Mr. Wolcott intends to eliminate the exercise of any administrative functions of NAC which may have developed in practice. There seems to be more than a suspicion that the NAC has attempted to dictate to the Export-Import Bank and Wolcott intends to get to the bottom of the matter.

In view of the secretiveness with which the NAC operates, a policy for which the State Department seems to be especially responsible, the public will be greatly interested in the study which Representative Wolcott has in mind.

Indirect Benefits of Service Charges to Banks

By LELAND J. PRITCHARD
Associate Professor of Finance, University of Kansas

Dr. Pritchard contends if service charges on deposit accounts were discontinued, banks would suffer a greater loss than the 4% of their total operating income estimated to come from this source. Sees discontinuance of service charges as inducing a substantial withdrawal of deposit accounts, thereby necessitating sale by banks of a considerable volume of their earning assets. Estimates this loss in operating income as over one and one-half times greater than direct loss arising from a discontinuance of service charges.

L. J. Pritchard

This article is an attempt to appraise the significance of bank service charges on deposit accounts to member banks during the first six months of 1946. The analysis is confined to this period and to these banks because of the limitations imposed by available statistical materials.

Before beginning a discussion of the *indirect* benefits or effects of these service charges it seems advisable to define the precise meaning which it is here intended that this term convey. By *indirect* effects are meant those changes in the costs and revenues of banks (other than the revenue obtained from the service charge itself) which would accompany the elimination of the service charge on demand deposit accounts.

There has been a plethora of articles discussing various aspects of this service charge, but a singular failure in these articles to take cognizance of these collateral effects on the earnings and expenses of banks. Undoubtedly this omission has been prompted to a considerable extent by the difficulty of making reasonably accurate estimates of these effects. The difficulty of the problem is not, however, a justifiable reason for ignoring it. In terms of intelligent bank administration an estimate, even if it can only be a very rough estimate, is better than no estimate at all.

The statistics on the sources and amounts of operating income of member banks during the first six months of 1946 which are given in the November issue of the "Federal Reserve Bulletin" reveal that approximately 4% of total current operating income is *directly* attributable to the earnings from this service charge. Other sources of information indicate that this percentage tends to be larger for the more rural areas, and larger for the small as compared with the large banks. Data which the writer has compiled on Kansas, where small rural banks predominate, indicate this service charge has accounted for approximately 8% of operating income during the last few years.

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Hannegan Says "We Shall March On With President Truman"

In address in New York City he lauds policies and accomplishments of the President and states we are ready to call upon him again "as the man who has proved himself fit for the job."

At a testimonial dinner given him in New York City on Feb. 6 by the Postal Supervisors of New York, Postmaster General Robert E. Hannegan, who is Chairman of the National Democratic Committee, indirectly announced the purpose of Democratic Party leaders to renominate President Truman for a second term. After extolling accomplishments of the Administration in the two years following end of hostilities, Mr. Hannegan made his stand known in the following remarks:

Robert E. Hannegan

Two years ago, Harry S. Truman became President of the United States.

He was a man of proved abilities. Through his ten years in the United States Senate, he had shown consistently sound judgment. But above all else, Harry Truman had in him a granite courage and the quiet quality of goodwill.

This he possessed—and this he has retained.

To those overwhelming responsibilities that suddenly descended on him in April of 1945, he applied himself with a level-headed wisdom that was already known to us, with courage and determination, and with a cooperative spirit towards his fellow citizens.

You may recall that at the time he took over as President, there was a great buzz of speculation. Would Truman go to the right? Would he go to the left? Would he travel a middle course?

These were shallow questions, raised by shallow minds. The facile bandying about of such over-simplified labels showed how little these questioners understood the man who had become President.

For with Harry Truman, it was never a question of "right" or "left." As he saw his responsibility then, as he sees it now, his choice lies not between right and left, but only between right and wrong. From the course that is best for America as he sees it—and that is the only "right" that Harry Truman knows — he has never deviated. And he never will.

Immediately after assuming the Presidency, he was confronted with an important decision — the use, in war, of the atom bomb. But the lives of hundreds of thousands of American boys were at stake. And Harry Truman did not hesitate a moment in his decision.

On the night that Harry Truman took his oath, he told America that the San Francisco Conference to a adopt a United Nations charter would be held on schedule.

And from that time on, the story of world peace was a story of personal courage, of integrity, of statesmanship on the part of President Truman.

Three months after he became

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The Blocked Sterling Balances

By PAUL EINZIG

Dr. Einzig notes British opinion regarding Sterling balances as divided, ranging from outright repudiation to repayment in British goods. Foresees deadlock in negotiations for settlement with new Indian Government, which opposes any reduction in amount of payment due.

The arrival of a British financial mission in New Delhi to negotiate with the new Government of India the funding of the Sterling balances held by India amounting to some £1,400,000,000, aroused fresh interest in Britain in the problem of those balances. British opinion may be divided into the following schools of thought:

Dr. Paul Einzig

(1) The repudiationist school. There is a widespread feeling that Britain is morally entitled to repudiate any external liability arising from the war. Some of those holding this view believe that it would be expedient to await the first major crisis that would conclusively prove to the world Britain's inability to pay the £3,500,000,000 of wartime Sterling balances. Others hold the view that Britain's inability to pay is quite obvious, and that by repudiating the debt the major crisis could be avoided. It is widely believed that a wholesale repudiation would meet with general approval both in the United States and in Russia. The United States would approve because Lend-Lease claims have been virtually cancelled and it would be considered unfair if other creditors of Britain received more favorable treatment. Russia would approve because the Soviet Government itself has refused even to discuss the repayment of any financial liabilities of the U.S.S.R. incurred during the war.

(2) The token payment school. In some quarters there is a feeling that a unilateral act of repudiation ought to be avoided if possible, at the cost of token payments to creditor countries. If these countries realize that Britain is determined to repudiate they might be prepared to accept a token payment in full settlement of their claims, on the ground that "it is better than nothing."

(3) The compromise school. Many people in official quarters,

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Problems of Distribution in 1947

By GEN. ROBERT E. WOOD*

Chairman, Sears, Roebuck and Company

Head of leading distributing firm looks for no disastrous price declines and maintains increased wages may be offset by greater productivity through more and better tools. Says buyers' resistance will vary with different commodities and greater use will be made of durable consumer goods. Stresses population increase as favorable business factor and predicts, if free enterprise is allowed to function, we shall have little unemployment, large production and large retail sales for some time.

Retail sales rise and fall with the income of the village, town or city, or surrounding trading territory. National retail sales vary with the rise and fall of the national income—Your guess is as good as mine about the 1947 national income. Personally, I am not as pessimistic as some of our 1946 prophets have been.

Gen. R. E. Wood

There will be, of course, many changes in the distribution of sales—and these, in turn, will depend on the variations of price.

The so-called buyers' strike in consumers' goods has thus far been largely confined to items of luxury goods and women's wearing apparel. In luxury items, such as fur coats, prices had gone so far out of line that buying resistance appeared first among the wealthy. The women's garment industry is a notoriously volatile industry—a feast or a famine. Values in this industry had been inflated out of all reason. In the fall months of 1946 strong buying resistance developed, which, coupled with unseasonable weather, broke the markets and caused losses to retailers.

Sales in other lines are still at a high level, and thus far show no signs of abatement. It is reasonable to suppose that as supply overtakes demand, line by line, prices will drop, real competition for sales begin, weaker and more inefficient retailers may suffer some losses.

No Disastrous Price Decline

I believe this process will be gradual, will extend throughout the year, and probably into 1948. I do not believe it will be disastrous. Some manufacturers and retailers may not make as great profits as in 1946, but their results should compare favorably with their best pre-war years. While their margins will narrow, they can make up some of it by gains in operating efficiency, and by better merchandising. With 58,000,000 people employed at high wages and salaries, with the farmers of the country in the best condition they have been in in history, with ample cash reserves, tremendous latent purchasing power is present in the people, and buying will continue if prices do not go too high.

All revolves around the question of prices and values. The three major items in the wage earners' budget are food, clothing and rent. Food and clothing prices should decline in the next six months, rents may go up, but the weighted total of the three should show a decrease, which simply means more purchasing power for other types of goods.

The question of price hinges greatly on the efficiency of labor and to a lesser extent, on the markup of manufacturer and retailer. High wages do not necessarily mean high costs. If more and better tools are supplied, giving greater productivity per man, labor can get better wages, labor costs may not increase, and prices may not have to go up.

But if, as in the building trades, no better tools are devised, yet wages are doubled, and productivity per man actually declines, costs will soard. This is the worst spot in our industrial picture. We have a tremendous need for more housing, for more construction in every line—homes, hotels, factories, office buildings. Construction costs are more than double pre-war figures. While, in my opinion, labor is unjustly blamed in many lines for inefficiency and lack of productivity, the major part of the blame for excessive building costs rests squarely on the shoulders of the building trades. In no other line of industry is there such a lack of improved tools and machinery, such restrictions on output, such inefficiency and lack of productivity; and the greatest sufferer from these conditions is the wage earner and the man in the lower salary brackets.

Buying Resistance Will Vary

I believe that buying resistance will vary in the various lines in direct ratio to the increase in costs. In an index prepared on the different lines of merchandise carried in our catalog, showing a comparison between the fall of 1939 and the spring of 1946, increases varied between 61% and 126%. Those with the greatest percent of increase will probably be the first to experience buying resistance this fall. It is only fair to take into consideration the decreased purchasing value of the

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*An address by Gen. Wood before the Chicago Association of Commerce and Industry, Chicago, Ill., Feb. 5, 1947.

Problems of Postwar Air Transportation

By JOHN H. FREDERICK*

Professor of Transportation, University of Maryland

Although holding it cannot be stated exactly where air transportation is headed, Prof. Frederick points out inadequacy of airports and passenger and cargo handling facilities are handicapping operations. Holds airlines are not to be blamed for situation leading to accidents and looks for government aid in providing greater safety. Stresses public importance of airline industry.

It is true that neither those directly concerned with airline management, nor those responsible for the regulation of air transportation, nor the general public, can tell exactly where this industry is headed at the present time. However, the airlines themselves can not be blamed entirely for the present situation. They certainly can not be blamed for preparing themselves to handle a mass demand for their services. They may have been somewhat over-optimistic on the matter of general public acceptance, but several circumstances outside, although somewhat within their control have arisen to create and complicate present airline problems.

The first of these circumstances is concerned with airports. The airport is the basic facility of aviation just as the highway is the basic facility of automotive transportation, or harbor facilities are basic to water transportation. Yet, at the close of the War, not a single one of the airports being used in commercial air transportation was adequate to even handle the traffic then passing through it. Therefore, as airlines increased the number of planes in operation, as they increased the number of schedules, as they obtained and put into operation larger equipment, airports became more and more inadequate. Airport inadequacies are reflected in poor service to travelers and this in turn discourages some first-time users of airline facilities from using them as often as had been hoped.

Airports are inadequate in at least three ways: (1) *Number and size.* As of Oct. 1, 1946, there were

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*Address by Dr. Frederick before Annual Meeting of American Economic Association, Jan. 25, 1947.

Public Utility Securities

Northwestern Public Service

One of the relatively few negotiated utility deals was scheduled to make its appearance earlier this week. First Boston Corp. planned to offer 26,000 shares of 4½% preferred stock of Northwestern Public Service Company and 410,000 shares of common stock. It is understood that the latter would be offered at 13½.

The company's estimated *pro forma* earnings per share on the common stock in 1946 were $1.34 on which basis the stock is being marketed at about 10 times earnings. This compares with a recent average of 13.9 for a large number of electric-gas operating companies. Based on the indicated dividend rate of 90c (about 67% of earnings) the yield would be 6.67%. This yield compares with the general average of 5%. Only a few stocks such as Birmingham Electric, Puget Sound Power & Light, South Carolina Electric & Gas, etc. offer similar yields.

Northwestern Public Service was formerly controlled by Middle West Corp. through North West Utilities Company. The latter company owned all of the common stock until the purchase by Bear, Stearns & Co., in March, 1946. Of the present offering, 300,000 shares (all the stock now outstanding) are being sold by Bear Stearns through the First Boston group, and 110,000 shares are being sold by the company. Bear Stearns & Co. will contribute whatever cash is necessary so that the proceeds to the company from the sale of 110,000 shares (before expenses) plus such contributions will aggregate $1,725,000. The preferred stock is being offered in exchange for the old 6% and 7% preferred issues, with unexchanged stock underwritten, and any remaining old preferred will be called at $110. A cash exchange adjustment to holders of the old preferred will be made—the difference between call price and offering price, with dividend adjustments.

The capital structure on completion of the financing will be 49% funded debt, 24% preferred stock and 27% common stock equity. The plant account is carried at original cost of $12,729,660 plus plant acquisition adjustments (being amortized) of $704,167. Depreciation reserve is $2,498,893, leaving net plant account of $10,934,934. Funded debt and preferred stock are 72% of net plant account. Depreciation is 20% of original plant cost, and the annual provision is about 2.5% of such amount.

Common stock earnings on a *pro forma* basis would have been as follows in recent years:

12 months ended 11/30/46	$1.26
Calendar Year—	
1945	1.12
1944	1.00
1943	0.93
1942	0.84
1941	0.83

The company's revenues are about 69% electric, 22% natural gas and 9% manufactured gas and steam heating. Electric revenues are about 38% residential and 46% commercial; gas 73% residential and space heating, and 25% commercial and industrial. Industrial sales account for only about 6% of electric revenues and 7% of gas. All of the company's power is generated by itself, but natural gas is purchased from Kansas-Nebraska Natural Gas Co.

The territory served with electricity is largely farm area and there are a few industrial plants except for meat packing and grain elevators. The electric service area covers some 14 counties in South Dakota.

Rates for residential service averaged 3.85c in the 12 months ended Nov. 30 and there was a moderate rate reduction last May. The franchise situation is said to be in good shape with substantially all franchises in the larger communities having 14 to 17 years to run. Gas franchises mature in 1953-65 except for Aberdeen's which is perpetual. The states of South Dakota and Nebraska do not have Commission regulation of rates (except that the Nebraska Railway Commission can regulate rates in rural areas). In each state municipal corporations have the power to fix rates.

With Saunders, Stiver Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — Robert C. Jones has become associated with Saunders, Stiver & Co., Terminal Tower Building, members of the Cleveland Stock Exchange.

Werle Chairman of New York Curb Exch.

Edward C. Werle, Johnson & Wood, was elected Chairman of the board of governors of the New York Curb Exchange for the ensuing year at the annual election held by exchange members.

Vice-Chairman of the board during the past 12 months, Mr. Werle succeeds Edwin Posner, Andrews, Posner & Rothschild, who has served as Chairman and President pro tem of the exchange since February, 1945. Mr. Posner continues as a member of the governing board.

Francis Adams Truslow, New York attorney recently elected to the Presidency of the Curb Exchange, will assume that office on March 1. He is a member of the law firm of Reed, Truslow, Crane & deGive.

In addition to Mr. Posner, Edward J. Bowler, Carl F. Cushing of W. E. Burnet & Co., James R. Dyer of Dates & Dyer, and Morton Wohlgemuth of Ernst & Co. were elected Class A governors of the exchange for three-year term. Mr. Bowler is a new member of the board. Mr. Cushing, who joined the board last year to fill a vacancy, Mr. Dyer and Mr. Wohlgemuth were reelected.

Franklyn B. Boutelle of Burton, Cluett & Dana, Edward J. Cohan of Pershing & Co., Benjamin H. Van Keegan of Frank C. Masterson & Co., and Claude F. Leaman of Hemphill, Noyes & Co. were elected Class B governors to serve three years.

E. R. McCormick was reelected a trustee of the gratuity fund of the Curb Exchange for a three-year term.

Mr. Werle has been a member of the Curb Exchange since July, 1940, and a governor for the past three years, and is also a director of the New York Curb Exchange Realty Associates, Inc. During the past year he has served as Chairman of the general committee on transactions and the stock transaction committee and as a member of the executive, finance and arbitration committees of the exchange.

Beginning his Wall Street career in 1919 as a page boy on the floor of the New York Stock Exchange, the new Curb Chairman joined the employ of Johnson & Wood in 1923. In 1928 he was appointed a salaried market employee for Aymar Johnson of Johnson & Wood and represented the firm on the floor of the New York Curb Exchange in that capacity until he acquired his Curb membership in 1940 and became a partner in the firm.

The new board of governors held its organization meeting Tuesday for the purpose of electing a Vice-Chairman, naming standing committees and reappointing officials of the exchange.

J. A. Ritchie & Co. Adds Lussey to Staff

J. A. Ritchie & Co. Inc., 70 Pine Street, New York City, bank consultants, announce that Harry W. Lussey has become associated with the firm as Manager of its government bond department. Mr. Lussey will specialize as consultant in government bond portfolio management and in tax problems as they relate to such management. He was formerly Assistant Secretary of Manufacturers Trust Co. (Investment Analysis Division).

With Bankers Bond & Securities

(Special to THE FINANCIAL CHRONICLE)

HANNIBAL, MO. — Albert W. Pettibone has become associated with Bankers Bond & Securities Co., B. & L. Building. Mr. Pettibone was formerly with St. Louis Union Trust Co.

An Inventory of Our Situation

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

Asserting there is no need for fear of another depression, Secretary Snyder contends present situation is safer than in 1929. Lists as bulwarks protecting our economy: (1) prevention of collapse of farm prices; (2) unemployment insurance; (3) Federal deposit insurance; (4) SEC regulations; (5) accumulated savings of people; and (6) record-breaking foreign demand for our goods. Favors reduction of national debt rather than major tax cuts.

The past few weeks have been a period of inventory-taking for business and industry. I trust that those of you who have been engaged in this annual appraisal of results of the past and of prospects for the future have found the answer pleasing in both respects.

John W. Snyder

It seems to me this is a good time for us to take an inventory of our national situation. May I point out today some of the assets of our economy as we enter this year 1947.

President Truman in transmitting the report of his Council of Economic Advisers to the Congress, said:

"As the year 1947 opens, America has never been so strong or so prosperous. Nor have our prospects ever been brighter.

"Yet in the minds of a great many there is a fear of another depression, the loss of our jobs, our farms, our businesses.

"But America was not built on fear. America was built on courage, on imagination, and an unbeatable determination to do the job at hand."

There is no need for unreasoning fear today. 1947 is not 1929. To recognize this fact, we have only to prod our memories a little, to recall some of the first symptoms, the causes, the manifestations of the depression of the late '20's and early '30's.

In those unhappy days, there was the collapse of farm incomes, which led to fading demand for goods, resulting in slowdowns in production and employment. Consumer buying was reduced further and further. In those days we had a collapse of the speculative securities with the demoralizing collapse of the banking system.

Today, however, not only farm income, but our national income and our productive level are at the highest ever achieved in peacetime. Employment is at an unprecedented level. Our banking system has never been stronger; speculation on borrowed

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*An address by Secretary Snyder at a luncheon meeting of the San Francisco Chamber of Commerce, San Francisco, Cal., Feb. 10, 1947.

Are Americans Too Gold-Minded?

TWO BRITISH AND U. S. AUTHORITIES DISAGREE

Continuing trans-Atlantic controversy, W. Craven-Ellis charges U. S. now repeats, with greater intensity, our 1929 mistakes, which will again reflect on gold standard system. Doubts organic relation between totalitarianism and exchange controls. Denies four billion sterling balances held abroad constitute monetary inflation. In reply Philip Cortney denies U. S. mismanaged gold standard in 1920's; insists we do not practice exchange control in any form; holds gold needed only to settle unbalances; and predicts continuing American trend toward trade multilateralism.

In the following communications W. Craven-Ellis, British monetary authority, and Philip Cortney, economist and President of Coty Inc. of New York City, continue their colloquy concerning the theories of Lord Keynes and the function of gold. Their previous letters appeared in the "Chronicle" of July 4 and Dec. 12.

LETTER FROM CRAVEN-ELLIS

London,
24th Jan., 1947.

Philip Cortney, Esq.,
Coty,
730 Fifth Avenue,
New York, N. Y.

Dear Mr. Cortney:

It was a great pleasure to me to receive your letter of Nov. 26 in reply to my letter of the 12th August last. I fully appreciate the reasons which were responsible for the delay in hearing from you.

I have come to the conclusion after carefully studying our correspondence and reading the two pamphlets which you have kindly sent to me that you, like so many Americans, are so gold minded you are quite unable to understand or appreciate the significance of any monetary and financial system which is not founded upon gold. You refer to Professor R. F. Harrod. He has been a personal friend of mine for a long time and at my request addressed the Parliamentary and Monetary Committee in the House of Commons, of which I was Chairman, on more than one occasion, although I differ from many of his economic pronouncements. British Economists are as diverse in their opinions as are American Economists. With the greatest respect I hold the view that you and others who fought for the British loan and for the International Monetary Fund did a great disservice to this country. Due largely to the monetary mechanism adopted by America the loan today is of substantially less value to Britain than it was at the time it was granted. It is a pity that no one who took part in the negotiations ever thought of the idea that, as the loan was to be made use of over a long period it should be stipulated that the number of dollars placed at Britain's disposal should have the same purchasing power when drawn upon as on the date that the loan was approved. With the knowledge and experience of what happened after a settlement was arrived at on the loan created during world war number one it was unfortunate that such a vital point was overlooked.

Charges Inflexible Attitude

From your point of view your essay on "The Economic and Polit-

(Continued on page 894)

No Time for Selling Stocks

By ROGER W. BABSON

Mr. Babson cites 10 reasons why present is no time to sell stocks which are paid for and held for income. Says brute force in settlement of political and labor disputes is frightening investors.

I advance the following 10 reasons as to why this is no time to sell stocks which are paid for and held for income.

Roger W. Babson

1. The huge amount of available money in circulation. This has increased from $7 billions in 1940 to $28 billions in 1947. It seems as if more of this would be coming into the stock market.

2. Only small amounts of listed stocks are outstanding, no more than in 1940. Hence, any concerted buying would send up prices.

3. Comparatively little speculation is now going on in stocks. In 1929 the stock transactions on the N. Y. Stock Exchange equaled the total National Income, but in 1946 these transactions were less than 20% of the total National Income.

4. Purchases now are possible only for 75% cash. This keeps weak people out of the market and theoretically should prevent too severe market breaks.

5. Banks now pay no interest on checking accounts and only 1% to 1½% on savings accounts; while governments average less than 2½%. Hence, to get from 3% to 4% one must buy stocks. This should tend to stabilize safe income-paying stocks.

6. The monthly purchases by investment companies amounting to $50,000,000 should be a market stabilizer. This, however, is only about 5% of the total monthly N. Y. Stock Exchange transactions.

7. Corporations whose securities are listed on the N. Y. Stock Exchange have the greatest cash reserves in their history—huge sums. Many have also large backlogs of unfilled consumer orders.

8. Wage increases will give the masses more spending money. This especially should help merchandising companies.

9. President Truman can balance the Federal Budget in 1947-48 if he so desires and could also reduce taxes. This should stabilize the markets and restore much confidence. The only uncertainty would be a severe drought or a very bad foreign situation.

10. The improved political outlook: The new Congress is determined to reduce expenses, cut income taxes, and amend the labor laws to treat fairly all interests. There may never be a real solution to the labor problem; but Congress can very much improve the present unfair situation.

Conclusions

Considering these 10 reasons for higher stock prices, why does the market continue to drift around? Why are people now timid to buy for permanent investment and income? Millions would be content with a fair rate of interest with safety, irrespective of whether the market goes up or down, were it not for some hidden reason which I now will explain.

Strikes—Communism—Morals

We have witnessed the use of old-fashioned brute force in the settlement of political and labor disputes. It is this revived use of force, now apparent all over the world, which is frightening investors. Even Communism—as an economic philosophy—might not be feared if the Communists were willing to leave the question to the free vote of the people. But they use force. In fact, Communism is merely enforced Socialism, the same as Fascism is enforced Capitalism. Russians blame me for talking about the possibilities of World War III and questioning the success of the United Nations; but if labor, management and politicians cannot get along in this country peacefully, and leave decisions to the courts, how can we expect over 50 different races to unite and do so?

"Juvenile delinquency," which really should be known as parental deliquency, is undermining confidence. Parents are responsible for the filthy picture shows, with their jungle dances; and low stuff that was not even allowed in saloons a decade ago. We parents are responsible for the bad radio programs from which our children learn of the underworld doings of gangsters, cowboys and petty burglars. Even our magazines, in their stories and illustrations, appear to be lowering their standards by featuring drinking, carousing and the like. Modern "art" does not bother me, but with "sensible" people buying such crazy pictures it is not surprising that too many conservative investors are bearish on everything!

Jacques Gelardin Dead

Bache & Co. announced this morning the death of Jacques Gelardin, who for many years served as the firm's representative in Egypt and the Near East and who for the past six years was associated with the firm's New York office.

Death occurred on Feb. 8 while Mr. Gelardin was vacationing in Florida.

With Otis & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO — William S. Pampel has become associated with Otis & Co., Terminal Tower. Mr. Pampel was formerly with Ball, Burge & Kraus and was connected with the Ohio State Division of Securities.

Swedish Theory of Unused Resources

By BERTIL OHLIN*

Professor of Economics, University of Stockholm

Professor Ohlin traces Swedish theory concerning savings, investment, and employment. Points out, though theory holds savings and investment are equal, planned savings and planned investment, which, also affect prices, profits, wages and employment are not equal. Stresses psychological factors in business cycle and belittles effects of money supply changes on both savings or investment. Denies savings affect credit, but asserts interest rate is prime factor in investment. Holds, lower wages can lead to increased employment, while reduced interest rates and profits may cause unemployment. Says deficit financing, when not reducing private investment, is important in anti-depression policy.

I hope I am not disappointing too many of you if I make the present lecture—as well as the following one—a rather technical one. It is my intention to turn afterwards to some more practical applications and considerations relative to the present situation.

Dr. Bertil Ohlin

It is impossible in a single lecture to attempt to summarize a theory about unused resources, but I shall try to present those parts of the Swedish theory which seem to be most relevant for economic policy.

I think one can make the distinction between those changes in the employment of labor and other resources that are connected with variations in the aggregate demand, variations in the aggregate demand for goods and services in terms of money, and those other changes in employment which may occur, even if the aggregate demand for goods and services does not change. It is true that this is a distinction that is made only for the purpose of presentation and that no sharp cleavage is possible, but I think it is useful to make the distinction nevertheless.

Let me begin with the former aspect of the problem—the changes in employment connected with variations in the total demand for goods and services. This part of the theory had not been so much analyzed in the 1920's as the other part, which could be studied in the more static theory. When the depression came in the 1930's, what we needed was emphasis on the former part—the changes in employment connected with the variations in aggregate demand.

In Sweden the study of this problem had a natural starting point: the theory developed by Knud Wicksell. Wicksell was a peculiar man. He often put to himself the kind of ques ions which many people thought a little naive. I think that was the reaction in many quarters in Scandinavia when Wicksell said, "Well, if the price of a certain commodity will go up when demand rises relative to supply, why should not the same thing be true if we take all commodities together? Why should not the same reasoning hold for the price of the aggregate supply?"

He said, it is true we have been told by J. B. Say, the French economist, that this is not so, but maybe Say was wrong. He went on asking: "Why would total demand rise under given conditions of supply?"

Wicksell's Theory

Wicksell found that the most natural explanation was that if people who *invest* will purchase capital goods or other goods for inventory for greater sums of money than what corresponds to what other people save, then, to

(Continued on page 900)

*Transcript by "the Chronicle" of the second lecture by Dr. Bertil Ohlin, of the 1947 series of Julius Beer lectures on "The Problem of Employment Stabilization" at Columbia University, Feb. 5, 1947.

Dealer-Broker Investment Recommendations and Literature

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

Aircraft Manufacturers Outlook —Study in "Fortnightly Market and Business Survey"—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

Aviation Bulletin — Containing earnings, news prices, comment and general market opinion—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

Bargain Counter—Latest issue of "Geared to the News" Bulletin Service emphasizes the relative cheapness of over-the-counter securities as a consequence of the recent sharp rise in the listed market—Strauss Bros. Inc., 32 Broadway, New York 4, N. Y.

Dividend Paying Common Stocks—Selected list of common stocks selling between $10 and $20—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

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

Fire Insurance Stocks Are Attractive — Memorandum — Mackubin, Legg & Co., 22 Light Street, Baltimore 3, Md.

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.

1947 Outlook for Airline Companies — Postwar competitive problems, favorable and unfavorable factors in the outlook, etc.—E. W. Axe & Co., Inc., The Tarrytown Press, P. O. Box 157, Tarrytown, N. Y.—paper—50¢ (25¢ to public libraries and non-profit institutions).

Radio-Television-Record Company — Report on company with interesting prospects — L. H. Wright Company, 135 Broadway, New York 6, N. Y.

Railroad Income Bonds — Memorandum discussing attractive possibilities—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of **Railroad Developments of the Week** and a list of public utility bonds giving call, first drop, price and yield.

Railroad Information, A Year-Book — Eastern Railroad Presidents Conference, 143 Liberty Street, New York 6, N. Y.

Strong Bidders for Peacetime Profits—Memorandum on **Jessop Steel Co.; Federal Electric Co.;** and **Globe American Corp.** — Kneeland & Co., Board of Trade Building, Chicago 4, Ill.

United States Government Securities and the Money Market—Review of 1946 and outlook for 1947—Bankers Trust Company, 16 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 **Fresnillo Company.**

Aetna Standard Engineering Co. —Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

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

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

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

Also available are memoranda on **W. L. Douglas Shoe Co.; Hartford Empire; Lanova Corp.; Mohawk Rubber; and Taylor Wharton Iron & Steel; Purolator Products; Upson Corp.: Alabama Mills; Diebold, Inc.; Pfaudler 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.

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

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

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

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.**

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

National Homes Corporation — Memorandum — Kiser, Cohn & Shumaker, Inc., Circle Tower, Indianapolis 4, Ind.

New York Central Railroad— Research report — Thomas G. Campbell & Co., 67 Wall Street, New York 5, N. Y.—$10.00 per copy.

Northern Pacific Railroad Company — Memorandum — Bendix, Luitweiler & Co., 52 Wall Street, New York 5, N. Y.

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

Polaris Mining Company — Analysis — R. E. Nelson & Co., Hyde Building, Spokane 8, Wash.

Portland Electric Power Company—Analysis—Ira Haupt & Co., 111 Broadway, 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.

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

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

Vacuum Concrete Corp.—Memorandum—Pulis, Dowling & Co., 25 Broad Street, New York 4, N. Y.

Wisconsin Bankshares Corporation—Discussion in the current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee, 2, Wis.

Charles C. Bechtel With Watling, Lerchen & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Charles C. Bechtel has become associated with Watling, Lerchen & Co., Ford Building, members of the New York and Detroit Stock Exchanges. Mr. Bechtel was formerly Vice - President of H. V. Sattley & Co., with which he had been associated for many years.

Charles C. Bechtel

S. R. Livingstone Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Robert A. Benton, Jr., has become connected with S. R. Livingstone & Co., Penobscot Building, members of the New York and Detroit Stock Exchanges. Mr. Benton was previously with Cray, McFawn & Co.

Marxer & Co. Adds Hill

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Roland B. Hill has joined the staff of Marxer & Co., Penobscot Building, members of the Detroit Stock Exchange.

Prescott Co. Adds Two

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Benjamin W. Fauver and John B. Hopkins have become affiliated with Prescott & Co., Guardian Building, members of the New York and Cleveland Stock Exchanges.

Illinois Brevities

Optimism for the remaining months of 1947 was voiced last week in Chicago by Gen. Robert E. Wood, Board Chairman of Sears, Roebuck & Co., and executives representing six basic industries at a conference on distribution sponsored by the Chicago Association of Commerce and Industry. The six industrial officials were Edward L. Ryerson, Chairman of Inland Steel Co.; Courtney Johnson, assistant to the Chairman of Studebaker Corp.; Gen. T. S. Hammond, Chairman of the Whiting Corp.; A. W. Peake, President of Standard Oil Co. of Indiana; Bertram J. Cahn, Chairman of B. Kuppenheimer & Co., Inc., and Oscar G. Mayer, President of Oscar G. Mayer & Co. Their comments:

General Wood: Prices will decline gradually this year, and merchandising firms will have supplies sufficient to meet demand in most lines by the end of the year. Sales in lines other than luxury merchandise and women's apparel show "no signs of abatement."

Mr. Ryerson: Some downward adjustments of steel prices may come "in the near future." It seems likely that "the products which continue in demand in spite of some over-pricing will expand to the point of taking up a large part of the slack of those items which will remain on the shelves."

Mr. Johnson: There is more demand for automobiles than can be met this year. The auto industry probably will produce about 4,000,000 cars and 1,000,000 trucks. Lack of steel will preclude reaching the estimated demand figure of 5,000,000.

General Hammond: The outlook for capital goods manufacturers is good, since a great demand exists for tools and equipment. His company's biggest problem is getting supplies and materials.

Mr. Peake: Demand for petroleum this year should be 4% higher than last year and it will force the industry to operate at higher than wartime levels. Distillates now rank as one of the major derivatives and will "assume fast-growing economic significance."

Mr. Cahn: It is "fair to assume that a continued seller's market in the men's medium and quality price fields will afford several seasons of full employment and production." Market demand is "greater than productive capacity."

Mr. Mayer: Farmers may get $2,000,000,000 more this year than last from the sale of meat animals. According to present estimates, the largest per capita consumption of meat since 1911 is probable for the year.

* * *

Froedtert Grain & Malting Co., Inc., the world's largest commercial maltster, and Rockwood & Co., chocolate manufacturing firm, announced a plan to merge. The new company would have an authorized capitalization of $5,500,000 in 20-year, 3¼% sinking fund debentures; $4,500,000 in combined 4.4% cumulative preference and 5% cumulative preferred stocks, and 2,500,000 shares of $1 par common. Present companies would be operated as divisions.

* * *

Braniff Airways disclosed the completion of arrangements for an unsecured loan of $10,000,000 from a group of eastern banks. The long-term credit will be used to finance equipment purchases.

* * *

Sears, Roebuck & Co. was reported considering a plant to conclude its six-year decentralization program by breaking itself into five operating companies. The company already has set up three autonomous territories, the West Coast, Eastern and Southern.

* * *

International Harvester Co. has arranged with its depositary banks for a $100,000,000 line of credit for 1947, it was announced. Harvester will negotiate short-term loans with individual banks as the need arises.

* * *

Wilfred Sykes, President of Inland Steel Co., was inducted as President of the Chicago Association of Commerce and Industry, which has added the words "and Industry" to its name because of the large number of manufacturing members. Mr. Sykes predicted a short period of recession and readjustment, followed by high business activity for a long time. He urged more caution in viewing 1947 prospects.

* * *

James F. Burns, Jr., told a meeting in Chicago that the present method of determining commission charges in securities transactions is outmoded, and needs complete revision.

* * *

Chicago's 1947 budget passed by the City Council was up $3,900,000 from the $233,558,637 approved by the finance committee a month before. It amounted to $237,458,637.

* * *

Executives of big Chicago banks at their annual meetings of stockholders last month appeared concerned about the rising operating costs. Philip R. Clarke, President of the City National Bank & Trust Co., predicted the probable increase in costs would result in lowered net profits for 1947.

* * *

Armour & Co. took another step toward resumption of payments on common stock and toward completion of its refinancing plan when directors declared a dividend of $10 a share on the 6% cumulative convertible preferred, to be applied to arrearages.

* * *

The Northern Trust Co. said retailers were becoming increasingly cautious in their efforts to avoid what might prove to be a topheavy accumulation of inventories.

* * *

The Public Service Co. of Northern Illinois has virtually completed a farm electrification program started 20 years ago and has added more than 1,000 miles of rural power lines since the end of the war. Britton I. Budd, President, said 98% of farms in the utility's area now have electricity.

The SEC and Mining Securities

By EDMOND M. HANRAHAN*
Member, Securities and Exchange Commission

Commissioner Hanrahan, in explaining policies of SEC and applying them to mining securities, calls attention to Registration Form S-11, which is adapted to shares of exploratory mining companies. Points out Regulation A, which permits issuer to offer up to $300,000 offering value of securities in any one year, can be used by most mining companies. Holds since there is greater speculative element in mining shares, investors must be given reasonable amount of information to make informed judgment. Calls for full cooperation with SEC.

Although I have had no mining experience I have always had a great interest in the industry. Furthermore, problems arising in connection with the financing of mining properties are of great interest to the Commission. We recognize the importance of mining to the nation's economy and security.

E. M. Hanrahan

We members of the Commission have been eager to learn, through direct contact, the point of view of representatives of various industries which must, from time to time, obtain public financing. We know that each industry has its special problems in connection with financing. Informal meetings and discussions of this kind give us an opportunity to think together, and to consider some aspects of these problems.

You know the Congress has declared that securities transactions have to be regulated to protect our national economy and to insure the maintenance of fair and honest markets in securities. No one interested in the public welfare, the securities industry, or any other industry which depends upon the public offering of securities for any part of its finances, any longer questions the fundamental correctness of this position.

The Securities Act of 1933 is intended to provide full and fair disclosure of the character of securities sold in interstate commerce and through the mails, and to prevent frauds in their sale. Manipulation and dishonesty thrive upon mystery, misrepresentation and concealment. The Act was intended to prevent these. Disclosure is obtained through filing with the Commission registration statements which contain information necessary to arrive at an informed judgment whether to buy the securities. The Act requires the delivery of a prospectus to investors to whom the securities are offered or sold, and this prospectus must contain in summarized form the important in-

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*An address by Commissioner Hanrahan before the Colorado Mining Association, Denver, Colo., Feb. 7, 1947.

With H. C. Hopkins & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Chester W. Willett has become associated with H. C. Hopkins & Co., Union Commerce Building.

Real Estate Securities

A trader with 43 years' experience buying and selling real estate and real estate securities believes a country-wide real estate boom is in the making. He says he has been through three booms already and thinks he can detect certain sure signs pointing inevitably in the direction of another such expansion.

The signal which will touch off the spurt in the new construction which, by the way, he sees as not too far off will come, he believes, when the OPA removes ceilings on new dwellings. The far-sighted, in fact, are already purchasing sites which they believe will be desirable for new homes or apartment houses. Like many other Wall Street observers today, this observer subscribes wholeheartedly to the belief that rent ceilings will be lifted gradually, pretty much in the progressive fashion described in these columns last week, and that the ceilings will be lifted off new construction at a rather early date.

Two steps have been taken in this progression already, he points out, both of them effective this coming Saturday. These steps are (1) the removal of ceilings from hotel transient rooms and (2) the granting of relief to landlords who can prove economic hardship under existing controls, although there is really nothing new in this second step. Landlords have always been able to petition for rent adjustments in hardship cases but, he thinks, the new rule may have the salutary effect of speeding up action on petitions for relief, that is, cutting down the waiting-period for a decision from the six months which has been customary to something like six days or so.

The general public, he feels, traditionally unfriendly if not actually hostile to landlords as a class, may look upon landlords' claims to economic hardship with unbelieving and suspicious eyes. Reasonable people, however, will have to admit that costs have gone up all around and that landlords, consequently, have not been—could not have been — immune from these increases. Men who own their own homes and who have therefore had to buy coal, make repairs of all sorts, and pay taxes, he feels, will realize at once that there could be something to the claims of some landlords that they have had to carry some properties at a loss in recent years. Not so long back, just before the war, in fact, many landlords cut rents below what was considered reasonable, even for the period, just to keep their buildings completely occupied, that is, to get such revenues as they could. Not long after they did this, the OPA froze these rents at their substandard levels and soon these landlords found themselves caught in a vicious squeeze between low revenues and increasing costs.

Ceilings will be lifted and probably sooner than many people think, he believes. Now that the lid is off some ceilings, it will probably be easier for the other ceilings to come up a bit. In fact, our informant contends, a general 8 to 10% lifting of rent ceilings can be expected before this coming summer. In the first place, he is convinced, society can no longer deny the price relief to the landlords which has been granted to other sections of the business community. The ceilings will undoubtedly be taken completely off new dwellings, very soon or should be, because that is the only way the housing shortage is ever going to be relieved. The only explanation, he believes, that can be given for the failure of the real estate industry, in all of its phases, to indicate to interested parties the inevitable connection that exists between adequate economic incentive, on the one hand, and new building, on the other, is that the industry is cursed, as it were, with certain fundamental weaknesses itself.

Landlords are prone to look upon their particular properties, he points out, as the very center of the universe. If there were more landlords with the vision that perspective could give them, it might be easier now for CIO and veteran spokesmen on the question of rents and the housing shortage to see where their true interests lay, he feels. It is this same lack of comprehension of the nature of the economic forces at work in the real estate field that will lead to excesses in building construction later so that there will be a flood of new homes at a time when they are no longer needed, he thinks, too.

Realistic thinking on real estate questions is not an easy exercise, it is pointed out. However, if one is to avoid just kidding himself, he should take all factors into consideration. Everyone — just about everyone, that is — thinks that he is an authority on real estate matters, that he knows all there is to know about the subject, he feels. Tenants usually lose sight of the fact that, in the final analysis, it is they who determine what rent will be paid on some property. A landlord can exert an influence on rent, he declares, but often it is in the direction of reducing rents, to get the tenants of someone else's property, especially when, in a declining market, he has been able to erect a new building at less cost than someone else who erected his building in a rising market, that is, in a period of higher and increasing costs.

C. V. Scanlon to Discuss Adequate Insurance Coverage Before NACA

(Brooklyn Chapter)

The Brooklyn Chapter of the National Association of Cost Accountants will conduct its technical session of the month at the Park-Vanderbilt Restaurant, Park Place and Vanderbilt Avenue, Brooklyn, on Wednesday evening, Feb. 19, at 8 p.m.

Mr. Charles V. Scanlon, an Insurance Consultant, associated with the firm of Benedict & Benedict, will address the members on this subject, "Adequate Insurance Coverage — The Accountant Assists Management."

Mr. Scanlon has spoken before many NACA and other audiences on this subject and his current discourse will cover savings in premiums due to comprehensive coverage contracts, broadening of contracts, loopholes missed by the untrained eye, stability of insurance companies and how to judge that stability as well as suggested methods for securing maximum coverage at minimum cost.

M. Ibers and F. A. Pakas With T. J. Feibleman Co.

T. J. Feibleman & Company, members of the New Orleans Stock Exchange, announce that Max C. Ibers, Jr. and Frederic A. Pakas are now associated with the firm. Mr. Ibers will be in the firm's New Orleans office, Richards Arcade Building, while Mr. Pakas will be at the New York office at 41 Broad Street.

Mr. Ibers was formerly with Weil & Co. of New Orleans and prior thereto served as manager of the trading department for Oscar F. Kraft & Co. in Los Angeles. He was also trading manager for Pledger & Co., was with Fairman & Co. and in the past was a principal of Quincy Cass & Co.

Mr. Pakas previously was manager of the trading department of Alison & Co., Detroit, and prior to serving in the Army for 37 months was proprietor of Pakas & Co. with offices in New York and Jersey City.

Herrick Waddell Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Fred W. Jens has become connected with Herrick, Waddell & Co., 1012 Baltimore Avenue.

Restrictions on Right to Strike

By LEE PRESSMAN*

General Counsel, Congress of Industrial Organizations

Upholding right to strike as constitutional privilege, CIO attorney attacks bills recently introduced in Congress as violating basic principles, while shrouded in general slogans which give hypocritical lip service to these same principles. Holds restriction of right to strike is part of general drive against labor in aid of industrial monopoly.

The right of American working men and women to go on strike is being subjected today to treatment and discussion characterized by gross hypocrisy. Like so many rights which underly our democratic institutions it finds few orators and editorial writers who are not willing to pay it lip service. Like so many rights fundamental to our American democratic institutions it finds, however, very few among those orators and editorial writers who do not at the same time propose to destroy it.


Lee Pressman

It has become the accepted routine in every legislative measure directed against labor to incorporate somewhere a pious declaration denying any intent to abridge the right to strike or, more usually, denying any desire to interfere with the free right of workers to refuse their services to their employer. The routine insertion of these pious protests has reached the point where the inclusion of such a provision is almost a sure clue to the probability that the rest of the bill involves a studied and extensive attempt to outlaw any effective strike action or to deny any effective exercise by workers of their right to refuse their services.

Before turning to the specific bills which pose the issue today it should be helpful to re-examine a few fundamental thoughts. As the text for our discussion of today I should like to recall to your mind the language of the United States District Court in Chicago in its recent decision declaring invalid the Lea Act. You may perhaps remember that the court there said:

"Under the Thirteenth Amendment the right of any worker to leave his employment at will, or for no reason at all, is protected and that right is inviolate. The freedom to quit and refuse to undertake work may as readily be exercised through a group organization as individually."

The Thirteenth Amendment to the United States Constitution outlawed involuntary servitude.

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*A speech by Mr. Pressman before National Lawyers Guild Conference on Labor Relations, Washington, D. C., Feb. 8, 1947.

Buying Power—Key to Sustaining Prosperity

By KEEN JOHNSON*

Under Secretary of Labor

Asserting sustained purchasing power is most important factor in our economy, Labor Dept. official stresses need of competitive price structure based on mass production. Holds we can look for both lower prices and higher incomes and says genuine collective bargaining can and should play important part in this attainment. Contends no major depression has ever been due to wage and salaried workers receiving too large a share of national income, but cautions both labor and management must exercise restraint.

Recently I took part in a panel discussion which had as its subject "Boom or Bust." Certainly that title is provocative enough, for it raises, not a 64-dollar question, but a 64-billion-dollar question. Nevertheless, I think that phrase is misleading because it overlooks a third alternative — the choice between "boom *and* bust" on the one hand, and sustained, well-balanced prosperity on the other.


Keen Johnson

There are pessimists who say that the latter choice is no longer open to us; that we are already in the grip of a boom which can only end in the inevitable bust. Such economic fatalism need not prevail just because it has heretofore.

President Truman, in his Economic Report to the Congress, analyzed our present situation very clearly and indicated what needs to be done: "On the plus side of the economic ledger," he said, "we possess a fabulous wealth of resources. . . . The spending power of consumers, as a whole, is much higher than it ever was before the war. Consumer desires are fortified by a backlog of unsatisfied wants. . . . There are long-deferred and needed public works, Federal, State and local. There is a strong and sustained foreign demand."

Discussing danger spots in the economic picture, the President pointed out:

"Chief among the unfavorable factors is the marked decline in real purchasing power . . . resulting from the large price increases in the second half of last year. . . . If price and wage adjustments are not made—and made soon enough—there is danger that consumer buying power will falter . . . production will drop, and unemployment will grow. . . ."

I do not have to tell this audience that the question of purchasing power—real purchasing power to take goods off dealer's shelves—is probably the most important in the economy. You know, far better than I do, that dollars in the housewife's purse have opened more doors from the

(Continued on page 879)

*An address by Mr. Johnson at the opening of the Lane Bryant Building, New York City, Jan. 31, 1947.

The Imbalance Between Wages, Prices and Profits

By RICHARD V. GILBERT*

Formerly Economist, Office of Price Administration

Ex-OPA official, maintaining profits have increased more rapidly than wages and prices, asserts this condition, unless remedied, will lead to business depression. Holds consumption in current year will decline 10%, while production will increase in same ratio, thus leading to overstocking of markets. Contends higher wages are essential to maintain purchasing power, and attacks NAM policy to reduce prices rather than raise wages as aimed at impairing independence of workers. Recommends 15% wage boost.

I propose to discuss with you the most important economic question that faces the country today—the imbalance of wages on the one hand and prices and profits on the other. This question is of crucial importance to all of us for two reasons. First, it is important because wages are what most of us live on. And when prices go up as they have during the past six months and wages remain approximately the same, that means less food on the table and less clothing for most of us. The second reason is even more important. What happens to wages and prices and profits determines whether we have full production with jobs for all and general prosperity, or whether the wheels of industry slow down, men are thrown out of work and we got into a depression.

Richard V. Gilbert

For in our system businessmen do not produce goods unless they can sell them, and they cannot sell them unless people have enough money to pay for them. When the wages being paid out by business fall too far short of what is required to buy what we are producing, the result before very long is a depression. In a word, when the relation of wages, prices and profits, that is, the distribution of purchasing power is healthy, we have prosperity. And when that relation gets distorted and labor gets too little and management too much, we get depression.

Never before to my knowledge have wages on the one hand and prices and profits on the other been more out of balance than they are at this time. It is this imbalance that lies behind the almost universal fear that a business recession will strike this country sometime in the year 1947. That fear, I regret to say, is well-founded. Every time such a condition has developed in the past it has invariably led to a business smash-up.

Too Much Going to Profits

The major part of our trouble stems from the crippling of the (Continued on page 905)

*Address by Mr. Gilbert before the National Lawyers Guild, Washington, D. C., Feb. 7, 1947.

Bureaucracy Trend Toward Collectivism

By HON. JOSEPH C. O'MAHONEY*

U. S. Senator from Wyoming

Pointing to recent trend toward power concentration in Federal Government, Sen. O'Mahoney compares it with growth of power of great corporations and labor unions. Holds trends point to drift toward collectivism and cites example of Great Britain. Points out U. S. is only nation still adhering to capitalistic system, and sees no solution of problem of power centralization until a formula is found by which great corporations, labor unions and other groups might live together for benefit of all. Says it would be as futile to destroy labor unions as to destroy great corporations.

The Eightieth Congress is not yet one month old but there have already been introduced in the two Houses 30 bills increasing the powers of the Government at Washington. These measures have been sponsored by members of both political parties, and are defended by their authors as absolutely essential in the public interest.

Sen. J. C. O'Mahoney

One of these bills, introduced by a Republican Representative, would establish the Office of Power Administration. Another introduced by a Democratic Representative, would establish a Water Polution Advisory Board in the Federal Public Health Service. A Republican United States Senator introduced a bill to create a new department of peace. A Democrat.c Senator introduced a bill to establish a Federal transportation authority as an independent agency.

Some of these bills deal with matters that are clearly national in scope. Others deal with matters that are purely local. All of them, if enacted, would make big government bigger. This is taking place within three months of a national election at which the people of the country, in unmistakable terms, let it be known that they want not more government, but less.

What then is the explanation of this steady drift toward central government, and what are we going to do about it? These questions must be answered by the people of the United States if we are to preserve that system which we so automatically call the American way of life. The American lawyer, with a great tradition of public service behind him, has an opportunity now to do for the people of the United States and the world what was done for (Continued on page 897)

*An address by Sen. O'Mahoney before the New York State Bar Association, New York City, Jan. 25, 1947.

More Long-Term Treasury Bonds Favored

Bankers Trust Co. of New York, in review of money market and government securities, points out benefit of Treasury's debt redemption program in 1946 will be nullified unless policy of reissuing maturing short-term certificates is changed to one of redeeming maturities by selling long-term bonds to public.

In its annual review of government securities and the money market, the Bond Department of Bankers Trust Co. points out that the large-scale retirement of Government securities was the principal influence on money and banking conditions in 1946.

As a result of the Treasury's debt retirement program, according to the study, there has been a net shrinkage of $15.6 billion in bank holdings of Government securities; Government deposits have been reduced from $24.6 billion to $2.7 billion and the steady downward trend of interest rates in the early part of the year was halted.

Problems raised a year ago by the frozen structure of interest rates and debt monetization were postponed, temporarily at least, the report points out, by the 1946 debt retirement program, but since that program has now been completed the question arises whether these problems will reappear.

Excessive Short-Term Debt

In a discussion of debt management the study calls attention to the fact that over half of the $177 billion of marketable Government securities outstanding are due or callable within five years, including about two-thirds of the amount held by the commercial banks.

"Even if a Treasury cash surplus of several billion dollars should accumulate each year," the writers state, "it will be possible to pay off only a small portion of the marketable debt maturing or callable in 1947 and later years; the remainder will have to be exchanged for other Treasury securities.

"If the Treasury continues its present practice of converting into certificates all maturing or callable issues not redeemed in cash, the reduction of the short-term debt achieved in 1946 will be undone within a relatively short time. Treasury notes will disappear from the debt and the supply of bank-eligible bonds will constantly dwindle until 1952, when issues now restricted will begin to become available."

Under such conditions, the study adds, commercial banks would be strongly tempted to reach out for higher yields and to dispose of their excessive short-term holdings to the Federal Reserve banks particularly if the latter continue to support short-term rates at present levels. This, together with the growing dearth of bank eligible Treasury Bonds, might lead to strong downward pressure on the yields not only of such eligible issues, but eventually of all intermediate and long-term issues.

Further reductions of bank-held Government debt and a check against possible unhealthy expansion in private credit could be achieved, the report states, if debt redemptions out of cash surplus are supplemented by a policy of offering long-term bonds to the public and reducing the short-term debt, especially that held by the banks. The resulting contraction in the Government portfolios of bank and private deposits would serve to offset and might even exceed the expansion of credit from the rise in bank loans and other investments.

What approach the Treasury may be expected to take to the problems of debt management over the next several years will depend to some extent upon the condition of business and the economic environment in which the Treasury's policies are carried out. If inflationary forces predominate, the Treasury can offset the effects on the money supply by reducing the bank-held debt and distributing a greater share to the public. Under conditions of deflation, on the other hand, the money supply in the hands of the public can be expanded and funds released for consumption or private investment by checking or eliminating sales of Government securities to the public and permitting commercial bank holdings to increase.

No Change Likely on Long-Term Yields in 1947

Long-term bond yields are not likely to change very much during 1947, according to the Bankers Trust economists, although they may be subjected to some downward pressure if short-term rates remain frozen and the Treasury continues to refund all unredeemed maturing obligations into certificates. On the other hand, if short-term rates are unfrozen there may be some firming of intermediate and long-term yields but the maintenance of the 2½% rate should not be very difficult.

If there is a general decline in commodity prices, some business recession, and a slackening in the demand for loans in 1947, there might be some easing of credit conditions. Such a development would afford an excellent opportunity to unfreeze short-term rates with a minimum of market disturbance.

"During 1947, neither the volume of demand deposits nor net operating earnings of commercial banks are expected to show much change from the previous year," the writers conclude. "Although there are a number of uncertainties in the business picture, there are many elements of underlying strength in the economy which encourage the hope that any near-term adjustment in business will be in the nature of a mild recession, mostly in non-durable goods, and not a severe or prolonged depression.

C. G. McDonald Adds Bolhover and Conway

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Max E. Bolhover and James E. Conway have become associated with C. G. McDonald & Co., Guardian Building, members of the Detroit Stock Exchange. Mr. Bolhover was formerly with A. M. Kidder & Co.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Annual reports to stockholders are beginning to appear. This week we have the 128th annual statement of the Aetna Insurance Group of Hartford, Conn. Aetna Insurance Co., the parent company, was founded in 1819 and is one of the oldest stock companies in the country, and has paid dividends without interruption since 1873. Companies comprising the group in addition to the parent company are: World Fire and Marine Ins. Co., Century Indemnity Co., Piedmont Fire Ins. Co., Standard Ins. Co. of New York, and Standard Surety & Casualty Co. of New York.

Total premiums written in 1946 by all companies in the group were greater than in 1945 by 31.6%. The fire group gained 32.1%, and the casualty group, 29.7%. The greatest percent gain was made by Standard Insurance Co. of New York, with a premium volume expansion of 57.4%.

The following table shows the figures for each company:

Name	Premiums Written 1946	Increase Over 1945	
	$	$	%
Aetna Insurance Co.	46,366,276	9,914,203	27.2
World Fire & Marine	4,054,768	1,153,730	39.8
Piedmont Fire	3,823,089	1,224,258	47.1
Standard Inc. Co. of N. Y.	7,349,826	2,680,286	57.4
Total, Fire Group	61,593,959	14,972,477	32.1
Century Indemnity	11,913,115	2,538,614	27.1
Standard Surety & Casual of N. Y.	5,533,303	1,452,728	35.6
Total, Casualty Group	17,446,418	3,991,342	29.7
Total All Companies	79,040,377	18,963,819	31.6

It is also of interest that reported loss ratios in 1946 for the fire group were lower than in 1945, despite the exceptionally high fire losses last year, while expense ratios differed only fractionally. The casualty companies, however, experienced higher loss ratios in 1946 compared with 1945, but fractionally lower expense ratios. The comparisons are as follows:—

	Incurred Loss Ratio		Expense Ratio		Combined Ratio	
	1945	1946	1945	1946	1945	1946
Fire Group	51.5%	43.4%	41.9%	41.7%	93.5%	85.1%
Casualty Group	44.6	50.2	49.1	48.4	93.7	98.6
Total	50.0	44.9	43.6	43.2	93.6	88.1

These operating ratios indicate that Aetna's underwriting experience was more favorable in 1946 than in 1945, and this fact shows up in the earnings figures as reported to stockholders. Comparisons for the two years are as follows:

	1945	1946
	$	$
Statutory Underwriting Loss	—1,272,108	—1,918,211
Premium Reserves Equity	1,414,640	3,342,460
Net Adjusted Underwriting Gain	142,532	1,324,249
Per share	$0.19	$1.89
Investment income	1,830,627	1,727,886
Per share	$2.44	$2.30
Taxes	69,757	70,171
Per share	$0.09	$0.10
Total net operating profits per share	$2.54	$4.09
Liquidating value per share	$66.00	$65.25

The above figures are for Aetna alone, and do not include the earnings of the company's wholly owned subsidiaries. In 1945 consolidated earnings were approximately 33% greater than parent earnings, and consolidated liquidating value, 21.5% greater.

Benj. van Keegan Gov. Of N. Y. Curb Exch.

Benjamin van Keegan, Frank C. Masterson & Co., 64 Wall Street, New York City, members

Benj. van Keegan

of the New York Curb Exchange, has been elected a Class B Governor of the Curb Exchange. Mr. Van Keegan is active in the Security Traders Association of New York.

First Boston Offers Pfd. & Com. Stocks of Northwestern P. S. Co.

An underwriting group headed by The First Boston Corp. offered to the public on Feb. 11 26,000 shares of Northwestern Public Service Co. 4½% cumulative preferred stock, $100 par value, and 410,000 shares, being the entire outstanding amount of the company's common stock, $3 par value. The preferred shares were offered at $107 per share and accrued dividends and the common stock at $13.50 per share.

The offering of new 4½% preferred is subject to an exchange offer, which expires Feb. 17, 1947, being made to holders of the company's outstanding 39,852 shares of 7% and 6% cumulative preferred, under which they will be entitled to exchange their shares for new preferred share-for-share on a "first come first served" basis with a cash adjustment of $3.75 per share in the case of the 7% preferred and $3.45 per share for the 6%.

Of the 410,000 shares of common being offered, 110,000 shares are being sold by the company and 300,000 are being sold for the account of Bear, Stearns & Co.

Proceeds to be received by the company from the sale of the preferred and the 110,000 shares of common, together with a cash contribution to be made by Bear, Stearns & Co., and other funds, will be used to redeem the exchanged shares of 7% and 6% preferred at $110 per share, and to provide funds required for the cash adjustments in connection with the exchange offer.

Upon completion of the financing the company will have outstanding, in addition to the common and preferred being offered, $5,275,000 of 3% first mtge. bonds, due 1973. The new preferred shares are redeemable at any time at $110 per share and accrued dividends.

The Critical Tasks Ahead

By HON. ARTHUR H. VANDENBERG*
U. S. Senator from Michigan

Maintaining there is no reason why nation should not be on threshold of great prosperity, Republican party leader asks for peace at home and abroad, and urges new non-punitive labor legislation which still protects labor's rights and yet lead to greater productivity. Favors flexible profit-sharing, and wants reduced budget. Asserts no nation can defend peace alone, and though praising United Nations, urges standing firm against unilateral disarmament.

In these perilous times which require all the vision and all the courage we can muster, we are once more at Gettysburg with Lincoln as he pleads that government of the people, for the people and by the people shall not perish from the earth. Republicanism—now as then—is not an end within itself. It is the means to an end.

A. H. Vandenberg

The end is the healthy preservation here in the United States of free institutions, free enterprise and free men, amid a disorganized and distraught world not yet recovered from the shock and wreckage of total war. The end is the restoration of those stabilities which shall rekindle the hopes of all Western democracy everywhere that here is the true way of life, liberty, happiness and peace.

The end is the maintenance of this bulwark against all the sinister forces of subversion, no matter how plausible their guise, which thrive upon chaos and treachery and confusion, and which threaten not only the freedoms but the very souls of men.

The American people have turned to the Republican party as the means to these ends. We must not let them down. The task is bigger than any party. It is as big as destiny itself. It forecasts not only the kind of a country but also the kind of a world in which we shall live.

If we concentrate upon this task, we shall find that we have raised standards to which men and women of all parties will repair.

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*An address by Sen. Vandenberg before the Michigan Republican Convention, Grand Rapids, Mich., Feb. 8, 1947.

20% Tax Cut as Temporary Expedient Approved

Report of Committee on Postwar Tax Policy, headed by Roswell Magill, points out further study could then be made in affording tax relief. Disapproves raising exemption level as causing heavy loss of revenue. Scores high taxes on corporations as destroying business incentive.

A cut in federal spending and reductions in personal income tax rates were called for in a report issued on Feb. 10 by the Committee on Postwar Tax Policy. The Committee stated further that:

Roswell Magill

"Our analysis of the federal budget data indicates that it would be possible to perform the federal functions adequately in the fiscal year 1948 for between $31 and $32 billion."

The Committee said that, if the President's proposed $37.5 billion budget were cut to $32 billion, it would be possible: (1) to give substantial relief to individual income taxpayers, (2) to reduce the present $260 billion U. S. debt by several billions next year.

The recommendations were contained in the Committee's second and final report, a 170-page analysis of the federal tax structure, made public today by Roswell Magill, former Under Secretary of the Treasury and professor of law at Columbia University, who is chairman of the group.

The Committee, formed in May 1944, is composed of five leading fiscal authorities, working under a special grant from the Maurice and Laura Falk Foundation. Its first report, "A Tax Program for a Solvent Amercia," was issued in September, 1945.

In the belief that the nation would largely complete the transition from war to peace by mid-1948, the Committee said:

"For the normal future, we suggest that there may be a choice, as a matter of popular will, between a budget range of $25-30 billion and a lower range, such as $20-25 billion. We believe that the latter would be a wiser and safer range. The highest previous level of peacetime spending by the Federal government was $8.7 billion in 1940."

Emphasizing the need for early tax relief, the Committee said:

"Every citizen has a stake in the welfare of the economy. Regardless of what he does or what his own income may be, he will be better off in proportion as there is vigor and growth throughout the economic system.

"It is not easy to see where adequate venture capital for the future will come from if present tax rates are continued. It is not easy to see how a young man is going to earn and then save enough money to acquire a business of his own."

The report cautioned, however, that: "No matter how viewed, the budget is the key to tax relief." The Committee said further that: (1) There must be total revenue sufficient to cover expenditures; (2) It is especially important to reduce the national debt during periods of prosperity; and (3) These two goals can be attained,

(Continued on page 899)

Aftermath of the American-British Loan

By PROFESSOR LIONEL ROBBINS*
London School of Economics

Eminent British economist asserts Great Britain's dollars will be very short owing to (a) commodity price rise; (b) heavy external commitments particularly regarding Germany, and (c) exports against payments in inconvertible currencies. Holds remedy is not in economic warfare, particularly against U. S., but in general clearance for active international trade.

In the autumn of 1945, with the end of the war and the consequential winding up of lend-lease, economic policy in this country was confronted with two major problems. On the one hand, it had to find means of financing our day to day requirements of food and materials. On the other, it had to redirect internal arrangements so as to ensure as rapid an adaptation as possible to the new tasks of the peace economy, the restoration of consumption and the making good of war damage and war arrears. It is still early days to judge the ultimate success of the policies which have been adopted to meet these problems. But it may be useful nevertheless to take stock a little to see what progress has been made and what difficulties lie ahead.

Exports and the Balance of Payments

So far as the external problem is concerned, there is at least one sector on which most gratifying advances have been made. The increase in the volume of exports has greatly surpassed expectations. Considerable progress has already been made towards the attainment of the target of a 75% increase. Although there are many snags and obstacles ahead, the continued increase in recent months in the volume of labor employed in the export industries gives reason to suppose that, were there to be a sufficiency of coal and raw materials — a critical proviso — good progress might continue to be made. This is no inconsiderable achievement. While there may be reasons for doubting the continuance of these favorable conditions, we should not withhold credit from those who, despite continuous popular clamor for a relaxation of austerity at home, have consistently maintained the diversion of supplies to export. For nothing can be more certain than that, if, within a very short period, we do not succeed in balancing our external accounts, we shall be involved in economic difficulties perhaps even greater than those which beset us in the worst period of the war; and things other than the standard of life, our military and diplomatic power in the world and all that that implies, would suffer very heavily in the process.

At the same time, while the export drive develops, the current deficiency in the balance of payments is covered by the American and Canadian loans. Much as has been said against the agreements which made these possible, no other practical plan for bridging the gap has been brought to the notice of the public. The critics who urged that we could meet the situation by assistance from elsewhere have failed to reveal the sources they had in mind; and the gradual realization of the magnitude of our external disequilibrium has done much to discredit their point of view. Meanwhile, debates in Congress have perhaps gone some way to dispose of the view that the bargaining was all

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*Abstract from an article, "Economic Prospects," by Professor Robbins, in Lloyds Bank Review, London, January 1947.

Foresees Higher Rates for Corporate Loans

Dr. Jules I. Bogen points out continued pegged rates on government securities does not necessarily mean interest rates on corporate borrowing will be similarly stabilized.

The cost to corporations of borrowing money is likely to rise over the next few years, even if interest rates on Government securities are effectively pegged at present levels, Dr. Jules I. Bogen, editor of the Journal of Commerce and Professor of Finance of New York University, told the Conference on Finance of the American Management Association at the Hotel Commodore on February 5th. Dr. Bogen is Vice-President of the AMA.

Dr. Jules I. Bogen

"The huge size of the public debt makes it necessary for the Federal Reserve banks and the Treasury to cooperate closely to support the market for Government obligations," Dr. Bogen said. "To prevent a sharp rise in Treasury interest payments, to facilitate refunding of maturing obligations and to protect institutional holders of Government securities from depreciation of their holdings, we may expect interest rates on the national debt will continue to be pegged at rates close to those prevailing today.

"Pegged interest rates on Government securities, however, do not mean that interest rates on corporate borrowing will be similarly stabilized. Interest rates on corporate financing do not bear a fixed relation to yields on Government securities of corresponding maturities. Rather, the differential between yields on Government and on corporate obligations varies in response to four major influences. These are:

"1. The volume of available offerings of the two classes of obligations. During the war, Treasury securities were sold in great profusion, whereas corporate financing was at a low ebb. This caused the yield spread to narrow to a marked extent. By contrast, the next few years could well witness some contraction in the volume of Treasury securities held outside Government agencies, while corporate financing could expand considerably with a high level of business activity and a high price level.

"2. The value that investors place on a protected market for Government securities, as against the relatively free market for corporate obligations. Institutional investors will doubtless place a higher value upon the stabilized market for Governments in an era when corporate bond prices may pursue a declining trend, which would further widen yield differentials.

"3. The credit risk, minimized in an era of large corporate profits is taken far more seriously when the profits outlook becomes clouded. Doubts about future earnings, as has been seen in the case of the airlines, makes lenders more insistent upon adequate compensation for assuming credit risks.

"4. Operating costs of financial institutions are rising. This puts pressure upon them to increase their revenues to offset higher costs, as is the case with other businesses. Since pegged interest rates on Government securities prevent them from securing a higher return on this part of their portfolio, except through lengthening maturities, the pressure will be so much greater to obtain higher yield from corporate obligations.

"These factors will tend to raise the interest cost of corporate financing, both short and long term, over the next few years, even if yields on Government securities of various maturities are held unchanged through Federal Reserve and Treasury action. Should interest rates on Government securities be allowed to rise, the increase in corporate interest rates may be expected to be correspondingly greater."

Seasongood & Mayer Adds

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Herbert P. Dowling has become affiliated with Seasongood & Mayer, Ingalls Building.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — John A. Leiter has become associated with Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

With Scotia Bond Co.

(Special to THE FINANCIAL CHRONICLE)

HALIFAX, N. S., CANADA — William P. Burgoyne has become associated with Scotia Bond Co., Ltd., Bank of Nova Scotia Bldg.

NSTA Notes

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The 23rd Annual Mid-Winter Dinner of the Investment Traders Association of Philadelphia will be held in the Ball Room of the Benjamin Franklin Hotel, Friday, Feb. 21, 1947.

Thomas F. O'Rourke

William Raffel

Inasmuch as a peak attendance is expected this year, tables are being reserved. The Committee urges both members and guests to make their reservations early.

Presidents of the various Financial Associations, both local and out of town, and several members of the Securities Exchange Commission are expected as guests of the ITA.

The Arrangement Committee members are: Thomas F. O'Rourke, Stroud & Co., Inc., Chairman; William Raffel, Raffel & Co., Co-Chairman; Newton H. Parkes, Jr., E. H. Rollins & Sons, Inc. and James B. McFarland, 3rd, First Boston Corporation, Hotel Reservations; John F. Weller, Buckley Brothers, and Al Fenstermacher, M. M. Freeman & Co., Tickets; Herbert H. Blizzard, Hess, Blizzard & Co., and Steven Massey, Battles & Co., Inc., Entertainment.

Railroad Securities

Chicago & Eastern Illinois Railroad

Announcement on Feb. 6 that Chicago & Eastern Illinois would not pay interest due on its income 5s, 1997, resulted in a decline of these bonds to a price of 35⅛, a far cry from a price of 88 reached early last year. It may, therefore, be of interest to review the present status of Chicago & Eastern Illinois with a view to ascertaining whether or not present prices are more than discounting the adverse news.

The company was one of the first railroads to emerge from reorganization under Section 77 of the Federal Bankruptcy Act. Reorganization was drastic, fixed interest debt being reduced from $4.2 million to $12.0 million and including contingent debt to $25.7 million (as of Dec. 31, 1945). Reduction effected in fixed charges was even more striking, from $2.47 million to $583,000 and including contingent interest, but excluding capital fund, to $1.27 million.

During the 1930s gross revenues average about $15 million and rose during the war period to a peak of $34.1 million, contracting in 1946 to $24.6 million. Net available for fixed charges during this period has ranged from a low of $884,000 in 1938 to $4.04 million in 1942, averaging a little better than $3 million during the war years, 1941-45 inclusive. Earnings for 1946 however, suffered a substantial decline, a net railway operating deficit of $197,000 being shown, although after adjustments, fixed charges were covered.

Working capital has risen only moderately in recent years, as recently as 1938 net current assets amounting to $2.91 million and at the end of this year, making adjustments for tax carryback credits, working capital will be slightly in excess of $5 million.

Since late 1944, when Holly Stover became President of the road, Chicago & Eastern Illinois' earnings have been distorted by extraordinary charges incidental to a rehabilitation program inaugurated by the new President. Among the major improvements completed have been three new coaling facilities; a modern power plant at the Danville shop; removal of approximately forty miles of expensively maintained second main track in southern Illinois; the substitution of modern equipment for outmoded equipment; installation of 122 miles of centralized traffic control on the important single track main line mileage between Clinton and Evansville in Indiana; and lastly disposal of such surplus real estate as was not required in the company's operations.

The only remaining major improvements uncompleted are two bridges over the Wabash and White Rivers respectively, which projects would probably necessitate an outlay of around $2 million, and additionally an important line change of Evansville embodying relocation of the city's passenger terminal which will probably cost around $750,000. Since Mr. Stover has proffered his resignation effective May 9, 1947, these improvements are not likely to be undertaken this year. In fact, now that the property has been thoroughly rehabilitated, the only other capital expenditures of any size which we can envisage—other than those herein outlined—is the purchase of new power. Since Chicago & Eastern Illinois is so dependent upon the haulage for coal, no managament of this road is likely to look with favor upon instaling a substantial amount of diesel power, other of course than for its passenger trains. We would expect, therefore, that any new purchases of power would await further development of the new gas turbine, powered with coal, which will make its appearance experimentally some time in the spring of 1948.

As already indicated, earnings in 1946 suffered a drastic decline. Reasons accounting for this decline, other than those affecting most Class I carriers, namely, an 18½% hourly wage increase retroactive to Jan. 1 and only a moderate freight rate increase effective for the last six months of the year, stem from extraordinary chargeoffs. For the month of December alone these charges, which apparently are non-recurring, total $1.15 million. In that month, as compared with December the year previous, maintenance expenditures of Way and Structures amounted to $633,000 as against $336,000; road retirements $482,000 versus $7,000; maintenance of equipment $492,000 versus $290,000 and all other maintenance of equipment accounts $413,000 versus $233,000. These extraordinary expenditures made it possible for Chicago & Eastern Illinois to obtain tax carryback credits from the Federal Government of $1.76 million, so that net railway operating income for the month was distorted, amounting to $1.25 million as against $96,000 for December, 1946. For the full year Chicago & Eastern Illinois reported a net operating deficit of $197,000 as compared with net railway operating income of $2.46 million for 1945. During the entire year 1946 maintenance to gross revenues amounted to 39.9%, a substantial increase as compared with 34.1% shown in the previous year.

If we assume that there will be no major distortion of earnings in 1947, as was the case in 1946, or no substantial increase in wages, earnings for this year might well exceed $2.5 million, of course giving effect to the increase in freight rates which went into effect Jan. 1 of this year.

Should our estimate be realized these earnings would not only permit payment of income bond interest on April 1, 1948, but a dividend on the class A stock of at least $1 per share. Additionally, the bond should respond to speculative developments incidental to the possible consummation of a merger with the Katy and/or the Chicago Great Western.

Accordingly, it may well be that speculative selling has been overdone in Chicago & Eastern Illinois securities and present prices of both the income bonds at 38, as well as the class A stock currently selling at 11 may, in retrospect a year hence, appear to have been on the bargain counter.

L. J. Whitney, Jr. Joins Nat'l Secs. Research

Lewis J. Whitney, Jr. will be associated with Rufus Lee Carter in the wholesale distribution of National Funds sponsored by National Securities & Research Corporation, 120 Broadway, New York City, effective February 15.

After three years with the First Boston Corp., Mr. Whitney joined Butler-Huff & Co., of Los Angeles in 1937 as Vice-President and Manager of the wholesale department. Except for four years in the Army from which he emerged Lt. Col. (Infantry), Mr. Whitney has been with Butler-Huff continuously since that time. His activities there included the wholesaling of Axe-Houghton Funds and Commonwealth Investment Co. in the Pacific Coast Area.

Railroad Passenger Prospects

By GEORGE A. KELLY*
Executive Vice-President, The Pullman Company

Calling attention to both optimism and pessimism regarding future of railroad passenger traffic, Mr. Kelly outlines a proposed test of its potentialities, and calls for cooperation by the rail companies. Holds importance of passenger business to carriers has been underestimated and business can be made profitable if volume is increased. Cites improvement in passenger facilities and services, as well as value of railroad advertising campaigns. Points out superior safety of railroads and holds subsidizing of airlines is greatest competitive handicap to rails.

There are two schools of thought as to the income possibilities of railroad passenger traffic. One group, whom we might call optimists, feel that there is no ceiling on the amount of business which may be done by an industry which caters wholeheartedly to the proclivity of the American people to enjoy themselves and does not stint itself in publicity while it offers the excellence of products or service necessary to make every customer a booster.


George A. Kelly

On the other hand, there are able and studious railroad men who, taking the figures of the recent poor showing of passenger traffic as a contributor to net income in the past, in combination with estimates as to probable future automobile, bus and plane travel, arrive at discouraging results in red ink as their forecast of the future effect of passenger traffic on the railroads.

Nobody can know for certain whether the optimists or the pessimists about this business are right until a thoroughgoing effort has been made by the railroad industry (a) to find out how large this traffic can be in peacetime under competitive conditions, if it is made really attractive in comfort, convenience and price, and (b) to ascertain whether service can be provided to meet the requirements of the first objective while still leaving a satisfactory margin of profit above expenses.

Test to Be Made

Such a test of the potentialities of railroad passenger traffic is going to be made, for the expenditures already assumed by the railroads for new equipment commit them to the experiment.

It is therefore necessary for the whole industry, equally for the doubters as for those who are sanguine, to get behind this effort so that the results will really be conclusive, which they cannot be

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*Notes of Mr. Kelly's which were used as the basis for his address before the St. Louis Board of Trade, St. Louis, Mo., Jan. 21, 1947.

Defects and Remedies of Banking

By HAROLD L. REED*
Professor of Economics, Cornell University

Prof. Reed lists as defects of banking structure: (1) divided and overlapping supervision; (2) divided and overlapping authority for controlling general credit policy; and (3) the shifting of deposits and reserves among banks with dissimilar reserve requirements. Suggests as banking reforms: (1) a requirement that all commercial banks be members of Federal Reserve System; (2) abandoning of commercial bank chartering by Federal Government; (3) merger of office of Comptroller of Currency into Federal Reserve System; and (4) limiting functions of Federal Deposit Insurance Corporation to insurance only.

It is agreed by all competent observers that unusually complex problems will demand the attention of our banking authorities in the not - distant future. The question, therefore, arises whether even the most skillful administration can cope with such problems successfully under the limitations set by our antiquated and unreformed banking system. The purpose of this paper is to indicate the nature of existing defects in the banking structure and to offer a few suggestions for improvement.


H. L. Reed

What the Board of Governors of the Federal Reserve System thought of our banking structure even before the recent war is comprehensively stated in the Board's annual report for the year 1938. This report bristles with such derogatory expressions as the "piecemeal" character of the development of the "mechanism of supervision"; the "crazy-quilt of conflicting powers and jurisdictions"; "overlapping authorities"; "gaps in authority"; "diffusions of supervisory responsibility." But condemnations of this sort have not been any monopoly of the Federal authorities. Thus, in the "Report of the New York Banking Board" for 1936,[1] concern is expressed over the possibility that the Federal authorities might define trade areas differently for purposes of extra-city branch banking than they were so defined in the Stephens Act of that State. After pointing out the strenuous effort that had been made to secure the "greatest possible degree of cooperation with Federal supervisory authorities," the New York Board continued as follows:

"It has been disturbed by certain instances which have come to its attention indicating a lack of coordination among the various Federal supervisory agencies and

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*A paper by Prof. Reed read at the meeting of the American Economic Association, Jan. 24, 1947.

1 See Annual Report of the Superintendent of Banks of the State of New York for 1936, p. 21.

No General Price Decline Probable

(Continued from page 863)

ever, an economic error. Scarcity of certain goods doubtless is able to raise, often very significantly, the prices of the goods concerned. Provided the total national output has not shrunk (this condition was satisfied in the United States during the last few years), the general price level can rise, however, only if simultaneously an expansion occurs in the national supply of money. For if this does not happen, the rise in the prices of certain goods caused through their scarcity must reduce the power of people or of business enterprises to purchase others of the goods that are being produced and must, therefore, leave available insufficient purchasing power for absorbing, at the prevailing prices, the total output of these other goods. Hence their prices must in the aggregate decline by exactly as much as the prices of the scarce goods will have risen and the general price level will consequently remain what it was.

Since, therefore, the basic cause for the rise in the *general* price level of the country during the last few years was not the scarcity existing at that time in the supply of many goods but the heavy expansion which during the war occurred, largely under the influence of the enormous Federal deficit, in the national supply of circulating media, it seems certain that the present gradual easing of the supply and demand situation with respect to many goods cannot constitute a valid argument for the view that from now on the general price level of the country will remain stable or will even decline. It is doubtless true that the present expansion in the supply of many goods, and the accompanying shrinkage in the foreign demands for food exports from from the United States, will either stabilize or drive downward certain prices. On the other hand, any price declines thus to be caused will obviously enable people to purchase more of other goods and seem bound, therefore, to lead to a rise in the prices of the latter goods so that the general price level must be expected to remain what it is or, if an excessive volume of money should be in circulation, even to continue its rise.

The Excessiveness of the Present Monetary Supply

All of this means that, in order to determine the probable behavior of the general price level in the country during the next few months or years, it is necessary to focus the attention on the monetary position of the nation. There seems to be no doubt possible, however, that this position is such as strongly to suggest a continued rise in most prices.

Between the end of 1939 and today the national supply of circulating media, comprising under this term both hand-to-hand currency and checking deposits, expanded from about $39 billions to some $115 billions or by nearly 200%. Since during the same period the general price level of the country has risen, however, only by about 50% while the growth in the volume of the national production, and thereby presumably in the needs of people or of business enterprises for circulating media, only was similarly large, it is obvious that prices as a whole have not yet fully adjusted themselves to the enormous expansion in the supply of circulating media which occurred during the war or, differently expressed, that a further substantial rise in the general price level must, in principle, be expected although this development would not preclude, of course, a decline in the prices of certain goods.

What is the reason for the surprisingly small extent to which the heavy increase in the national supply of circulating media during the war has so far raised the general price level of the country? The answer to this question is in some measure supplied through the system of governmental price ceiling which was in effect up to a few months ago. Of far greater importance for the subject doubtless is, however, the fact that a very large proportion of the new money issued during the war was used only once, or at most a few times, for making payments and then passed into hoarding either as hand-to-hand currency or as demand deposits which were being kept idle.

Unfortunately, from the monetary statistics available it cannot be ascertained what part of the total money outstanding in the country is acutally being used for making payments and what part is being held as hoardings. The author of the present article has attempted to discharge this task in his recent book "Prices and Business in 1947."* In that study the conclusion is reached that at the end of 1945 out of a total monetary supply amounting to approximately $129 billions only about $39 billions were actually being used for making payments while nearly the total remainder, or some $86 billions, constituted idle hoardings. The latter figure has since then been reduced, mainly through the redemption of Federal debt, to some $72 billions.

It is obvious that these hoardings, approximately one-third of which existed already in 1939, always constituted, and are still constituting, ineffective purchasing power. Hence to the extent of the amounts concerned the increase in the national supply of money which occurred during the war was unable to raise prices.

On the other hand, the moment any substantial part of the hoardings will be released, that portion of the total monetary supply which actually circulates must become excessive, which development, unless counteracted by appropriate action, seems bound to raise the general price level of the country.

The Impending Release of the Hoardings

The preceding analysis shows that the behavior of the general price level in this country during the next few months or years is likely to be decided by the answers to the following two questions: First, to what an extent will people, business enterprises, or governmental bodies use their present monetary hoardings for purchasing goods and, secondly, will it be possible for the monetary authorities somehow or other to compensate the additions to the supply of *active* money to result from this release of the hoardings?

The answer to the first question is significantly influenced, of course, by the distribution of the hoardings over groups of owners. According to the calculations of the author, approximately $47 billions of the funds concerned are being held by individual persons, including farmers, $20 billions by business enterprises, and $5 billions by governmental bodies.

The first one of these figures, in turn, apparently comprises some $16 billions of hand-to-hand currency and about $31 billions of demand deposits. That people should be permanently willing to keep idle these enormous amounts and thereby to forego all current returns on them seems out of the question. In fact, the accumulation of the funds in the form of currency bills or of demand deposits makes sense only if it is assumed that their owners are eagerly waiting for the moment when they can use the money for purchasing goods.

This moment, as a rule, did not yet arrive during 1946, mainly because at that time the supplies of durable goods as well as the volume of residential construction were still greatly restricted. Since both of these factors seem bound, however, substantially to expand from now on, an extensive use of the hoardings must be expected for 1947 and 1948.

It may be asserted that $47 billions or so of monetary hoardings being held by individual persons constitute far too large an amount for being spent within a year or two. This doubtless would be true if the hoardings were owned by a comparatively small number of people, say by two or three million. In this case the average holdings of each owner would amount to about $20,000. Since it seems highly improbable, however, that more than a very few persons should have been willing to hold idle during an extended time so large an amount, it must apparently be assumed that the number of people owning the hoardings is much greater. If this number should amount to 15 million, which seems a reasonable estimate, the average holdings would be only about $3,000 while at the prices now prevailing for cars, other durable goods, or homes it can hardly be difficult to expend such an amount within a short period.

Nor can it at present be difficult for business enterprises and for governmental bodies to expend within a year or two most of their hoardings, which in the aggregate amount to some $25 billions, the expenditures in question mainly to be made for such purposes as expanding plant and equipment, increasing the inventories, granting credits to customers or, in the case of governmental bodies, erecting public structures and rehabilitating the road system of the country.

Unfortunately, the serious excess in the supplies of *active* money to be caused through this impending release of the hoardings constitutes only one of the factors which threaten to drive upward the general price level of the country during 1947 and 1948. Additional factors operating in the same direction are, first, the present tendency of foreigners largely to pay for the goods being purchased by them in the United States with the help of either deposits now being kept idle in this country or gold and, secondly, the expansion in bank credit presumably to be caused through these gold imports as well as through certain other factors which cannot be discussed in the space of this article.

The Present Bearish Psychology of the Nation

It has been pointed out above that during 1946 the restriction in the supplies of durable goods and in the volume of residential construction severely limited the use of the monetary hoardings. Since about August of last year a similar effect has been exercised through the belief prevailing since then among nearly all groups of people that a downward trend of most prices or even a certain slump in industrial operations are imminent.

It is obvious that the release of the hoardings and the probable effects of this development constitute a highly technical subject, which has a number of times been discussed during the last few years by monetary experts but which was unlikely to receive much attention from business men and consumers. As a matter of fact, even most economists scarcely took notice of the subject. Instead all of these groups concentrated their attention during 1946, and are still doing so, on the expanding supplies of civilian goods as well as on the growth under way in the volume of the business inventories and concluded from these developments that a decline in prices is in the offing.

This general bearish attitude of the American public has of late been substantially strengthened through the emphasis which is being placed by important persons in the Administration on price declines as an instrument for supporting the purchasing power of consumers. In fact, the latter argument has widely been accepted by business men and has of late actually led to certain reductions in the prices of manufactured goods. At the same time an extensive withholding of orders for goods on the part of both producers and consumers has occurred which development was bound, of course, to intensify the deflationary trend.

The space available in the present article makes it impossible adequately to discuss the subject. It must suffice to say that, in the opinion of this writer, the present bearish psychology of the American public rests on little more tangible than highly superficial comparisons with the developments after the First World War and slip shod conceptions about the nature of purchasing power. Nevertheless, for the moment the mental attitude here under review has evidently captured the nation and is completely neutralizing the various inflationary factors discussed above or is even threatening to throw the country into a general slump of business.

On the other hand, it seems certain that a mental attitude which, in substance, rests on defective economic views cannot last. Nor is a slump of business brought about by a mental attitude of this type likely to continue during an extended time. As a matter of fact, all of the persons now forecasting declining prices and contracting industrial operations are in agreement that these developments will be moderate as well as short-lived. Sooner or later, presumably rather soon, the powerful constructive forces underlying the present economic situation, principally the enormous excess in the supply of circulating media, the vast accumulation in the needs of people and of business enterprises which occurred during the war, and the related heavy accumulation in liquid assets, seem bound to gain the upper hand and to set under way an expansion in industrial operations as well as a new rise in prices as a whole. The moment these changes will occur business enterprises and consumers are likely, however, to use on an extensive scale their present hoardings for purchasing goods while the outcome of this development, and of the impending gold imports or of the accompanying expansion in bank credit, presumably will be a sharp upward pressure on the general price level of the country.

The Difficulty of Applying Effective Anti-Inflationary Measures

What are the prospects for a success of measures to be undertaken for stemming the inflationary tide thus to be released? About the nature of such measures little doubt can exist. They will principally comprise a continued redemption of the Federal debt, in the main of that held by the banks, and extensive sales of government securities by banking institutions to private investors. For both of these developments would reduce the volume of the money actually in circulation and would offset thereby the effects of the hoardings to be released as well as of the impending gold imports and of the new bank credits.

Since the extensive redemption of the Federal debt undertaken during 1946 has by now reduced the Treasury balance, in substance, to the minimum amount necessary for the current activities of the agency, it is obvious that a continued use of the anti-inflationary instrument here referred to presupposes an excess in the current receipts of the Treasury over the cash expenditures. In view of the apparent determination on the part of Congress at once significantly to reduce income taxes, it seems very doubtful, however, whether such an excess will be available during the next 18 months or so. Certainly, it would not amount to more than one or two billion dollars per year, which sum would by no means suffice for counterbalancing the impending release of the hoardings and the other inflationary developments.

Hence the chances of preventing a substantial rise in the general price level of the country seem entirely to depend on the possibility of transferring during the next 18 months or so to private investors a substantial part, say altogether 20 or 30 billion dollars, of the government securities now being held by the banks. It is obvious that such a transfer would strain the capital markets of the country. On the other hand, the degree of this strain, and thereby the prospects for a success of the total measure, can be decided only after a detailed analysis has been undertaken of the relation which is likely to exist during the next 18 months or so between the supply of and the demand for capital funds in the United States.

*Publisher: The Business Bourse, New York, N. Y.

Phillips Director of Kalamazoo Veg. Parchment

Spencer Phillips, of Kalb, Voorhis & Co., New York investment brokers, has been elected a director of the Kalamazoo Vegetable Parchment Co., American and Canadian pulp and paper manufacturer and converter. Mr. Phillips is a director of Financial Industrial Fund. The Kalamazoo Vegetable Parchment Co.'s Michigan plant has been termed "The World's Model Paper Mill." At Espanola, Ontario, the company recently completed a $12,000,000 model pulp mill. Also elected to the board at the annual meeting held at Kalamazoo, Mich., were John C. Wood and William J. Lawrence, both of Michigan.

Spencer Phillips

W. V. Carroll With Shields in Chicago

CHICAGO, ILL.—W. V. Carroll has become associated with Shields & Co., 135 South La Salle Street, members of the New York Stock Exchange and other exchanges. Mr. Carroll was formerly with the Chicago Title & Trust Co.

Charles H. Stix Dead

Charles H. Stix, retired investment broker, died at the age of sixty-six after an illness of several months. He had not been active in business since his retirement in December 1945, although he maintained an office at 509 Olive Street, St. Louis. Prior to establishing Stix & Co. with a brother, the late Harry F. Stix, 30 years ago, he was in the leather business. He was one of the original founders of the Boy Scout movement in St. Louis and served as a member of the Executive Committee of the Boy Scouts' Council since its inception.

Mutual Funds

By JOHN DEAN

"They all look the same to me": Just this could be said by an investor in automobile shares! The mythical man created by **Hugh W. Long & Co.** wondered about such shares; he could not decide which company would represent the best long-term investment. Examining the past made this clear. All automobile corporations have not prospered, and some have vanished into thin air. You could not be certain of the results of your investment in automobile shares years ago, and you cannot be certain today. Some will outstrip others. For this reason a person should buy more than one issue, and how asks the brochure of Hugh W. Long, can this be better accomplished than by purchasing shares of many companies, manufacturers, accessory makers, tire companies all well selected by a wise management? They present Automobile Industry Series with its well-chosen list.

Sixty-Eighth Consecutive Quarterly Dividend Paid

The 68th consecutive quarterly dividend of **Wellington Fund** shares was paid on Dec. 27, 1946. Dividends for 1946 amounted to $1.30 per share. Assets of the Fund rose from $26,911,309 on Dec. 31, 1945 to $36,535,644 on Dec. 31, 1946. This Fund's literature stresses the fact that asset value plus accumulated distribution has shown a steady increase for the past ten years . . . that not only is broad diversification offered the investor, but redemption privileges are available to shareholders . . . that shares can be turned into the Fund for cash liquidation value on any day on which the Stock Exchange is open . . . and that since marketability is one of the requisites of good investments this is an added advantage.

Good Prospects in Chemical Shares

Says Chemical Shares: Because the Chemical Industry is one of outstanding growth, shares of Chemical companies usually have a high rating. This industry serves practically all other industries. Furthermore, its plants can be adapted to making a wide variety of products. The income from these corporations is likely to increase with their output, and the margin of profit on sales is not likely to decrease. Yet to find the one fastest growing company is almost impossible. For this reason, **Chemical Shares** offers a well-selected diversified list of holdings in chemical companies.

Tax Problems of Last Year Overcome

The annual reports of **American Business Shares, Inc.** and **Affiliated Fund, Inc.** show that they are now free of the tax problems which beset them last year. These minor, but irritating differences have been ironed out. The use of two different methods had been the principal reason for the slight difficulties. Likewise the unamortized discount and expense on the books of Affiliated Fund, Inc. and the change in method of accruing dividend income on the books of American Shares, Inc. are now vexatious questions of the past. Officers of both companies decided to get all problems behind them so that the source of dividends in the future will be clearer to every one. This they have accomplished.

Company Intends to Distribute Taxable Net Income Each Year

Union Trust Funds, an open end diversified management investment company, intends to distribute annually all of its taxable net gains, including capital gains if realized.

Lord, Abbett Group of Investing Companies

Lord, Abbett & Co. are currently pointing out the wide range of investment possibilities in the various funds they sponsor. Here is their summarization:

American Business Shares is made up of a diversified list of bonds, preferred stocks, and common stocks, all are income producing.

Affiliated Fund consists of principally common stocks.

Union Common Stock Fund's portfolio is made up of common stocks all of which pay dividends.

Union Preferred Stock Fund have assets in preferred shares selected for above-average appreciation and income possibilities.

Union Bond Fund A, only bonds which because of their stability will provide investors with security and stability.

Union Bond Fund B, purpose of this fund is to provide investors with a security which offers good income and relative stability of principal.

Union Bond Fund C invested only in bonds. To provide investors with a security which offers above-average income and possibilities of appreciation.

Railroad Equipment Shares Will Be in Demand

As **Distributors Group** sees it: Railroad traffic will be great. Railroad equipment must be bought. Although the coal-car situation is bad it has received little publicity. These cars are required. Up to date, one problem has been the difficulty that existed in securing steel. Steel will likely be available in May or June. **Railroad Equipment Shares** with its diversified list is in line to benefit correspondingly.

Assets Over $160,000,000

On Dec. 31, 1946, the combined assets of the ten **Keystone Funds** amounted to over $160,000,000. Reports of the sponsors cite an unusual growth in the value of some of these funds. It is revealed that total net assets of the Series "B1" Fund amounted to $7,714,852 at the close of 1946 compared with $4,548,305 at the end of 1945. The purpose of this fund is to provide an investment medium having the characteristics of high-grade bonds. Regular semi-annual distributions from distributable income were paid.

Merkel Secretary of Securs. Administrators

The Executive Committee of the National Association of Securities Administrators has announced the appointment of James F. Merkel, Chief of the Ohio Division of Securities, as Secretary of the National Association for the year 1947. In addition, Commissioner Merkel will edit the monthly publication of the Association.

James F. Merkel

D. D. Murphy, Securities Commissioner of South Carolina, is President of the organization, the membership of which is composed of 47 State "Blue Sky" Administrators. Harold Johnson, Securities Commissioner of Nebraska is Vice-President, and Morris Hudson, Commissioner of Oregon, is Treasurer of the organization.

Through Burton, Cluett

Gerard S. Smith, member of the New York Stock Exchange, will henceforth conduct his business through Burton, Cluett & Dana, members of the New York Stock Exchange with offices in New York and Philadelphia.

Business Man's Bookshelf

Analysis of Railroad Operations—Joseph L. White—Simmons Boardman Publishing Co., 30 Church Street, New York, N. Y.—cloth—$5.00

Big 4 in Germany, The—David L. Glickman—National Planning Association, 800 Twenty-first St., N. W., Washington 6, D. C.—paper—50¢

National Labor Policy, A—Harold W. Metz and Meyer Jacobstein—The Brookings Institution, Washington, D. C.—paper

1947 Outlook for Airline Companies, The—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—paper—50¢ (25¢ to public libraries and nonprofit institutions)

Strenuous Life, The—The "Oyster Bay" Roosevelts in Business and Finance—Wm. T. Cobb—William E. Rudge's Sons, New York, N. Y.—cloth—$5.00

Tax Program for a Solvent America, A—Committee on Postwar Tax Policy—50 West 50th Street, New York, N. Y.—paper.

United States Government Securities and the Money Market—Review of 1946 and Outlook for 1947—Bankers Trust Co., New York, N. Y.—paper

Year Book of Railroad Information, A—1946 Edition—Eastern Railroad Presidents' Conference, 143 Liberty Street, New York 6, N. Y.

Columbus Stock & Bond Club Is Organized

COLUMBUS, OHIO—The First Columbus Stock and Bond Club was organized at a special meeting at the Ft. Hayes Hotel on Jan. 27. More than 80 securities men attended the meeting and sponsors of the organization are certain it will soon have a paid membership of more than 100.

Officers of the new Club are: Leland Walters, Vercoe & Co., President; Jack Harris, The Ohio Company, Secretary-Treasurer; Paul Carey, Huntington National Bank, Vice-President; and Ray M. O'Connor, Otis & Co., Harris H. Wood, Paine, Webber, Jackson & Curtis, Todd Cartwright, Sweeney, Cartwright & Co., and Jack Nida, Merrill Lynch, Pierce, Fenner & Beane, trustees.

The Constitution adopted by the Club calls for a minimum of four meetings a year at which it is planned to combine a social gathering with a serious discussion of investment problems by outstanding authorities.

Ewing T. Boles, The Ohio Company, Chairman of the Ohio Valley Group of the Investment Bankers Association, was principal speaker at the organization meeting. In his address Mr. Boles emphasized the importance of sound financing in the national economy and urged the investment men to become more vocal in asserting their economic views.

Joseph M. Vercoe, of Vercoe & Co. headed the committee which organized the new Club.

Pictures taken at the meeting appear on page 880 of today's issue of the "Chronicle."

Buying Power—Key to Sustaining Prosperity

(Continued from page 872)

inside than the best trained crew of salesmen can open from the outside.

In recent years economists have devised ways to measure this relationship for the country as a whole. Using nation-wide figures for retail stores and the disposable income of individuals, they have been able to trace in actual dollar volume the changes that accompany a rise or fall in the national income. I will not burden you with any elaborate calculations. Suffice it to say that over the 20-year period, 1922-1941, a 10% increase in the disposable income of individuals was accompanied by about a 12% increase in retail sales. For women's apparel and accessory stores the figure was about 14%.

Purchasing Power Vital

So it is easy to see that even the most successful retailer has a vital stake in the nation's purchasing power. To those numerous concerns that operate near the margin, volume is a matter of life or death.

Only a few days ago I saw a reference to a survey conducted by the National Retail Dry Goods Association which indicated clearly that consumers today "are expecting lower prices and improved quality of merchandise." And I think it was Mr. Lew Hahn, President of the Association, who said, "We believe the public must get the goods it needs at proper prices."

It would be fortunate if we could weave a national economic pattern into which there would be a proper blending of purchasing power ample to sustain the present volume of retail sales, with a competitive price structure based on mass production. It would naturally follow that the producer would make the profits necessary to sustain full production and maintain full employment.

Vision is not an easy word to define, but it is easily recognized. This dinner, like the magnificent new home of Lane Bryant on Fifth Avenue, is a well-deserved recognition of the very thing that I am talking about. For the story of Lane Bryant is more than a remarkable saga of business success. It is a story which had its beginning 46 years ago in the courageous initiative and vision of a young widow, who pawned her wedding earrings to open a little shop on upper Fifth Avenue.

There are a number of significant dates in the long history of Lane Bryant, but each of them has been marked by the same display of initiative, leadership and vision. In 1890 no one could have prophesized the turn of events we are celebrating here tonight, but of this much we can be certain—there was no place in that success story for backward thinking. And unless I misread the history and spirit of America, there is no room for such thinking today.

During the war this Nation was able to superimpose a 60-billion-dollar job of war production on a civilian economy which accounted for consumer goods and services totaling close to 100-billion dollars yearly. And we achieved this miracle of production with some 12 million young, able men and women serving in the armed forces.

Certainly that record holds the promise of peacetime living standards far higher than we have ever known before—provided we can keep our economic balance.

I do not know exactly how large our national income can or should be in the months and years ahead. But there are encouraging indications that the physical factors point to record civilian production and consumption. And this, of course, demands greater real purchasing power, mass purchasing power, whether it is expressed as increased wages, or lower prices, or, as the President suggests, a combination of both.

There is nothing mysterious about these facts—both management and labor are familiar with this general picture. It has provided an economic backdrop for most of the industrial disputes since V-J Day and to some extent, the problem is still with us.

Let me cite some figures which bear directly on this central question. Weekly earnings of the average factory worker were nearly twice as much in December, 1946, as in August, 1939. Corporate profits, both before and after taxes, are about three times as great as in 1939. But prices have risen about 80% and living costs more than 50% above the prewar level, so that the purchasing power of both the wage dollar and the profit dollar has been diluted. The $46 weekly take-home pay of the average factory worker in October, 1946, bought only about as much as the $35 he received in April, 1942.

Year 1939 No Model

We must remember that 1939, though it is a convenient statistical base to figure from, was certainly no model for a full employment economy. In 1939 we had 8 million unemployed. In 1939 farm prices were still depressed. In 1939 business profits and prospects were uneven and uncertain. We can be neither surprised nor complacent because 1947 looks much better. The question is not how to get back to 1939, but how to maintain the full employment of 1947.

In the recent past, rising prices have outrun purchasing power, so there is some question whether consumers can continue to absorb the large volume of goods and services now being produced. Furthermore, with the same levels of employment in 1947 as in 1946, national production may be expected to rise by 3 to 5%, because of increased productivity, that is, output per manhour of labor. To maintain full employment in 1947, we must not only maintain purchasing power, but increase it by enough to provide a market for the increased production. This is to say, prices must be reduced or incomes raised, or both.

Can Have Lower Prices and Higher Incomes

Actually, I believe that we can look forward to both lower prices and higher incomes. It is my firm conviction that genuine collective bargaining can and should play an important part in this healthy process.

Today both labor and management are getting better acquainted with this complicated economy of ours and the relationship between its closely integrated parts. Both labor and management are steadily broadening their grasp of economic realities. More and more they are recognizing the need for a proper economic balance. That is a most encouraging development, because collective bargaining offers one of the soundest and most democratic means of finding collective prosperity. In this connection, I would like to remind you that America's history includes about a score of depressions, boom and bust periods.

While economists and historians do not always agree on what caused these recurrent attacks, they do agree on one fact. No major depression has been due to the fact that the wage and salaried workers of this country received too large a share of the national income.

Nor do I believe that real collective bargaining will upset our economic apple-cart during 1947. For one thing, the fact that we were able to come through the troubled and uncertain period of reconversion without a sharp downswing is highly encouraging. Despite prolonged and disturbing industrial conflicts during the months when we were carrying out the tremendous task of military and industrial demobilization, total unemployment never reached 3 million. Today both employment and production are at record peace-time levels.

This indicates that even in the troubled field of industrial relations, the vast majority of union contracts were negotiated or renewed without any break in production. Moreover, and this is very important, war-time controls which were of necessity imposed on both labor and management, had limited or largely replaced the collective bargaining process. Inevitably both sides tended to carry their disputes to the highest tribunal, the National War Labor Board.

Today there are several proposals before the Congress to create somewhat similar machinery for settling labor disputes. These proposals would set up a super-mediation board, either within the Department of Labor or outside it.

Conciliation Machinery

Before discussing the merits of such a proposal, I would like to tell you a little about the existing machinery for handling industrial disputes. I refer, of course, to the United States Conciliation Service. During the last year our Conciliators, under the able direction of Edgar L. Warren, aided in the peaceful settlement of 13,000 industrial disputes. Our records show that in 90% of the disputes in which we were called before work had halted, no stoppage occurred.

Last year we aided in the settlement of 3,400 strikes. Of these, 64%—almost 2 out of 3—had begun before either of the parties called for the services of a conciliator.

That is an impressive record. Most important of all is the fact that these settlements were reached by voluntary methods of conciliation and mediation. The Conciliation Service issues no mandates, orders or decrees. Their work is essentially a continuation of the collective bargaining process, carried on with the help of an impartial moderator, who is an expert in industrial relations.

Free collective bargaining does impose serious responsibilities on both labor and management. Unless I misjudge the calibre and democratic purpose of these two groups, they will meet that responsibility without coercion or compulsion from Government.

Nor do I believe that the creation of any over-all board will facilitate this process. On the contrary, the very existence of such a board would undermine or destroy the effectiveness of normal collective bargaining, including the very useful work of the Conciliation Service. Inevitably, both management and labor would tend to by-pass the existing machinery for settling disputes in order to appear before the super-board. That is a perfectly natural human reaction—we saw it happen over and over during the war, when both sides were eager to have "their case" settled by the National War Labor Board. As a result, the Board found itself with a tremendous burden and a huge back-log of cases.

After V-J Day, when the wage stabilization policy was changed and numerous controls were lifted, the War Labor Board turned back its case-load to the parties for settlement. More than 3,000 disputes were left to collective bargaining and the overwhelming majority were settled peacefully—even during the reconversion period with all its tension and uncertainty for workers and employers alike.

There is another reason why I am opposed to the creation of a board which would mediate disputes covering the vast range of American industry. The problems which arise are too varied and complex for any single board to handle—they simply would not have the technical competence, the intimate knowledge required for sound, impartial judgments.

This does not mean that existing mediation machinery is perfect or that existing labor laws are sacrosanct. It does mean that proposed changes, directed primarily at the immediate postwar period, should be examined very carefully—especially those changes which would call for compulsion. Compulsion sets a dangerous peace-time precedent which neither management nor labor want any part of.

There is a further point that deserves emphasis here. Industrial relations are not carried on in a vacuum and the problems which arise cannot be settled in an ivory tower. Men bring to the bargaining table the hopes and fears, the ambitions and prejudices, that surround their daily lives.

Local Settlements

Very often industrial disputes have their roots in community problems and for that reason they should be settled where the disputes take place. I am sure all of you in this audience have served on various boards and committees which dealt with local issues and you know from experience the degree of understanding and tolerance which this procedure demands.

Before I leave this subject, I want to mention one other service which the Department of Labor makes available to employers and employees. The Conciliation Service has recently set up a panel composed of 26 men who are outstanding in the field of industrial relations. These men have agreed to act as mediators in cases involving the national interest, working either as individuals or as members of a two or three man group. Their wide knowledge and long experience are available whenever we feel there is necessity for a tri-partite approach. This, too, is a voluntary approach, a further extension of free collective bargaining. If this approach lacks the dramatic appeal of a mandatory decree, it, also, avoids the dangers inherent in compulsion.

Now that the difficult period of reconversion is behind us, there are many signs that point to better weather along the industrial front. It would be hard to find a more concrete example than the recent decision to extend the present contract between the U. S. Steel Corporation and some 150,000 steel workers.

Problem of Keeping Economy in Balance

In stressing the value of real collective bargaining, I want to remind you that so far no economist or financier has been sufficiently wise to draw or even suggest a plan that will keep all phases of the economy in balance. We do have a reasonably clear understanding of the factors that cause "Boom and Bust." We have more vital statistics about our economy and they are well known. Many of us recognize the need for restraint, for tolerance and understanding, but there is no authority to enforce such restraint upon our citizens in time of peace.

We realize the danger that individuals or groups anxious to "make a killing" may commit excesses in disregard of sound economic principles, may set in motion the sinister forces which could dive us on to "Boom and Bust." Just as we know that the boom which now rides on the coat-tail of inflation was held in check by arbitrary war-time controls. We accepted these controls in order to win a world war, but we were fighting for human freedom and human rights. Efforts to impose similar regulatory measures in peace-time run counter to our democratic traditions—even when such measures are aimed at preventing excesses which may sow the seeds of future depression.

We prefer to rely on the voluntary use of knowledge acquired through bitter experience. Today we are calling upon labor and management to exercise both vision and restraint. We are asking them to look forward to the goal we all seek—full, sustained production and fair distribution within the framework of our dynamic, freedom-loving society. Now, more than ever, that obligation lies upon all of us—industry, agriculture, labor and a Government dedicated to the common good.

Morgan Stanley & Co. To Admit C. Stanley

Morgan Stanley & Co., 2 Wall Street, New York City, have made application to the New York Stock Exchange for the admission of Clarance Stanley as a general partner of the firm on March 1, 1947.

Clarance Stanley

Mr. Stanley resigned yesterday as Chairman of the Executive Committee and Director of Mellon National Bank & Trust Co., Pittsburgh.

Mr. Stanley, a brother of Harold Stanley, senior partner of the firm, attended Yale University and served with the U. S. Naval Aviation Corps during the first World War. He began his banking career in 1919 at the National Commercial Bank, Albany, N. Y. In 1924, he joined the bond department of the Union Trust Co. of Pittsburgh and became its President in 1937. He was one of the prime movers in the merger of the Union Trust Co. and Mellon National Bank and when they were merged in September 1946 he was elected Chairman of the Executive Commission.

Charles Leefe Is With Laidlaw & Co. Dept.

Laidlaw & Co., 26 Broadway, New York City, members of the New York Stock Exchange and other leading exchanges, announce that Charles C. Leefe has become associated with the firm in the municipal bond department. Mr. Leefe was formerly with Gruntall & Co. Prior thereto he was with Content, Hano & Co. and B. J. Van Ingen & Co. and was a partner in Gibson, Leefe & Co.

Townsend, Graff Adds Ben Kessler to Staff

Townsend, Graff & Co., 15 Broad Street, New York City, members of the New York Stock Exchange, announce that Ben Kessler has become associated with the firm. Mr. Kessler has recently been with Lewisohn & Co. and Richard K. Kaufmann, Alsberg & Co.

Herbert Smith Dead

Herbert Dix Smith, head of Hartman, Smith & Mann, New York City investment counsellors, died at his home at the age of 54. After serving in the first world war, Mr. Smith entered the stock brokerage business and he had been connected with several firms before forming his own last fall.

Columbus Stock and Bond Club Organized

(New Officers of the Club): Ray M. O'Connor, *Otis & Co.*, and Harris H. Wood, *Paine, Webber, Jackson & Curtis, trustees;* Jack Harris, *The Ohio Company, Secretary-Treasurer;* Leland A. Walters, *Vercoe & Co., President;* Todd Cartwright, *Sweney, Cartwright & Co.*, and Jack Nida, *Merrill Lynch, Pierce, Fenner & Beane, Trustees.*

Joseph M. Vercoe, James F. Crum, J. J. Stevenson and R. P. Lucas, all of *Vercoe & Co.;* Harold J. Roberts, *Merrill Lynch, Pierce, Fenner & Beane.*

Todd Cartwright, *Sweney, Cartwright & Co.;* Ewing T. Boles, *The Ohio Company;* Joseph M. Vercoe, *Vercoe & Co.;* Jack Nida, *Merrill Lynch, Pierce, Fenner & Beane;* John A. Albin, *The Ohio Company;* Herman J. Engler, *The Samuel & Engler Co.*

(Facing Camera): Bert C. Linder, *The Ohio Company;* Greenville T. Pace, *BancOhio Corp.;* Harris H. Wood, *Paine, Webber, Jackson & Curtis;* Ralph Elam, *Sweney, Cartwright & Co.*, and Harold Haughton, *The Ohio Company.*

Hoyt B. Mahon, Jr., *First Cleveland Corp.;* John E. Samuel and Ernest Carl, *The Samuel & Engler Co.;* Fred J. Kaufman, *Bache & Co.;* Edwin Schneider and Walter M. Zuber, *W. M. Zuber & Co.*

Edgar S. Noland and George Hendrix, *The Ohio Company;* Howard Samuel and Robert Hamilton, *The Samuel and Engler Co.;* Henry Weisenbach, *Ball, Burge & Kraus.*

Will Carr, *The Ohio Company;* Phil Hampton, *Huntington National Bank;* Warren Merrick and John McCabe, *McDonald & Co.*

Dennis E. Murphy, Roy Swabby, George Scully and Frank Anderson, all of *The Ohio Company.*

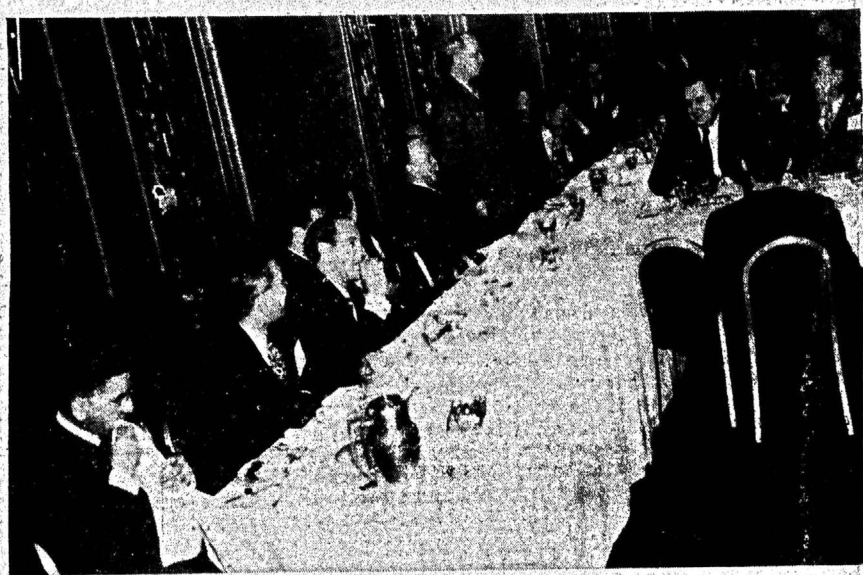
W. Jack Richardson, *E. H. Rollins & Sons;* Henry B. Richter, *The Ohio Company;* Henry T. McKee, *E. H. Rollins & Sons;* Leland A. Walters, *Vercoe & Co.;* Walter Schwartz, *Fullerton & Co.*

Twin Cities Bond Traders Annual Winter Dinner

R. Victor Mosley, *Stroud & Co., Inc.*, Philadelphia, *President of the National Security Traders Association;* Paul Yarrow, *Clement, Curtis & Co.*, Chicago, *First Vice-President of the NSTA;* Paul I. Moreland, *Moreland & Co.*, Detroit, *Second Vice-President, NSTA;* Edward H. Welch, *Sincere & Co.*, Chicago, *Secretary, NSTA;* Kermit B. Sorum, *Allison-Williams Company*, Minneapolis, *President of the Twin City Bond Traders Club;* Michael J. Heaney, *Joseph McManus & Co.*, New York, *President of the Security Traders Association of New York;* Charles J. Rieger, *Jamieson & Co.*, Minneapolis, *Entertainment Committee;* Howard Morton, *McMaster Hutchinson & Co.*, Chicago, *President of the Bond Traders Club of Chicago.*

Edw. J. Kelly, *Carl M. Loeb, Rhoades & Co.*, New York; C. J. Rieger, *Jamieson & Co.*, Minneapolis; Stephen Turner, *Turner-Poindexter & Co.*, Los Angeles; John J. Delaney, *Delaney & Co.*, Minneapolis; Irving J. Rice, *Irving J. Rice & Co.*, St. Paul; Kermit B. Sorum, *Allison-Williams Co.*, Minneapolis; Donald R. Muller, *Harris, Upham & Co.*, Chicago; Howard Morton, *McMaster Hutchinson & Co.*, Chicago; Lester B. McElhiney, *Loewi & Co.*, Milwaukee; William P. Springer, *Carl Marks & Co.*, Chicago; Richard Gottron, *Gottron, Russell & Co.*, Cleveland; Walter Space, *Woodard-Elwood & Co.*, Minneapolis; Howard Eble, *Wm. J. Mericka & Co.*, Cleveland; C. Daniel Mahoney, *C. D. Mahoney & Co.*, Minneapolis; James C. Vacha, *Bennett, Spanier & Co.*, Chicago; Maynard Rue, *J. M. Dain & Co.*, Minneapolis.

John J. Delaney, *Delaney & Co.*, Minneapolis; C. J. Rieger, *Jamieson & Co.*, Minneapolis; Robert Strauss, *Strauss Bros., Inc.*, Chicago; Walter Space, *Woodard-Elwood & Co.*, Minneapolis; Milton J. Isaacs, *Straus & Blosser*, Chicago; C. Daniel Mahoney, *C. D. Mahoney & Co.*, Minneapolis; Fred Johnson, *Cruttenden & Co.*, Chicago; Fred Casey, *Doyle, O'Connor & Co.*, Chicago; Byron Kairies, *Merrill Lynch, Pierce, Fenner & Beane*, Minneapolis; K. B. Sorum, *Allison-Williams Co.*, Minneapolis; Irving Rice, *Irving J. Rice & Co.*, St. Paul.



Alphonse J. Grun, *First National Bank of Minneapolis;* L. B. Carroll, *Prescott, Wright, Snider Co.*, Kansas City; Milton J. Isaacs, *Straus & Blosser*, Chicago; Robert Strauss, *Strauss Bros., Inc.*, Chicago; Howard Morton, *McMaster Hutchinson & Co.*, Chicago; R. Victor Mosley, *Stroud & Co.*, Chicago; Edward H. Welch, *Sincere & Co.*, Chicago; Frank Roos *(after-dinner speaker)*; Kermit B. Sorum, *Allison-Williams Co.*, Minneapolis; C. J. Rieger, *Jamieson & Co.*, Minneapolis; Paul Moreland, *Moreland & Co.*, Detroit; Paul Yarrow, *Clement, Curtis & Co.*, Chicago; Bernard Dechene, *J. M. Dain & Co.*, Minneapolis; Leo Quist, *Harold Wood & Co.*, St. Paul; Ludwell Strader, *Scott, Horner & Mason*, Lynchburg, Va.; Irving J. Rice, *Irving J. Rice & Co.*, St. Paul; William W. Lewis, *Merrill Lynch, Pierce, Fenner & Beane*, Minneapolis.

Fred Casey, *Doyle, O'Connor & Co.*, Chicago; Fred Johnson, *Cruttenden & Co.*, Chicago; Henry Oetjen, *McGinnis, Bampton & Sellger*, New York; Wm. Laughlin, *Bull, Holden & Co.*, New York; Herman Zinzer, *Dempsey-Tegeler & Co.*, St. Louis; Howard Morton, *MaMaster Hutchinson & Co.*, Chicago; L. N. Marr, *E. H. Rollins & Sons*, Chicago; James C. Vacha, *Bennett, Spanier & Co.*, Chicago; Harry Valleau, *Harry O. Valleau & Co.*, Chicago.

General View of Diners

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

Prices of government securities have tended to move in a narrow range, since the recovery which carried many of them within striking distance of their recent highs. . . . Volume has not been large, although there were reports of some good sized switches having been made in the bank eligible issues. . . . It seems as though there is considerable looking around with some investors in what might be termed a shopping mood which has resulted in purchases being confined to small amounts. . . . This seems to apply particularly to savings banks, which have taken limited positions in the longer restricted issues. . . . The 2s of 1952/54 as well as the 2¼s of 1956/59 were bought in fair quantities by out-of-town banks. . . .

With prices not far from recent trading highs, it is natural for the market to hesitate, since a feeling of caution usually develops in this area, pending clarification of the trend. . . . Also the financial community is looking toward the March financing, with some expecting a partial repayment of the certificates due on the first. . . . Others believe the Treasury will bypass the certificates and concentrate on the 1¼s. . . .

PRIME MARKET FACTORS

The surprise announcement of sizable new financing in the near future by one of our large corporations may have slowed somewhat the interest in governments. . . . There are two factors that are of prime importance to the money markets and they will continue to influence the action of the government market because of the uncertainty which is created. . . . These are the threat of a new issue of long-term securities, along with the possibility of a change in short-term rates, which would most likely come about through the defrosting of the certificate rate. . . .

The demand for the intermediate and long-term government issues is large, the floating supply of securities is not substantial, so that these two elements would ordinarily result in higher prices. Such a price rise would probably take certain obligations, as well as the general market through recent tops. . . . It might even result in a break through on the up side, that would not only extend the trading range, but would also raise the whole level, so that previous lows of the trading area would have to be revised up. . . .

This could bring about a new trading range with higher tops and bottoms. . . . It seems to be quite evident that this is what the monetary authorities do not want to have happen. . . . A somewhat higher level of highs and lows would not necessarily mean a duplication of last year's sharp incline, although it might in time develop a not dissimilar type of psychology. . . .

SIGNPOSTS

To prevent the market from moving out of the present trading areas, there has been great use of "Open Mouth Operations" with the talk of a new bond issue, or a change in the certificate rate the most important ingredients in the formula of uncertainty. . . . As a matter of somewhat more than passing interest, it seems as though the likelihood of a new issue of 2½% bonds should be looked into to get some ideas as to the imminence of such an offering. . . . No one, to be sure, knows what the Treasury will do, but there appear to be some signposts that can be watched which might give a few clues to future action along these lines. . . .

It seems as though the next few weeks will tell something definite about the budget, and if it should show a surplus, with a balance of, say, $3 billion, this, together with the cash balances of the trust funds, should be sufficient to take care of debt retirement. . . . Such a condition would appear to pretty well remove the possibilities of a new issue of long-term securities. . . .

On the other hand, if the budget should be in balance, but without a surplus, or should there be a deficit, then the chances of a new issue of long-term bonds would be very favorable. . . . All this is aside from the level of business activity and the trend of commodity prices, both of which will have a prominent place in the picture. . . .

Despite all the advice that has been given to the Treasury by those that have recently conferred with government officials, as to what kind of program would be best for themselves, it does not seem as though there will be any rush to issue new securities until some of the basic conditions have been clarified. . . .

DEFROSTING

As to the defrosting of the certificate rate, it seems as though the most important point in this situation is that with a pegged rate, the Federal Reserve Banks are not in a position to exercise the control over credit, and particularly loans, that they would like to have. . . . As long as they must buy certificates a set rate, the member banks can create their own reserves and Federal is not able to stop the banks from making loans that may not be considered desirable. . . . They cannot increase the discount rate because this would affect the whole program of the Treasury. . . . No Central Bank wants to be in this position. . . . Assume that the certificate rate is defrosted, one of two things would probably happen. . . .

Either it would be pegged at a higher level or it would be allowed to fluctuate indefinitely. . . . If the rate were changed and allowed to increase to 1⅛% or 1¼% and then be pegged, would there be anything gained in the way of greater control over credit and loans, by the Central Banks? . . . It would, however, increase the cost of carrying the debt by the amount of the increase in the certificate rate. . . .

The holders of the maturing certificates would gain to the extent that the issues they held were replaced by higher income certificates. . . .

EFFECT ON OTHER SECURITIES

Suppose the certificate rate were unpegged and allowed to fluctuate, would the member banks hesitate to sell certificates if they could make loans at still higher rates? . . . What would happen to other government securities if the certificate rate were unpegged and allowed to fluctuate between 1⅛% and 1¼% or some higher level? . . . Would the banks be interested in the 2% bonds at present levels, would there be the same demand for the longer-terms at current prices? . . .

The general level of interest rates would most likely rise with a fluctuating certificate rate. . . . Would this be favorable to the government's debt management policy? . . . The banks might not turn in maturing certificates for new ones each month if they felt higher rates would be available at some future time. . . .

Would higher interest rates, which would mean larger expenses to the government, be consistent with the effort to reduce expenditures, in order to further debt reduction and to cut taxes? . . .

NO CHANGE LIKELY

Despite all that is heard about defrosting the certificate rate, it is quite likely that here again little will be done to raise this rate in the near future. . . . There is a possibility, however, with the return flow of currency and increases in gold holdings, money rates might ease somewhat, which could defrost the certificate rate, but not in the direction that is being so widely talked about. . . .

FAVORITES

Reports by the Treasury on government security holdings for the period ended Oct. 31, 1946, again showed that the 2¼s due 1956/59 were the favorites among the commercial banks. . . .

During the month of October these institutions bought $195,000,000 of this bond, which compares with purchases of $253,000,000 during September, the bulk of which were made in the last half of that month after the 2¼s became eligible for the deposit banks. . . .

Savings banks were the largest sellers, followed by other investors and life insurance companies. . . . Small amounts of the 2s due Dec. 15, 1952/54, as well as the 2½s due Sept. 15, 1967/72 were bought during October, while the 2½s due March 15, 1956, were sold in a minor way by the commercial banks. . . . Among the partially exempts, the 2⅞s due 1955/60 were again the largest purchases of the deposit banks.

Outlook for Railroads

(Continued from page 862)

higher levels of optimism to the abyss of pessimism when huge losses have been incurred, and this fact, in many instances, accounts for the abject surrender. Such nebulous thinking soon gives way when improvement sets in."

I see no reason to change my thinking!

Conditions Favor Upside

Basically, I have believed conditions strongly favor the upside. I can't tell you anything new there—National income up over 100% from 1940, farm income up 183%, weekly take-home pay 70%, cost of living 51%, 8 million more workers, higher standards of living.

Money in circulation or on deposit at 108 billions has tripled since the beginning of the war. Total liquid assets (including the foregoing) are also over 3 times what they were at the end of '39.

Surveys have been made showing that automobiles have not been priced beyond the reach of ability to buy. Construction is slated to set new records.

What does it all mean? I can understand how contraction could make fast and sharp changes in the basic fundamentals that currently shape up so strongly. What I can't figure out is how so many economists can predict "a sharp and short recession for '47 to be followed by years of prosperity." Incidentally, we noticed recently some changes in thinking, softening the scale of business recession thinking.

If we are making the necessary adjustments (and taking them in stride as we go along), why do we need the slump? I would rather ride one horse and continue to feel we can do O.K. in 1947 than to attempt to have everything figured out so perfectly.

At a dinner I attended two weeks ago, about the only bears present were the chart readers and a few economists. This struck me as significant!

Among others present was the chairman of the board of a large dry goods chain. Contrary to what you might have expected, he felt very optimistic on '47 prospects. He believed '47 sales would at least be equal to '46, and that profit margins would be greater. He believed the well run companies, in many cases, would earn more per common share than in '46.

The farm situation was discussed by an accredited expert, and he strongly believed that overall farm income would not show too much of a decline, at the same time pointing out that the position of the farmer as a class has improved to the point of extreme well-being and affluence—with assets way up and liabilities sizeably diminished.

You might enjoy reading the "Fortune" Poll of Business Men in the February, 1947 issue. It shows that the average high-ranking executive looks for a general downturn in business, but thinks his own business will be as good or better than in 1946. Apparently, for once, the "other guy's" pastures don't look greener.

Adjustments From Wartime Economy

After five months of excruciating mental anguish and torture, during which time everyone (including a certain laundrywoman) became Dow-Theory minded, and during which time the front pages were filled with economist predictions (mostly bearish), some people are ready to classify the period as an "econocomical" tragedy of shallow measurement in missing the real import of the lowering markets for what they were, namely, an adjustment from the wartime phenomena to a realistic business condition.

To begin with, we've settled down a little from the panicky emotionalisms characterizing the September markets. Hysteria is giving way to reason and realistic approach is replacing surrealism!

Railroad Situation

Well, enough of this "Lady in the Dark" submersion. I'm supposed to be here on railroads.

We believe generally that business prospects are favorable and may continue so for some long time. A recession or depression may come eventually, but we'd rather confine our worries to the next six months to a year, rather than to torment ourselves over a five year outlook. Someone has said, "You can be right on predicting a bust if you repeat long enough."

It looks like somebody has been left holding the Dow-Theory and Recession bags! Good stocks have come back nicely—certainly enough to thoroughly perplex many people who followed blindly the exhortations of many people previously unknown as stock market prophets. We are all fully cognizant of higher break-even points and the potential weaknesses that may continue to cause flighty ups and downs in the future. Basically, however, it seems as though the "depression by propaganda" is over and the old "wolf" cry won't have any effect until something more solid is behind the cry. "What do we do now, doctor?"

We don't profess to be economists! We do spend some considerable time on railroad securities and estimates and, at times, have come up with some fair calculations.

A year ago under these auspices, we sounded a warning note, particularly regarding the major eastern carriers and our marginal earners, and I don't think my remarks at that time were too popular.

As I recall, quite strong antagonisms developed to my selling recommendations of many marginal and non-dividend-paying rails.

We were then concerned with the OPA's disregard for industrial profits, the rising costs in all businesses (particularly the raising of "break even" points in heavy industry, including the rails), the ravenous desire of labor to show its strength, the weakness and ineptitude of the government, and many allied reasons signalling caution.

At the time, the market wasn't ready to accept this reasoning. In retrospect, the market sold off for these causes after costs were being brought in line, OPA was strangling itself, government was showing signs of asserting its leadership, and strikes were more of the "service" type (which always come after) than the real industrial tie-ups. Labor has since adopted a more friendly and conciliatory attitude, probably more directly traceable to a desire for peace and earnings on the part of the rank and file, than to a desire on the part of labor leaders to give up their newspaper headlines or their craving for power.

The whole picture is totally different from just 12 months ago when bullishness was universal despite so many uncertainties.

A number of reasons were given as to why certain roads in '46 might not earn anything, and yet, at the same time we stated that, in our opinion, at a later date railroad securities would be on the bargain counter and would make for excellent investments.

We never anticipated the collapse we've seen! We believe many securities are cheap and we don't expect they will sell again as low as last year. Not for a long period anyway. I'm sure you will agree, that certain adverse developments peculiar to the rails alone vitiated values in 1946 and that they are not likely to be repeated for some time, if ever.

Looks for A "Constant Dollar"

A more constant dollar is a bullish point likely to re-enter the national picture in 1947. Costs are of paramount importance to the rails, and as they can be stabilized or brought under control, net results will improve.

We have had certain reservations concerning the theory that railroad revenues should run about 6% of national income. Railroad revenues can only bear a valid relationship to national income if the price and rate structures remain stable, which obviously has not been the case over the past few years, and particularly in 1946, when the Department of Labor index of wholesale prices rose approximately 25% from the end of 1945 to the end of October, 1946.

For example, we find that railroad revenues were 5.5% of national income in 1940 and rose to 6.1% in 1942-43, then declined steadily to 4.6% in 1946. National income in 1946 was $4 billion (3%) higher than in 1945, in the face of a 17% drop in the Federal Reserve Board index of industrial production. The answer to this diverse movement appears to lie in a sharp increase in prices, rather than volume.

Railroad traffic, as measured by ton miles, bears a closer relationship to the Federal Reserve Board index, and appears to us to be more significant. With the Federal Reserve Board index now around the 180 level, if ton miles bear the same relationship as they did in 1946, revenue ton miles in 1947 would total approximately 620 billion, or 5% above 1946, and result in a total overall gross of approximately $8,400,000,000. However, we're more conservative than that, as I shall soon show.

It seems to us that we could actually see a lower price level in 1947, cutting national income, without a reduction in overall business or rail revenues. If this does eventuate, then the ratio of operating revenues to national income could quickly climb back to a 5.5 or 6% ratio.

We can skip over the boats and trucks. The boats aren't running independently because of high costs, and I don't believe truck inroads will be anywhere near as serious as during the '30s.

Absorbing Cost Increases

The railroads have always been able to absorb cost increases in the past—given time—and we believe they will in the future. You read about the New York Central laying off 7,000 men. You can bet many other roads are doing at least that. We know of a number who are going much further. Real savings may be expected!

The principal savings come from the never ending stream of money going into improving the properties—elimination of curves and grades, terminal improvements, new Diesels and freight cars, to radically reduce maintenance and make earnings—all of which represent expenditures of over $3,200,000,000 in the last six years, including $565,000,000 in 1946. Those roads with cash and credit will be the pace-setters for future modernization and efficiency.

Net current assets still run over the $1,900,000,000 level, which is a tidy sum for future modernization. From Dec. 31, 1945 to Oct. 31, 1946, net current assets were reduced by only $300 million, despite lower gross, higher wages and slightly increased freight rates for six months. (Carry-back credits appear in the current assets and liabilities accounts as accrued. Thus, with the indications of substantial credits occurring in December accounts, net current assets at the year end may be in excess of $2 billion.)

The sharp increase in labor costs last year has provided additional incentive for capital improvements, especially in view of the industry's strong financial position and the ability to finance the bulk of new equipment purchases at very low cost. Railroad expenditures for additions and betterments in 1947 will run far in excess of any previous year—assuming no strikes and ability to get deliveries. The year is starting off with projected first quarter expenditures of $228 millions, more than double the first quarter of 1946. The increase is practically all for equipment, a sizable portion of which is for Diesel locomotives.

New power and rolling stock will make for sizable economies, both in transportation and maintenance. Present tightness in equipment has forced the rails to spend large sums on cars ready for scrapping in order to alleviate the shortages. Receipt of the new cars will immediately be reflected in lower cost ratios. This improvement will continue into the future as the new replace the old.

Don't overlook power improvements this year and in the future. Diesels replacing old steam will result in tremendous savings for some roads and the likelihood of the coal-fired gas tubine locomotives even accomplishing great operational savings over the modern Diesel certainly opens up a new horizon for hopefulness.

The Railroad Wage Question

It is possible that no large increases in wages may result from this year's wage negotiations. Barring certain work rule changes, not much additional costs may be saddled on the roads. This would certainly be a bombshell to the people who have feared the worst for the rails. We have talked to a number of roads, and, on the assumption the Supreme Court will outlaw strikes against the people, they don't seem nearly as troubled by the wage question as newspaper accounts would have you believe.

We also receive reports that there is much agitation and complaint by men against the Crosser Bill. The additional benefits received by the employees aren't in proportion to the increased costs. The men now pay 5¾% of their pay in these taxes—way above other industries—and they don't like it. On some roads there is a definite move on the part of the employees to have the Crosser Bill killed.

We have also received information that in some cases the men are taking informally to the managements, something almost unheard of for many years. I think you might gather from that remark the idea that in some cases the men themselves may be a little tired of entrusting their lives to outside union leaders. There may be some real significance attached.

Since emerging from the economic dungeon, I've been trying to skip over matters to come to the nut of the story.

Using the seemingly very conservative estimates of 534 billion ton miles put into the rate case by the railroads, and making provision for the rate awards, we come up with a gross of slightly under $8 billion. As we view the situation at present, this estimate may run 30 or 35 billion ton miles on the low side, or 300 or 350 million dollars too low. There may even be a higher passenger volume to further augment the gross amount.

Also, after making only slight adjustments in the railroads' expense items, we come up with a figure of $915,000,000, in net railway operating income, after $327,000,000 of Federal income taxes. Income available for charges comes to $1,054,000,000. Deducting charges of $473 million leaves net of $581 million. This final figure might easily run up to $700 million, depending, of course, on gross running larger and no wage increases. Net income in 1941 totaled $500 million, and $648 million in 1944, the latter, of course, being after heavy excess profits taxes.

In the final analysis, I don't see much difference between the rails and any other heavy industry. 1946 gave you a good indication of what certain industrials and the rails could do under trying conditions.

Just reflect for a moment on some of the additional handicaps militating against railroad security values in 1946. First and foremost (especially in the latter reaches of the bearish sentiment) was the "long" wait for the additional rate increases. You remember the agony of living through each 24 hours awaiting the decision. You remember, too, the havoc that broke in our midst back at the botton levels in September when the railroads' estimates for 1946 and '47 were publicized. The ICC asked for and got a set of figures purporting to be estimates for '47. What could the railroads do except approach the impossible by being conservative on gross and generous on expenses? Six months later we're still all at sea on 1947 business projections. At least you will grant publication of the figures din't help the rails.

And, of course, you know the history of the wage awards months in advance of any relief and a year ahead of anything sizable.

The wonder is the rails did as well as they did on these and other industrial diseases hampering production in 1946.

Transportation costs increased sharply last year—mostly because of direct cost rises. There are a couple of other phases that contributed importantly also to higher costs.

The railroads work a six-day week and industry usually only a five-day week! You can see immediately that railroad efficiency is curtailed greatly through forced stagnation over the week ends. It seems that industry will embargo its production before long unless the roads can get some cooperation. Car shortages are everywhere and no relief is in sight. Actually, despite sizable new car orders, available volume bids fair to far exceed capacity within the next few months. Through no fault of the rails, business might bottleneck from car shortages. Cooperation would mean faster speeds, quicker turnarounds, less plant switching, etc., all resulting in lower transportation costs.

A factor of likely importance but impossible of calculation was that concerning the personal feelings of the engineers and trainmen (together with sympathetic feelings toward them by other workers) when the railroad strike last year was "busted" by President Truman. The men were castigated as "un-American, Communists, renegades," and naturally, it didn't set well.

As you would expect, a sulking reaction set in, which was costly to the roads through a loss of good will and full cooperation. This "I'll be damned if I do anything I'm not paid for or don't have to do" attitude will only be softened by time, and let's say that time has been healing some of the sores. *If the Supreme Court rules, in the John L. Lewis case, that strikes against the people are "out," there is nothing in the railroad labor picture that cannot be settled, amiably, around the table, with management making some concessions and labor promising to give a dollar of work for a dollar of "take home" pay.* The real clue as to whether 1947 will be a year of labor-industry peace, high production and profits would appear to hinge on the forthcoming U. S. Supreme Court decision in the John L. Lewis case.

Not Bearish on Rails

Generalizing on the rails isn't the answer! Furthermore, I can't swallow the persistent bearishness on the rails in the light of excellent earnings possibilities. One would think they were still at the highs made last year. Does it make sense to expect securities of industries important to our well being to sell at only two or three times likely earnings?

If so, I fear something in our evaluations is entirely sidetracked! Further even granting an eventual recession, how long must one hang in anticipatory suspension before the vultures devour the carcass? I've always gone on the theory that if the tangibles outweigh the intangibles, the relation of price to earnings is your best yardstick.

Coincidental with the recent rise in railroad values, we've seen stories to the effect that the impact of the full rate increase of 17.6% (as against none last year), better efficiency and higher loadings will result in earnings for January, 1947 far over those of 1946. Ordinarily, these proven measurements would bring in such a return. What I say now is a temporary distortion and will, in time, be evened out nicely, but against the favorable items mentioned we have to remember that in January and February, 1946 the accounts did not carry the retroactive wage awards of about $51 million for January and $46 million for February—thus, in effect, making January, 1946 look about $37 million better, after charges and tax corrections, than it actually was, and February about $33 million better. The 1946 wage adjustment was mostly carried in the March figures when a reported $49 million deficit actually amounted, on adjusted wages and taxes, to about $19 million net after charges. That month will be a big one!

I also wish to point out that passenger revenues in the first three months of 1946, because of the return of the troops, had declined but little from the 1945 level. In some cases, the loss of passenger business in the first quarter of 1947 will cut heavily into increased freight revenues. Here again, the net effect will be to temporarily adversely militate against the sort of earnings reports most people will expect. For the year 1946 total passenger miles were off 29.2% as compared with 1945, as against a decline of only 1.2% in January, 1946.

In other words, in order to not be misled, make allowances during the first three months for the most unusual distortions arising from the wage and passenger phenomena of 1946.

I point this out so that you won't be completely astounded as to why the roads didn't do better when the reports are made. Make the above allowances and I'm sure you will be completely satisfied that real efficiency is returning.

Well, let's not quibble! What is most important is to find which roads are going to make the money.

Naturally, in view of territorial shifts since 1940, you would expect a totally changed picture insofar as many railroad bonds are concerned. Prices will respond to earnings, especially in the income and junior bond fields. Some of these income bonds will, in my opinion, be acceptable for institutional purposes, and many will show interest coverage a number of times over. Many junior bonds selling at very large discounts will cover their interest two or more times. I might also refresh your memory that these companies through reorganization, are just about guaranteed from future insolvency.

We may also see a few "new" refunding operations as conditions improve. Don't count them out!

Preferred stocks in some cases indicate earnings surpassing present selling prices. Preferred stocks of the rails possess high leverage qualities and can "run with the wind" on the upside.

We see many common stocks selling at three to five times possible earnings that offer every likelihood of selling considerably higher.

In 1940 Santa Fe earned $2.69 per share versus $13.51 in '46, and possibly $14.00 in 1947. (Burlington about the same in each case.) Great Northern earned $4.08 in 1940 and $7.53 in 1946, and possibly $9.50 in 1947. Illinois Central earned 13c in 1940 and $4.67 in 1946, and possibly $8.69 in 1947. New York Central earned $1.75 in 1940 and a large deficit in 1946, and might, under favorable circumstances, show $2.00 this year. Northern Pacific earned 83c in 1940 and $3.58 in 1946, and possibly about $6.00 in 1947. Pennsylvania $3.51 in 1940, a deficit of about 70c in 1946, and perhaps earn $2.25 in 1947.

In other words, don't just buy rails, buy individual securities.

Joseph Janareli Admits Patterson As Partner

Joseph Janareli has admitted Howard G. Patterson to partnership in his investment business


Joseph Janareli Howard G. Patterson

and the firm of Joseph Janareli & Co. has been formed with offices at 120 Broadway, New York City. Mr. Janareli has been doing business as an individual dealer and prior thereto was a partner in O' Connell & Janareli. Mr. Patterson was in the trading department of Freeman & Co.

Marshall Morse With Amer. Securities Corp.

The American Securities Corporation, 25 Broad Street, New York City, announces that Marshall S. Morse is now associated with them as manager of their Municipal Department. Mr. Morse was formerly with Lehman Brothers and until recently with J. R. Williston and Company.

Dillman A. Rash to Be Hilliard Partner

LOUISVILLE, KY.—Dillman A. Rash on March 1, will become a partner in J. J. B. Hilliard & Son, 419 West Jefferson Street, members of the New York Stock Exchange and other leading exchanges. Mr. Rash has been with the firm for many years.

Canadian Securities

By WILLIAM J. McKAY

Undue emphasis has been placed on Canada's unfavorable trade balance with this country. This has contributed in large degree to the volume of liquidation of Canadian securities which now, however, appears to have passed its peak. It has also caused doubts in some quarters concerning the ability of the Canadian dollar to hold its own at parity with the U. S. dollar. This in spite of the fact that when the Canadian dollar was established at 10% discount the consensus of opinion envisaged the Dominion currency at par and possibly at a premium as and when the exchange would be permitted to find its natural level. Now as we approach the period of operation of the International Monetary Fund the test of the true international value of the Canadian dollar is at hand.

It is timely therefore to analyze some of the pertinent factors in the case. In the first place the Dominion imports from this country during 1946 were abnormal largely owing to the stimulus given to purchases in this country as a result of the revaluation of the dollar. It is estimated that Canada lost on balance during 1946 about $500 millions of her reserves of U. S. dollars. When it is considered, however, that the Dominion commenced the year with a balance of approximately $1,500 millions this efflux is by no means embarrassing. On the other hand when we turn to the Dominion's overall balance of trade the picture is entirely different. During 1946 despite the extraordinary volume of imports from this country, Canadian trade with all countries resulted in a favorable balance of nearly $400 millions. Thus as soon as multilateral conversion of international currencies becomes an established fact with the imminent operation of the International Fund, the Canadian dollar should become one of the "scarce" currencies of the world.

A still clearer conception is gained by a review of the Canadian foreign exchange position just prior to the war. At that time the Canadian dollar was also at parity with the U. S. dollar but the fundamental situation offered no comparison with the present. In spite of an almost doubled gold production and a far greater influx of tourist traffic the Canadian financial authorities were constantly exercised to meet the U. S. dollar debt service. The situation now is immeasurably changed.

Before the war the volume of Canadian bonds payable in U. S. dollars at one time was well in excess of $3,000 millions. At the present time following a steady program of foreign debt reduction the total is not above $2,000 millions U. S., and the British debt has been almost entirely eliminated. Moreover with Canada's growing stature as an international lender the foreign debt service will be increasingly offset by interest receipts from abroad.

During the war the Canadian economy has been revolutionized as a result of the tremendous upsurge of Dominion industry. Today Canada is not only the world's leading supplier of primary products but is also an important exporter of manufactured goods. The ability and foresight that has marked Canadian internal management has been extended to foreign trade in which field there is no doubt that the Dominion will play a leading part.

Moreover it can be seen that Canada is merely on the threshold of ultimate expansion. With further exploitation of its fabulous Laurentian Shield, the Dominion's production of base metals, gold, and other precious metals should increase enormously. When it is also considered that the migration of foreign industry to Canada is only in its early stages, any doubt concerning the future strength of the Canadian dollar should speedily be dissipated.

During the week there was the same pattern of strength in both the internal and external sections of the market but turnover was on a limited scale. Free funds were again strong and a new high level was attained of 3⅜% discount. Considerable interest was displayed in the forthcoming Abitibi refunding issues payable in Canadian funds and also the $77 million City of Montreal Refunding issues payable in U. S. dollars.

Canadian stocks were firm with continued activity in golds and base metals.

H. Y. Moser in Spokane

SPOKANE, WASH. — H. Y. Moser has opened offices in the Hyde Building to engage in the securities business. Mr. Moser was previously a partner in Moser & Blankenship.

The SEC and Mining Securities

(Continued from page 871)

formation in the registration statement.

Least Possible Interference

Without departing from the fundamental purpose of the Act to afford certain protection to investors, the Commission has striven to make it possible for issuers of securities, and for those who sell them, to finance their enterprises and to engage in their activities with the least possible interference. We have a long established practice of consulting with those who have an interest in the effective functioning of the Acts which we administer. Even proposals which originate within the Commission are submitted to interested persons in the industries affected, to the securities industry, and to others so that we may obtain the benefit of their suggestions and experience before the proposals are adopted. We are continually trying to eliminate requirements which experience may indicate are unnecessary for the protection of investors. We are always trying to simplify our procedures, and to make compliance with the Acts we administer as simple and as inexpensive as possible.

Form S-11 for Mining Companies

In furtherance of this policy, in March, 1945 the Commission adopted Form S-11 for the registration of shares of exploratory mining corporations. This form dispenses with the requirement for the certification of financial statements by independent accountants, items have been eliminated or shortened, maps and engineering reports are not generally required, and other simplifications have been made. A booklet was designed for use in connection with the form, and to aid registrants in preparing registration statements. It contains a digest of pertinent matter taken from the Commission's formal opinions which bear on problems that may arise under the Act in connection with small mine financing.

Regulation A, which permits an issuer to offer up to $300,000 of securities in any one year, can be used to offer the securities issued by most mining corporations. Assessable stock may be offered under this regulation if the assessments legally leviable on the stock are limited so that the aggregate offering price of the stock and the assessments cannot exceed $300,000. No prospectus need be used in connection with this offering, and the letter of notification required to be filed can be prepared quickly and without expense. The use made of this Regulation should not be underestimated. Many small mining ventures, by complying with this Regulation, have been able to obtain financing quickly and without registration under the Securities Act. In the calendar year 1946 there were nearly 200 such filings covering an aggregate offering of approximately 19½ million dollars of mining securities. In March, 1945 the Commission also adopted Regulation A-M to provide an exemption from registration for offerings of assessable shares of mining corporations to a maximum of $100,000 in one year.

These progressively simplified forms and methods of compliance with the requirements of the Securities Act were, as you know, adopted only after consultation with the representatives of the mining industry. In many cases, as in the case of the adoption of Regulation A-M, many of the provisions of the form and of the regulations had been urged by various members of the mining field. The Commission has always benefited from the suggestions of various mining men, mining organizations, and others interested in the sale of mining company securities, who were furnished draft copies of the forms and rules for review and criticism.

Simplification of Registration Process

As you know, the Commission has recently announced resumption of the program, interrupted by the war, for joint study, with interested groups, of the provisions of the Securities Act and the Securities Exchange Act. Serious effort is now being made to discover ways and means of arriving at a common agreement as to changes desirable in the public interest, and consistent with the protection of investors. Among the major problems to be considered will be some simplification of the registration process, and methods of making more generally available to prospective investors the information in a registration statement.

It is hoped that appropriate and workable proposals will be submitted to the Congress in the near future. Since the Commission is interested in the views of all persons who feel that they can contribute helpful comments, I urge you to cooperate with us and to present your views and suggestions.

Our constant effort to find ways to simplify our registration processes and to make more generally available the conditional exemptions permitted by the Securities Act must, as I have mentioned, be fitted within the fundamental purposes of the Act: to provide full and fair disclosure of all pertinent information, and to prevent fraud in the sale of securities. These two ideas of disclosure and fraud prevention are not unrelated. They are complementary concepts fitting within the same pattern. Of course the Act provides penalties for using any device, scheme, or artifice to defraud, or for willfully misstating a material fact in connection with the sale of a security. But it goes beyond this. It is intended not only to punish the violator, but to protect the investor. It is the purpose of the disclosure requirements to stifle fraud before it occurs.

We know that those persons who have dedicated themselves to making the mineral resources of this great nation available to the people, and to the industries which need them, frequently face many obstacles before their efforts are successful. We must remember, however, that some of these arise from the fact that mining financing possesses characteristics which differ from those of ordinary industrial financing. One important difference is the increased speculative element frequently arising from the continuing need to find new sources of metal. While this factor may not be so great in the developed enterprise, it is always necessary to consider it.

If the public is to retain sufficient confidence to invest in mining enterprises, investors must be able to get a reasonable amount of information; sufficient to make an informed judgment whether they want to take whatever risk may be involved. They should ordinarily have information concerning the property, the management, the program, the uses to which funds will be put, the promotional features of the transaction, and the costs of distributing and underwriting the securities being offered. It should not be possible for the unscrupulous promoter to use the speculative nature of some mining enterprises as a means of developing his own schemes to promote the securities rather than the mines.

Promotion of a New Company

For example, it is important for the investor to get a short but clear story of the circumstances surrounding the promotion of a new company. The facts on this frequently determine whether the projected enterprise is a promotion of mining or merely of stock. The Act, of course, does not authorize the Commission to determine what promoters shall take for their services. No one at the Commission wants the power to make decisions of this kind. However, it is important that the promoters' contributions and rewards be fully disclosed, and that no false statements be made in regard thereto. If a registration statement and prospectus are to contain adequate disclosure, both the nature of the promoters' contribution and his compensation for it must be set forth clearly and not be buried beneath a mass of complicated transactions between the promoter and the corporation during the stage when the corporation is but the promoter under a different name. A promoter's services may be very valuable to the corporation, or they may be worth nothing at all. The potential investor must be in a position to determine this question for himself from all the facts.

The agency which administers the Securities Act has no power to substitute its judgment for the judgment of issuers, underwriters, or others, in determining whether an issue should be offered or sold. It is not our function to take any action which could be construed as approving or guaranteeing that the securities being offered are sound, or that they will earn a profit. No one at the Commission wants the power to decide what securities may be offered or sold, or at what price. No one wants the power to dictate business policy. I believe that as Government Administrators it is our function to be impartial referees who keep our eyes on all the players to make sure that the rules we are required to apply are applied fully, fairly, and sensibly to carry out the purposes which the Acts we administer were intended to accomplish.

However, we must all realize that the Congress has given us at the Commission the duty to make sure that the distribution of securities in interstate commerce or through the mails meets the minimum safeguards for the protection of investors set up under the Securities Act. The Congress, in effect, has declared that the protection of their interests is one of the cornerstones on which a sound national economy must rest. We at the Commission must enforce and administer our Acts so as to honor this mandate. We believe that this legislation represents no startling departure from accepted American standards of fairness and honesty. We urge your cooperation in maintaining these standards.

Burton & Co., Inc., Is Formed in Houston, Tex.

HOUSTON, TEX. — Burton & Co., Inc., has been formed with offices in the City National Bank Building. Officers are G. Burton Liese, Henry W. McCormick and Garrett R. Tucker, Jr. Mr. Liese was formerly with Allied Overseas, Inc.

Free Exchange and American Economy

(Continued from first page)

ize, or soon will, that nothing can be gained by making faces at one another, that cooperation alone pays dividends in general well-being. If, in and out of Congress, sound leadership prevails, we soon should get into full production.

But what of our price structure—how do we protect it? The way to solve that problem is first to inquire as to what makes the mechanism tick, then to eliminate whatever would hinder or dislocate it. In so doing it is indispensable to rid ourselves of preconceptions, to discard thinking by slogans and put all propositions to the test of common sense. For example:

"One World" sounds fine, yet it doesn't alter the fact that mankind lives in different worlds, socially, politically, economically.

"The Interdependence of Nations" is a fact to the extent that all nations depend upon one another for things they need but do not produce. Beyond that interdependence ends and sovereignty begins. Hence no sovereign nation, invoking interdependence, may justly claim that another nation owes it its living.

"Foreign trade" is profitable only to the extent that it is balanced, and it can be balanced if the natural forces are given free play. If, because they are impeded, imbalance sets in, if it persists, if its aggregate is substantial, then foreign trade ceases to be profitable because a problem of transfer is created whose difficulty of solution is in exact ratio to the amount of imbalance involved. Loans, as correctives of imbalance, merely perpetuate disequilibrium, invite ultimate repudiation and strain international relations.

"Stable Exchange Rates" result only from balanced trade, not from pacts or agreements, Bretton Woods to the contrary notwithstanding. The words "fixed" and "stable" are not synonymous when applied to exchange rates because only free exchanges allow the natural forces to operate, and any device which impedes them creates instability. Loans are no substitute for the natural forces. If utilized merely to peg exchange rates, they will obstruct those factors which make for balance thereby undermining the economies of both lender and borrower. Thus, to peg the dollar to other currencies in a period of uncertainty is to shackle our price structure to the international price structure, regardless of foreign cost or wage differentials or dissimilar standards of life. It is to invite the gravitation of our prices towards the level of the lowest in the price-fixing combine. It is to surrender our control over our own affairs and to weaken the nation to no good purpose.

140,000,000 Americans, all producers, all consumers, together constitute the greatest single market known to man; let us keep it that way, broaden it if we can. It doesn't follow that the way to preserve it is to restrict or close it. On the contrary, to the extent that we can balance our trade, and **only to that extent**, we should let down the bars without fear of damage to our price structure. How is this to be done? obviously we cannot match one import transaction against an export, nor can we offset a given amount of purchases by an equal amount of sales. Suffice it to say that all our imports and all our exports go over the exchange, and that the sum of them all makes a true rate of dollar exchange. Exports create a demand for dollars, imports a supply. Thus, if we buy too much on balance, the supply of dollars is increased, the rate will fall, put a brake on our further purchases abroad by making them dearer, and facilitate our sales by making our goods cheaper to foreign buyers. If we sell too much on balance, the demand for dollars is increased, the rate will rise, put a brake on further sales and facilitate our purchases abroad as foreign goods become cheaper when measured by our dollar.

Free Exchange Rates Correct Unbalanced Trade

Thus it is that a free rate of exchange operates as a corrective of imbalance, immediate, constant and continuous. Thus it is that the nation's price structure is protected; for no matter what the foreign cost or wage differentials may be, no matter what the subsidies granted their commerce by foreign nations, under the regime of free exchanges the world must buy from America as many dollars' worth of goods and services as it sells to America. And as there is no escaping this condition, we can lower tariffs without fear. Any dumper soon will find that, as the dollar proceeds of his sales buy fewer units of his own currency by reason of the impact of his dumping on his rate of exchange, he must either quit dumping or go bankrupt.

If America's total trade is 90% domestic, 10% foreign, it follows that the true value of the dollar must be measured in terms of its domestic purchasing power. The rate of exchange is not an expression of its true value—it merely is a measure of the supply of and demand for dollar exchange. The dollar rate of exchange could fluctuate 5% in twenty-four hours without perceptible impairment of its domestic purchasing power. What, then, should be our primary concern: the conservation of a stable home currency or the pegging of our exchange rate? Should we subordinate the 90% domestic to the 10% foreign trade? And, if so, to what good purpose and for whose benefit?

Fixed Currencies vs. Free Markets

To maintain the currencies at fixed rates will require, here and abroad, resort to loans, to tariffs, to subsidies, to quotas and other devices which impede trade at every turn. It will make trade ancillary to money instead of the reverse which is money's proper function. For **we cannot have fixed currencies and also free markets.** Nor can we obstruct the natural forces and achieve balanced growth of international trade. Prosperity results from individual initiative and labor functioning in open markets freed from bureaucratic controls. It cannot be bought by indiscriminate lending either through a "World Bank" or a "World Fun" whose rules and regulations are violated before the ink on the agreements has dried: one important member of these organizations, forced by circumstances beyond his control, is already indulging in unilateral trade pacts; another, whose currency is supposedly linked to ours on the basis of $35 per ounce of gold, is openly selling it at $40; a third borrowed from us $50 million in gold to "stabilize" his currency, which nevertheless fluctuates between 6,000 and 8,000 to the dollar, while reports have it that our gold went to line the pockets of those in control.

An Independent Domestic Price Structure

Although the rapid development of communications and transport has brought all peoples closer together it doesn't necessarily follow that economic ills now must spread from country to country with greater speed and intensity. For as the individual may be immunized against epidemics, so may the price structure, provided the right precautions are taken. To link currencies together under prevailing circumstances is tantamount to shackling a healthy human being to one infected with disease; the contact will not help the sick, it can only spread the infection. This is not an argument for economic isolationism which is as unsound as it is unwise. On the contrary, it is a plea for free markets, for low tariffs, for balanced trade. It is an argument for the extension of short seasonal credits, upon which are based the overwhelming majority of foreign trade transactions, as distinct from long-term loans which are bad business for both lender and borrower.

A natural query would be: were America to opt for free exchange what would other countries do? The answer is that they would have to follow suit because the dollar is the only "key" currency in the world. A time there was when there were two "key" currencies, the pound and the dollar. Their position as such was due to the fact that America and England's contributions to the total world trade was preponderant. Together they normally did more foreign trade than all other countries combined. But the position of the pound as a "key" currency has been vitiated through the "blocked" sterling balances created by war necessity, so that, whereas dollar balances belonging to foreigners may be drawn down at will, the same is not the case with their sterling balances. A further natural query would be: in what manner would foreigners draw down their dollar balances if we adopt the regime of free exchange? The answer is that, **like our own citizens**, they could no longer obtain gold for their dollars, but only legal tender wherewith to buy our goods and services, failing which they could go to the exchange market and therein sell their dollars against their own currencies. It will readily be seen how this would protect our price structure, for we would either be selling goods or services, which is good business, or the foreign exchange rates would rise and improve our competitive position in world markets. But no special advantage would accrue to us, for what applied to America would, with equal force, apply to all nations engaged in foreign trade.

Gold Degenerated Into Object of Speculation

A few years of this regime—possibly five—would bring a degree of balance in international trade relations, in consequence of which all currencies would more accurately reflect their true relative values; and it is on those values, not on purely arbitrary figures, that a monetary stabilization plan might be devised. We should lock up our gold awaiting that day, allowing a free market for new production. There again supply and demand, unfettered, would set a true value on the yellow metal upon which ultimate stabilization might be discussed with some assurance that the system would endure. Present restrictions on gold movements are creating black markets everywhere; scarcity prices prevail which gave no indication as to gold's actual worth. Thus it is that gold is losing its utility as an instrument of exchange and as a measure of value and is, instead, degenerating into a medium for mere hoarding and speculation. The contention that the regime of free exchange might cause unbridled and disruptive speculation in the foreign exchange market is without foundation, for no speculative exchange operation can be initiated without the active cooperation of a bank. As very few banks deal in exchange, and as all are, or should be, familiar with their customers' legitimate exchange requirements, a simple order from the Federal Reserve to its members is all that is needed to close the door to speculation.

Scale Down International Debts

International debts being basic causes of imbalance, those arising from the war should be scaled down, with interest rates so reduced and conditions of amortization so eased as to exert a minimum of pressure on the exchanges. Everything possible should be done to restore the Pound to its former "key" position; for a prosperous Empire, with Britain as its core, is indispensable to world order. Unless this problem is resolved, England, for years to come, will be forced into an unwieldy export position which needs must keep world trade in constant disequilibrium. To eke out a mere existence and also honor her obligations, by necessity and not by choice, England is obliged to resort to controls. Her population is forced to accept austerity as a normal condition of life. Under these circumstances it is unrealistic to demand of England that she forego Empire preferences, open wide her home markets, eschew economic management. She could not do this and survive. Those who committed her to agreements such as the Bretton Woods Monetary Pact were guilty of wishful thinking. For though of willing spirit, in so far as present day England is concerned, Bretton Woods is but an idle dream.

The "blocked" Sterling balances constitute the number one international economic problem the key to which is in the hands of Britain's creditors, notably India, Egypt and Argentina, who owe their very existence to England and her Allies. For had not the Japanese been stopped at India's gates, Hirohito's deputy would now be ruling from New Delhi, and hopes of Indian independence, now so near realization, would have vanished into thin air. Without Montgomery at El Alamein, Rommel would have reached the Suez, overrun the valley of the Nile, and installed a Gauleiter on Farouk's throne. Argentina's sole contribution to Freedom's struggle for survival consisted of surplus meat and wheat exports to England for which she accepted payment in "blocked" Sterling, the while allied naval patrols protecter her shore line. Here, then, are genuine obligations which these creditors of England incurred and which they should be called upon to discharge in part by a generous scaling down of their claims for the benefit of all concerned, themselves included.

Should Help England

In sheer enlightened selfishness America should help England out of the pit that institutions and a way of life akin to her own be preserved. Playing wet nurse to nations having no external obligations, but with resources and man-power, is hardly the way to go about it. On the contrary, it can only weaken America, because there is a limit to the burden which even Americans can shoulder. Short seasonal credits, sufficient to start flowing a two-way stream of trade, are all any country is entitled to ask of us, and all that we should grant.

England, bled white, her industrial centers bombed, her production machinery largely destroyed, desperately needs a breathing spell to put her house in order and get going once more. She cannot do it with "blocked" sterling and other creditors at her heels, nor has anyone the moral right to demand that she perform the impossible. We might as well face facts and be guided accordingly.

There is a task of high diplomacy to be done. As one of her principal creditors America should take the initiative and induce England's other creditors so to act as to give meaning to the words "United Nations." Time is running out. There is much at stake.

Illinois Bankers to Confer Feb. 21

The necessity of conserving the greatest single source of wealth of the state—the fertility of the soil—will be the theme of the afternoon session of the Mid-Winter Conference of the Illinois Bankers Association, Feb. 21, at the Palmer House, Chicago. According to Barney J. Ghiglieri, President of the Illinois Bankers Association and President of the Citizens National Bank of Toluca, Ill., if the State is to maintain its position as a leader in agriculture, the farmers must render more than lip-service to soil conservation.

The Illinois Bankers Association and its member banks, it is pointed out, have long recognized the importance of the farmer and the fruits of his labor to the overall economy of the State. The Association, through its Committee on Agriculture, has been active in supporting all types of programs and activities that will help to improve the farmer's economic position. During the past two months, the Committee on Agriculture, under the Chairmanship of Earnest F. Cramer, President of the First National Bank in Galva, Ill., sponsored a series of 14 soil conservation meetings throughout the state. The Committee received the active cooperation of the Federal Reserve Banks of St. Louis and Chicago, the College of Agriculture of the University of Illinois, and the State Conservationists of the U. S. Department of Agriculture in these sectional meetings.

All of the activities of the Association's Committee on Agriculture during the past year will culminate in the Mid-Winter Meeting in Chicago on Feb. 21. Representatives of industry allied to agriculture have been invited to attend and to participate in an open forum discussion. At this meeting an effort will be made to organize an overall industry committee that will assume the responsibility of seeing that every farmer in the state is made aware of the dollar and cents value of following sound soil conservation and erosion prevention practices, and is urged to full cooperation.

Dr. Hugh H. Bennett, Chief, Soil Conservation Service, U. S. Department of Agriculture, will address the meeting on "Soil Conservation and the Citizen" and Chester C. Davis, President of the Federal Reserve Bank of St. Louis, will speak on "Soil Conservation and the Banker." The morning session will be under the sponsorship of the Installment Lending Division of the Association, with Wm. J. Ramm, Vice-President of the First National Bank of Danville, and President of the Division presiding. Carl M. Flora, Vice-President of the First Wisconsin National Bank, Milwaukee, will be the principal speaker, on the subject "The Future of Installment Credit." Robert P. Vanderpoel, Financial Editor, The Chicago "Herald-American," will be the guest speaker at the luncheon session on the subject "If I Were a Banker."

After an all-day business session, the assembled bankers will attend the Mid-Winter Dinner.

Securities Salesman's Corner

By JOHN DUTTON

You can do business by mail. The secret of successful mail selling is based upon letters that are truly personal in every sense of the world. You can fill waste baskets all over the country and spend a fortune doing it, all without results, unless you put that certain pull into your letters that makes the recipient feel that you are talking directly to him about something which is of his immediate concern.

A good mailing list is of first importance—you can't get all prospects to reply to your letters unless they qualify first—this is academic. I have obtained good results using the metropolitan newspapers. If you have advertised a conservative situation it is natural that those who have replied are interested in that type of security. All prospects that have replied from out of town or out of the State for that matter, have been classified by identifying all future correspondence with them in accordance with the type of security which their reply indicated they might have an interest. For example, those who replied to an advertisement concerning a good fire insurance stock that paid dividends for many years, were sent future mailings about securities that were attractive for their conservatism and consistent income production. Speculative stock buyers should be approached from the profit angle. A stockholders list will also produce interested inquiries providing you offer a current report on the security in question.

The trouble with most mail campaigns is that they stop before they have a chance to produce results. One or two mailings never do the job. Selling by mail is exactly like personal solicitation in as much as it takes time to get acquainted, establish confidence and build good will. Here for example is one way to follow through and build customers.

(1.) Place an ad in newspaper or periodical concerning a special situation or send out a double reply card, postage prepaid, to a stockholders' list offering a special report.

(2.) Send report and a brief covering letter to those who reply. Enclose order form and return envelope.

(3.) If the customer has replied to a conservative security offer and you have not received an order in response to your first letter, send him a brief letter not over three paragraphs, stating that you handle conservative investments and do considerable business with investors in many parts of the country through the mail. Mention your statistical services and make an offer of some kind of service such as the latest statistical reports on any of his investments. Enclose a self addressed envelope for reply. If he is interested in speculations explain how you occasionally uncover something attractive along this line and ask him to send you a list of any securities that he now owns about which he would like to have an unbiased opinion.

(4.) Don't be discouraged if you do not get a large response. Keep at it. Send out another letter a few weeks later. Make it chatty and personal—write plain English as if you were sitting down in your prospect's office or home and were talking with him. Most people become stilted when they start to write a sales letter. Don't overdo this though—just keep from over-stating by avoiding superlatives and always try to get a response of some kind. One excellent method of building up a prospect's interest in you and your proposition is to keep on offering him something. If possible always put a card, or a self addressed envelope in your letter which he can use to GET SOMETHING. An offer of statistical reports, a circular about an investment, a review of his list, a booklet to keep records, an opportunity to be placed upon a mailing list for special offerings, or to receive an interesting monthly news letter concerning investments, such things as these will pull replies.

After you have sent out a few letters you will begin to build up a correspondence with many of these people. Don't try too hard to sell (at first). SELL A SERVICE, SELL YOUR WILLINGNESS TO BE OF ASSISTANCE. Remember if you are in a larger city and many of your replies come from rural areas these people will be even more impressed with you if you take it easy and show them that you mean it when you say, "We do our best to help our customers select the best possible investments, and after they have bought them we do all we can to help them keep these investments in sound condition."

Margins, Trading Hours and Commission Rates

(Continued from page 863)

tion of 100% margin requirements, the chairman of the Federal Reserve Board stated, ". . . it should be remembered that the mandate which Congress gave to the Reserve Board applies only to listed securities and specifies that margin requirements shall be imposed for 'the purpose of preventing the excessive use of credit' in such stock market operations. The Board is not authorized to impose a permanent ban on margin trading." That is a clear, concise statement. Let us examine it for a moment.

Stock Margin Credits Insignificant

In July, 1945, when margin requirements were raised from 50% to 75%, the total amount of credit extended by members of the New York Stock Exchange to their customers on listed securities other than governments amounted to approximately $1 billion, the equivalent of only 1¼% of the market value of securities listed on the Exchange, excluding governments. Just prior to the inauguration of 100% margins, this figure had declined about $100 million, and, at the end of 1946, it stood at about $470 million. This was only 6/10 of 1% of this value. Thus credit extention by member firms for carrying listed securities was and is a negligible fraction of the value of such securities.

Furthermore, credit extended by the reporting banks to member firms for carrying listed securities, other than governments, was and is a negligible fraction of total outstanding credit. Such loans accounted for only 5% of the banks' total loans in July, 1945, just prior to the increase in margin requirements from 50% to 75%. At the end of 1945, shortly before the announcement of 100% margins, these loans declined to 3.7% of all loans. At the end of 1946, these loans had fallen to 1.2% of total loans.

Does this indicate an excessive use of credit for the carrying of listed securities?

Although the percentage of reduction in loans to member firms was important during the time when the 100% margin rule prevailed, total credit for carrying listed securities was insignificant on the first date and even more insignificant on the second. Since these loans were of minor magnitude, it was immaterial, insofar as considerations of inflation or credit control were concerned, whether margin requirements requirements were 50% or 75% or 100%.

Inasmuch as excessive credit has not been employed at any time in recent years for purchasing or carrying listed securities, there is no logical reason for limiting margins to 75% instead of 50% under present conditions—and there is even less reason for maintaining the arbitrary and pernicious restrictions against the substitution of securities in margin accounts, which accomplishes no useful purpose and works actual financial hardships on a large number of people.

FRB Exceeded Its Powers?

If, by its own admission, the Board is not authorized to impose a permanent ban on margin trading, we may well question whether there was any legal authority to abolish the use of credit for purchasing listed securities. Did Congress intend to confer power on the Federal Reserve Board to prohibit instead of control the use of credit in securities transactions? Did Congress intend to confer power on the Federal Reserve Board to deny American investors, American business managers and American workers the right to the benefits of the creative power of credit to be employed according to their best judgment?

In any case, uncertainty as to whether credit will or will not be available and arbitrary control over credit, such as has been exercised by the Federal Reserve Board, are distinct handicaps to business and sure preventives of expansion of industry and employment.

With further respect to controls exercised by governmental agencies over our industry, contrast the present cooperative attitude of the Securities and Exchange Commission. This is an encouraging factor and confirms our belief that the infusion of new blood into the commission under the leadership of an able and efficient chairman would promote a constructive interpretation of the law rather than one based upon the whims of political dictates and ambitions. I take this occasion to compliment Chairman Caffrey, his fellow commissioners, and his staff upon their effort to develop workable, understandable and constructive rules. I assure them of our cooperation in the sensible and farsighted approach they are now making to the solution of the problems with which they are confronted.

Commission Fees and Other Charges

In addition to governmental controls, our business functions under rules and regulations of the individual exchanges of which we are members. In every instance, these exchanges, and correctly so, prescribe schedules of minimum commissions which, to all intents and purposes, determine the extent of the payment we receive for the brokerage services we provide.

These schedules are based primarily upon the number of shares or bonds involved in a transaction. Investigations conducted during the past few years not only indicate the possibility that the present method of determining commission charges on securities is outmoded and produces inequality of charges in certain price ranges, but also suggests the wisdom of at least considering a complete revision of such methods by relating the amount of commission charged directly to the amount of money involved in the transaction.

It is, I believe, self-evident that the basis for determining charges should be scientific and equitable—it should be one which will reasonably assure, under normal conditions, that costs will be covered; that salaries to employees will be commensurate with their ability and with the value of the tasks which they perform; and that on balance profits will exceed losses for those who exercise prudence, judgment and energy in conducting our business and in assuming the not inconsiderable risks inherent in its conduct.

Member firms perform one or more categories of services—brokerage, financial, statistical, fiduciary and underwriting—in each of which there are varying degrees of risks involved for which member firms should be commensurately compensated.

The costs of these services, of course, have increased during the past four years. For example, a preliminary examination of the comprehensive study being conducted by the Association, in cooperation with the Department of Member Firms of the New York Stock Exchange, involving an analysis of income and expenses over the past four years of approximately 80 member firms, indicates that our administrative and clerical salary rates have increased 52% in the period 1942-1946. This is an important factor of our total costs for doing business.

Final conclusions can not be drawn, however, until all the factors have been analyzed. It is believed that this report will be completed in the very near future, at which time the results will be presented to the Board of Governors of the New York Stock Exchange for consideration. Furthermore, it is hoped that this study will provide a valuable contribution to the solution of this pressing problem of costs and revenues and aid in the development of a uniform system of accounting for our member firms.

The 5-Day Week

Any discussion of this subject would be incomplete without referring to the possibility of the establishment of a 5-day business week for our industry. The New York State Legislature, now in session, may soon adopt a bill providing for permissive Saturday closings the year around for banks doing business within that State, and shortly thereafter the New York City banks may establish a 5-day business week. Therefore, this question will probably have to be met and solved by the New York Stock Exchange in the near future.

Ours is a service industry, and as such its facilities have been available to public six days a week. The public has utilized this service on Saturday. In other than metropolitan communities, residents often find Saturday the most convenient day of the week in which to discuss and transact their banking and investment business. Would it be in the public interest to deny it this service?

On the other hand, the adoption of a 5-day week would be in the interests of employees by bringing about a reduction in the number of hours worked, provided compensation is not reduced. This situation has already been recognized by some exchanges and member firms through the institution of a work stagger system, so that many of their employees are not required to work every Saturday. Such work stagger systems undoubtedly could be expanded so that, as in other service industries, employees would only be required to work five days a week, although the business week for the industry might exceed that period.

Of course, experience might prove it impracticable for the Exchange to remain open on Saturdays.

In this respect, we should not fail to understand fully the effects of such a development. The volume of business recorded on the New York Stock Exchange on Saturdays during the past three years approximated 20 million shares per year, and that excludes Saturdays in the four summer months. From our selfish point of view, that volume on Saturdays means the potential loss of 40 million shares a year, because for every buyer of a listed security there is also a seller.

Forty million shares is a substantial amount of business. It is disturbing, to say the least, to consider the possibility of the loss of all or any part of it. Perhaps, the implications of such a development can be more fully appreciated if we look at it another way. If a member firm does 1% of the total stock exchange volume on the average, this then means the potenial loss of 400,000 shares annually, without a compensatory decrease in expenses.

Shall we complacently discard that amount of business or even part of it? Shall we presume, merely upon conjecture, that approximately the same amount of business would be transacted in five days or 25 hours as is presently handled in 5½ days or 27 hours?

Rather, would it not be necessary to make an effort to preserve as large a part of that volume as possible by extending the trading hours on Mondays through Fridays by at least one-half hour a day?

In the interests of the midwestern and western exchanges and member firms which already endure a hardship brought about by the various time zones, an earlier opening hour would be impractical. Hence, a 3:30 closing appears to be the best alternative.

While I can appreciate that such a plan might create difficulties for the news services in the preparation, distribution, and printing of stock tables, I am hopeful that it would not be an insurmountable problem. The press is obviously interested in the profitable performances of our markets. To remove two hours from our week—two profitable hours—could impair our functions and might create a serious reduction of revenue. I am confident that they would help us work out this phase of the problem, should the 5-day week become a fact.

Personnel Practices

I have referred to steps which have been taken by some firms and exchanges in establishing work stagger systems in the interest of their employees, and I confidently believe that most member firms are conscientiously trying to adjust their personnel relations and personnel practices to keep pace with the times.

Our business requires employees of unusual qualifications. Their integrity must be above reproach. They must have above average emotional stability to enable them to work under great pressure during busy periods. They must possess abiding loyalty strong enough to persist during periods of business despair and pessimism as well as in times of business prosperity. That such loyalty is tradition with our business is evidenced by the number of employees who have been with us for a quarter of a century or more.

That type of employee is not one who requires paternalism.

Activity of the securities industry depends upon the volume of saving and investment as well as upon the ebb and flow of investment sentiment on the part of the public. Both the volume of saving and investment sentiment depend largely upon such influences as the tax burden, government controls, relations between labor and capital, industrial and commercial activity and other factors which our business only reflects. Thus we have no control over the volume of our business, nor can we accurately predict what that volume will be during any specific future period. This makes long range planning difficult and thereby necessitates readjustment, both upwards and downwards, in the number of personnel employed by our industry. I know of no method within our control by which this unfortunate aspect of our business can be remedied.

That difficulty in itself intensifies the need of a constructive approach on our part to employee relations. Methods of improving personnel practices in any field of endeavor must be based upon technical knowledge of the problem and thorough understanding of human nature. Skill as an operations manager, a department manager, or an accountant does not necessarily prepare one for meeting the problems of human relations. Some of the methods and procedures successfully followed in the past may now be outmoded.

There is no question in my mind that member firms are desirous of establishing sound employee policies, and that they are receptive to advanced and proper methods of improving their personnel practices.

In this respect, it seems to me that the Association can render an invaluable service by making available to member firms material for reappraising their personnel practices in the light of accepted techniques and by giving technical assistance in training programs for the development of personnel, especially key personnel with supervisory responsibility. This, under the guidance of an experienced personnel consultant, we plan to do.

Our industry has a vital part to play in the progress of America. We have the ability—we have the desire—to solve these and the other problems which confront us.

Hannegan Says "We Shall March On With President Truman"

(Continued from page 866)

President, he went to Potsdam to confer with the chiefs of State of our allies in war. And at that meeting it was largely through the statesmanship of Harry Truman that a sound cooperative relationship, looking toward the end of the war and to the peace beyond, was established among the great powers.

Thereafter, almost daily he was faced with decisions of grave importance, crucial to America and crucial to the world. And day after day, the challenge was met, the decision made. The series of mighty strides may well make us proud as we look back on them. Here are some of the steps that were taken to alleviate the sufferings of a world at war and to rule out forever any recurrence of that horror from the future of a world at peace:

An international bank and world monetary fund were set up.

A loan was made to Great Britain.

Aid was given to the starving peoples of war-devastated areas.

The reciprocal trade agreements were extended.

A Secretary of State was appointed — James F. Byrnes—who faithfully carried out President Truman's policy of firmness, patience and goodwill.

When the post of Secretary of State became vacant recently, a statesman—one of the greatest of his time and of all time, a true soldier of peace as he was a skilled and gallant man of war—was appointed, General George C. Marshall.

We in America know that a world yearning for peace has not yet completed its task. We know there are dangers. We know there are men who seek to undo the good work that has already been done.

But we know, too, that in this crucial hour, while the citadel is rising, a sentry stands on guard, clear-eyed and alert. We know that George Marshall is on the job. And that citadel of the world's hope is safe.

In meeting the all but superhuman task of bringing our economy through an orderly changeover to peace, and in surmounting other vast domestic problems, President Truman has exercised the same courage and integrity, the same quiet quality of goodwill, as he has shown in the field of foreign policy.

It was right, as Harry Truman saw it, to stand by the men who came back to us after defending their country at war. As a result, we now have the GI Bill of Rights and a whole program for assistance to veterans.

As a precaution against abuses, control of atomic energy has been retained in civilian hands.

Back in December of 1945, he urged upon Congress a merger of the Nation's armed forces. In this he was vigorously opposed. But the President was convinced of the improvement in defense and the greater economy which this plan meant. Courageously he stuck to it.

Today, those who formerly opposed him have become convinced and have accepted the basic proposition of merger. A plan, agreed upon by both the Army and Navy, is now before Congress.

Under the President's leadership we have moved ahead with other big strides for the public welfare and protection.

For the development of atomic energy, and as a precaution against abuses, a Federal commission has been established. The control of that commission is in civilian hands.

It was a decision of Harry Truman that maintained rent control, protecting millions of American families against profiteering in a time of housing shortage.

In the aftermath of war, it was inevitable that the country would face pressures for higher prices and higher wages. This meant labor-management disputes.

Almost daily, the President was plagued with these problems. But he met them head-on, and in every situation he squared his decision with his own concept of what was best for America. That came first. And no special interest, no strong-arm tactic, was allowed to prevail against it. Harry Truman was looking out for—and taking action for—the good of the whole people.

Today, with the President's personal example before them, labor and management are finding their way toward agreement. We have emerged into a time of goodwill.

A few weeks ago the President sent to Congress three messages—on the state of the Nation, on the economic prospect, and on the budget.

In these messages, with the same sound judgment, the same spirit of American teamwork that have marked his every official act, he has outlined his policy in such matters as taxes, government expenditures, labor legislation, employment, military security, housing, and protection for the small businessman and the farmer.

In his decisions on all these matters, he has chosen to be guided, not by "right" as distinguished from "left," but by right as distinguished from wrong.

Addressing himself to a Congress dominated by a majority of the opposition party, the President said:

"The power to mold the future of this Nation lies in our hands — yours and mine, joined together. . . . On some domestic issues we may, and probably shall, disagree. That in itself is not to be feared. It is inherent in our form of government. But there are ways of disagreeing; men who differ can still work together sincerely for the common good."

Those are words of high statesmanship, because they are words that put country ahead of everything else. There is no higher form of statesmanship than the simple acknowledgment of brotherhood, regardless of party, under a freeflag.

Time and again, the people of this country have seen President Truman's judgments confirmed by the course of events.

Only recently we have had several striking instances of this. Consider, for example, his view on taxes. His political opponents, as part of their campaign in the election of last November, promised to end the excise taxes on luxury goods.

Harry Truman counseled against abandonment of these taxes.

Who was right?

A few days ago, Congress voted to continue the luxury taxes, and the very men who had promised to repeal them in their election campaign now switched position, and voted to retain them.

Or consider the question of a reduction in income taxes. The President's political opposition promised the people to cut income taxes 20% "across the board."

The President already has pointed out to Congress the danger of promising a reduction in taxes before making certain that this can be done without unbalancing the budget. He has opposed any reduction in taxes that will mean failure to reduce the national debt. And he has strongly urged that persons of small income be made the major beneficiaries of any tax reduction.

Who was right?

Now we find the Republican opposition weakening in its ill-advised stand. We hear the belated admission that budget-balancing must come before tax reduction. And Republicans themselves are attacking the "across-the-board" feature and urging their own leadership to abandon it.

Another great question bearing on this nation's future is our commerce with the outside world. President Truman has called the attention of Congress to the proposed organization of nations to promote world trade, and has pointed out that America's reciprocal trade agreements will be vital to the success of this effort.

But economic isolationism is finding its voice again. Within the past few days, a virulent attack has been launched by certain members of Congress against the reciprocal trade agreements.

Who is right?

Well may we pray that the majority of the 80th Congress, for the sake of humanity, will accept the advice of the President and vote for the trade of the world which is so vital to the peace of the world!

To those of the opposition who decide to follow Harry Truman's better judgment, we say:

"For your reversal of position, for correcting your own errors of the past, we have only praise! May you, for America's sake, always do so! The only difference now between your position and that of the President is that he was right the first time."

More and more, the people of America are confronted with these proofs of the wisdom and foresight of Harry Truman. Now that they see our economy back on an even keel, less than two years after the war, now that they realize how many were the obstacles along the road, the people are wondering:

How has this come about?

Do nations automatically emerge unscathed from a great world conflict?

If you think so, look at a map of the world. Try to put your finger on one world power—outside of our own—one great nation whose people, whose economy, whose very soul has not been seared and left bearing scars for generations hence.

America has not won back towards peace and prosperity by resting on her historic laurels or by dropping her destiny in the lap of fate.

How, then, has it come about?

We have won back, we are winning back, because we have had sound leadership. We are on our way towards peace and prosperity because the leadership of President Harry Truman has been a leadership of integrity and goodwill, of courage and foresight.

It is true that in the beginning, many Americans did not know the abilities of this man who had become President. From the day he took over, voices were raised against him by men long-embittered, men who were blinded by their own narrow political bias. Without waiting for the test of office, they spoke in belittlement of his stature.

They do not do so today. The people of America have learned that Harry Truman wears well. At all times when the good of the country was at stake, they have seen him set an example for these critics by rising above political animosities. The bitterness and hate that might otherwise have spread and undermined our strength as a nation, he has checked at the very source. With the philosophy of goodwill he has disarmed the haters and the champions of strife and distrust.

The world is hungering for more of that kind of leadership. The world needs more statesmen with vision and a firm, unswerving stride.

Here in America, we shall march on with President Truman toward our goal as a prosperous people, a strong and secure nation.

We have gone far and fast, but the task of leading us to peace and plenty is not accomplished in a day nor a year.

Until that work is done, we are ready to call upon our President again as the man who has proved himself fit for the job. America will give him the support and loyalty that he deserves of us all, through the years ahead.

Parcel Post to Germany

Postmaster Albert Goldman announced on Jan. 15, that ordinary (unregistered and uninsured) gift parcels are now accepted for mailing when addressed for delivery in all parts of Germany (American, British, French, and Russian Zones, including all sectors of Berlin), except the portions of Germany under Polish control which is governed by the regulations applicable to parcels for Poland, and the address should show "Poland" as the country of destination.

The parcels for Germany will be subject to the same conditions as were in effect prior to the suspension of the service and also to the following restrictions:

(1) Only one parcel per week may be sent by or on behalf of the same sender to or for the same addressee; (2) Contents are limited to such essential relief items as nonperishable foods, clothing, shoes, soap, mailable medicines, and other similar items for the relief of human suffering. No writing or printed matter of any kind may be included; (3) Parcels must not exceed 11 pounds in weight, or measure more than 36 inches in length or 72 inches in length and girth combined; (4) Parcel post rates are 14 cents per pound or fraction of a pound; (5) The parcels and relative customs declarations must be conspicuously marked "Gift Parcel" by the senders, who must itemize the contents and value on the customs declarations. Parcels are liable to censorship and customs examination in the zone of destination; (6) Parcels should bear the name of the addressee, street and house number, town, postal district number (if known), province, and, in addition to the word "Germany," indication of the zone of destination, or the name of the sector in case of parcels destined for Berlin. Box numbers may be used as part of the address provided the name of the box holder is shown. Parcels shall not be accepted for mailing when addressed "General Delivery"; (7) Parcels which are undeliverable will not be returned to senders but will be turned over to authorized German relief organizations for distribution to the needy.

The export control regulations of the Office of International Trade, Department of Commerce, Washington 25, D. C., are applicable to parcels for delivery in Germany.

Make the Dollar as Good as Gold!

(Continued from first page)

that the currency is now based on the debt.

This idea of debt management is the last resort of all nationalists. First, they make the debt of the sovereign, that is, government notes and bonds, the currency; then, in order to compel the subjects to use the currency at its face value, they proceed to control the economy. Such was the procedure in the days of Louis XV and John Law which ended in the notorious Mississippi Bubble.

A. International Aspect

The problem of debt and currency today comes to a head in international rivalries and wars. This should remind us of the futility of all the talk about there being anything new in the proposals for a managed currency and managed debt. They are no newer than national wars!

In fact the situation today is reminiscent of the dark days of Mercantilism, and the constant warfare which we associate with the 16th and 17th centuries. They are reminiscent of the suspension of specie payment by the Bank of England in the period of the Napoleonic wars. We don't have to remember far back, to recall the "shell game" overplayed by Dr. Schacht in Germany at the end of World War I, when he performed the miracle of creating purchasing power out of government spending and debt, by merely raising taxes and compelling the purchasers of German government bonds, and thus forcing the people to give back the money as he spent it. And is there anyone whose memory does not extend to the period of World War II, in the United States, when the head of our own central banking system defended a similar procedure as carried out by the head of our government? They seized our gold, and withdrew it from circulation. They inflated the paper price of gold 68%, calling it "devaluation." They defaulted on the government's gold bonds. With this background, they borrowed through deficit financing, and scattered the money among the people through government spending. Then they took it back through progressive taxation and bond sales. Then they spent it again. If there is any better illustration of a "shell game" than that, I don't know of it.

These essentially identical procedures, down through the centuries, have developed when political values become more important than economic values; in other words, when politics drives out economics. The current international mess in economic and monetary matters is an outcome of this condition. Looking over the world today, we see in all countries masses of depreciating paper currency lying over the economic terrain like great glaciers. A part of the landscape is the mass of trade restrictions and financial controls which are required when there are no standard money and free exchange. We see the central banks each trying to regulate the economy of its nation for political and financial purposes. And we see the governments forced to control international trade and exchange, under the ancient and inefficient system of barter. (How anyone can talk about the trend in monetary matters being in a "forward direction," when one reflects that barter is the device of the savage, is beyond me!)

World Wide Currency Chaos

And as we look over these masses of frozen paper currency and trade restrictions, we see everywhere little hot spots. These are the black markets in gold. The existence of black markets in gold at various points in the world, is to my mind one of the strongest proofs of the goodness of gold. In the days when there were black markets for meat in the land, I think that most of us appreciated the goodness of the thick steak or prime rib more acutely than at any other time. The black market in meat, which was universal and widespread, proved the goodness of meat—just as the speakeasy in the days of prohibition proved the goodness of liquor. Well, we could not keep the paper price of meat down; so now we will not be able to keep the paper price of gold down either. That is what the black markets in gold are telling us.

Consider the case of the Italian lira. True, the international fund or world bank, or whatever they call these Bretton Woods monstrosities, has undertaken to name rates of exchange between the dollar and the various paper currencies of other countries. Doubtless the lira has it place in the list. Would anyone in his senses, however, care to trade lira for dollars on the basis of this rating? The conditions that determine the value of the paper lira are completely unpredictable. They are unknown and unknowable, depending as they do upon a highly unstable government and the fickle political arrangements that are to be made in the disposal of shipping, colonies, reparations,, etc.

And who knows what the British pound is really worth? The radical labor government of Great Britain is trying desperately to keep the purchasing power of the pound up by holding prices down. Nobody knows just how the efforts will work. All we know is that some of us, like myself, are sure that they will fail, just as we ourselves failed in a somewhat similar attempt.

The plain fact is that the "parities" established among the various currencies mean little but political hopes. They represent opinions on the part of certain political authorities that the paper dollar should be pegged to the paper pound at the rate of about four-to-one, and so on down the list. Many of the exchange rates are unquestionably too high. And the dollar itself is but a piece of paper dependent for its purchasing power upon the policies and controls of good but limited men such as M. S. Eccles, John Snyder, and Harry Truman.

I hold that there is no way under the sun to tell what the lira or the pound is worth under such circumstances. This you doubtless will believe, but don't you see that if this be true it is also true that there is no way under the sun to tell what the dollar is worth? We will never know in any generally acceptable and demonstrable way what the several currencies are worth in exchange for one another, unless and until we make them definitely and precisely comparable with some one object with which they can be compared, and I know of no object which is so suitable for this purpose as is gold. Nobody would ever be convinced that the pound sterling is worth exactly $4, just because the average price of cotton goods, pig iron, and potatoes in England might be one quarter of what it is in this country. But show me, or anyone else, that I can get 54.8 grains of pure gold for a pound at the same time that I can get 13.7 grains of pure gold for a dollar, and I will admit that the two must exchange in the ratio of one to four, because I know it.

What Is Money?

All this condition rests upon the big delusion, almost world wide, that money is just a ticket or a sort of claim to goods—to anything a man wants. This idea underlay German nationalism, with its notion that paper currency had a great superiority in binding the people of the nation together in a sort of mystic tie, not recognizable to the people of other nations. It lies back of the so-called economics of Lord Keynes which is characterized by the notion that governments can give people purchasing power by borrowing from them and then making them work it out on the roads, thereby creating full employment! Our own Marriner S. Eccles, following in the path of another notorious Scotchman, John Law, has stood for the idea that money is nothing but a claim against what he called the "general assets of the nation." I have always wondered just whose assets the general assets of a nation are. How does the nation get any assets at all? What is to assure the stability of my "claim"? Don't my liabilities in the shape of heavy taxes and government debt more than offset my "claim" to any alleged national assets?

And don't forget that all the time, as if it were boring from within, we find in the average American college textbook in economics, presenting the idea that money is a nominal thing, a sort of ticket or warehouse receipt. At first, it may seem convincing to think of a dollar as a warehouse receipt which you present in the market and get your share of the goods; but when stop to think, you realize that a warehouse receipt means that you have put something in a warehouse, and that the receipt gives you a claim to that specific thing. That, however, is not what the fiat-currency people mean. They think of the warehouse as containing those "general assets of the nation." You put in 40 hours or so at whatever occupation you most enjoy, and receive certain claims. But claims to what? What have you put into the general warehouse? Who runs the warehouse? What is there to insure that what you do, is going to contribute your full share to filling it?—but why push the matter further?

My point is that our minds have been all but poisoned by a continuous flow of vicious arguments and pronouncements, some of it from high places. These have been exposed, exploded, and disproven over and over again. Yet I predict that when the next great wars come, whether it be a generation or a hundred years from now, the same delusion will again arise. And I further predict that the next generation of New Dealers will again call it "Something new," and therefore call it "progress".

"Commodity Dollar"

One of the most persistent cases of such thought is the notion of the so-called "commodity dollar." You would think that a commodity dollar man would be ripe for the idea of a gold standard, since he should be willing to take gold as the commmodity to which he would tie the dollar. But no! What he does is to select some bill of goods, taking his favorite list of items, and proposes that in some way or other we should make the paper dollar always buy the same quantity of this bill of goods. But how? The commodity dollar man always is forced to exercise some act of superior power and wisdom; that is, he imagines he can in some way, through political controls, manage a fiat currency so that it will have a constant purchasing power as judged by the prices of his list of goods.

One trouble is that no two of them can agree as to just what bill of goods should be taken as the basis for their proposed control. Another difficulty is that no two of them can agree precisely as to how the currency they would use, should be managed.

The truth is that the "commodity dollar" means no standard. It means nothing but somebody's idea about what a dollar ought to buy; but provides no standard for determining its value. It is exactly like saying that the distance from Denver to Chicago can be determined by dividing that distance into 1,000 units. Of course, when you measure that way you will find that a unit is always 1/1,000 of the total distance!

A Stable International Currency Base

So I come to the conclusion that the big underlying problem of our currency, internationally, is the problem of securing some definite and stable base, something that is not a mere claim depending either upon coercion or upon the intuitions of some dictator. This definite and stable base is necessary for the determination of foreign exchange, and for deciding the amount of credit to be extended in the case of foreign loans. Without such a base, exchange ratios are interminate. The amount of loans is unlimited.

This problem now centers on us and our dollar. You will have observed that the Bretton Woods arrangements for an international fund and a world bank all focus on the idea of some "scarce currency". Well, aside from Switzerland and one of two other cases, the American dollar is the one currency that is "scarce." What does that mean? It means that the American dollar is the one means by which you can get American food and American machinery! The problem, then, is how to give Bolivians and Liberians their share of the scarce currency which enables them to get food and machinery from us.

There is only one way to do this fairly and without coercion. And that is to put that scarce currency, the United States dollar, on the basis of a gold standard. We are about the only nation, outside of Switzerland, which can have a gold standard. It is therefore my opinion that the United States should go on the gold standard at the earliest possible moment, so that other nations can be able to accept the United States dollar based on gold as a means of measuring their currencies. This I think is by far the most effective step than can be taken to restore international trade.

I would emphasize at this point that we stand at the same crossroads where England stood at the end of the Napoleonic Wars. England had abandoned the gold standard. The bullion controvery then raged. Following the ideas of the great classical economist, David Racardo, England then made the right decision and returned to the gold standard, making the pound convertible into gold. This, along with the closely related policy of relative freedom of international trade, brought to England her great period of 19th century trade superiority.

Similarly today, the dollar is the only world currency. Similarly today, we have our bullion controversy, the issue being whether to back the dollar with gold so as to make it as good as gold bullion. If we will take this step with the responsibilities and difficulties that it involves, we may hope to become the unquestionel economic leader of the world for a century to come, with all the chance for power, prosperity, and good influence that comes with such leadership.

B. Domestic Aspect

This obviously brings us to the domestic or internal aspect of the problem.

When we consider the monetary problem as it confronts us at home, we are driven to inquire just what is the meaning of a "standard" for our own money. I would emphasize that this means something more than a mathematical formula, or a banker's rule for finding out what a foreign currency will exchange for. It means a basis for determining what a day's work in the fields or mines is worth in exchange for our daily bread. It means a basis for determining what the savings that I leave to my children will be worth.

To begin with, note that we are not now on any standard. It is my carefully considered judgment that it is quite incorrect to describe our present arrangement as an "international gold bullion standard." Nor does the Treasury's fixed buying price for gold—at present 35 paper dollars an ounce—constitute being on a standard.

The general idea of a standard is that of an accepted rule. Accepted rules of conduct are "standard." Accepted rules for attaining beauty and art are standards. But note that when thus loosely defined all sorts of degrees of standardization may exist. The basic meaning of the rule depends upon the nature and degree of its "acceptance." I hold that the only true acceptance of *rule is one which is voluntary and general among the individuals who are concerned. No real standard exists in any complete form unless (1) it is freely accepted without the coercion of government fiat, and unless (2) it is so generally accepted that it characterizes the action of the whole group involved.*

The latter point means that a standard must be objective. A subjective rule, that is, one that depends upon the whims or the "wisdom," intuition, management, or planning of some sovereign, whether dictator or "leader," is not a standard. A standard must be consistent with democracy!

Accordingly, a standard requires no shifting, manipulation, or adjustment. It is automatic in its working, since it depends for its effectivenes upon the free choice of individuals who accept it.

A standard then, is not determined; it determines.

Definition of Monetary Standard

I would give as a practical definition of a monetary standard that it is *the thing which determines the value of the monetary unit.* Find out that upon which the value of the monetary unit depends, and you will find the standard. When the paper dollar depends for its value upon a certain quantity of a certain metal, such dependence being generally recognized because of complete two-way convertibility, we say that we are on the gold standard or the silver standard, as the case may be.

There is no pretense at the present time that we are on any objective standard as to the value of the dollar at home. How could there be, when so large a part of the government's activity is spent in "managing" the currency, and in attempting to fix prices? In any country in which there is no standard, the tendency is to hoard some commodities or real estate, thus showing the absence of a standard. The adoption of inflationary hedges, is a confession that the currency is not on a standard. (It strikes me as being somewhat ludicrous that so many of our citizens sit and complain that we must fight inflation and hold prices down, while at the same time assuming that we have some standard for our currency; and if the Treasury's so-called fixed price of gold means anything as to the purchasing power of the dollar in trade, why all the discussion about inflation and deflation?)

To my mind, the proof is conclusive, in that commodity prices remained practically unchanged during the years 1934 to 1939 while the quantity of gold in the gold dollar had been reduced nearly 50%, and the price of gold was raised from $20.67 paper dollars to $35 paper dollars per ounce, or about 70%. Obviously, it would have been impossible that commodity prices other than that of gold could have remained unchanged while the gold dollar was cut in two, if our prices had been measured in terms of gold dollars.

Nor is it any truer that internationally we are on some sort of a gold standard. True, the government has bought gold. It has also, after due consideration, allowed gold to be shipped abroad. But this is only after all political angles have been considered. Exchange controls prevail. Financial and political arrangements govern the action of the authorities. There is hardly a trace of automatic action whereby the value of the dollar in exchange for other currencies would depend upon its convertibility into gold. Why do foreign traders think gold worth $70 an ounce despite the so-called price of $35 adopted by our Treasury?

As already pointed out, the scarcity of the dollar in international trade is entirely due to the scarcity of products in the hands of those who desire to trade for American goods.

Having faced the fact that we are on no standard in this country, and thus come to understand better what a standard is, the next step should be to decide what standard we should point toward. Without boring you with an extended discussion of this subject, I will state my conclusion that only one standard has ever worked, namely the gold standard. I do not say that it is easy to attain and maintain any standard, whether in morals or literature or money. Where is there perfection in the world? But I do say that the nearest to perfection that has ever been attained in the way of a monetary standard, and the only one that has persisted in effect for long periods of time, has been one based on gold. Look into any alleged case in which fiat currency has worked for a time and you will always find that its apparent success has been a belief or hope in its convertibility into gold or silver.

The Gold Standard

My conclusion is that we should point toward the gold standard, and my thought is that the first step is to find out what gold is worth in terms of the paper dollar, or if you please, to find out what the paper dollar is worth in terms of gold. (How can you do one thing without the other?)

The fundamentals of the situation are that we have outstanding a vast amount of currency. The total amount of demand deposits and money in circulation is in the neighborhood of $107 billions. It is highly important to note that this currency is inelastic. In other words, there is no automatic retirement for it. One of the curses of inflation based on public debt is that claims in the form of bond-secured notes and deposits must be faced.

This vast amount of inelastic currency is several times larger than it was in 1934, when all the shooting began. It has increased far out of proportion to any increase in the quantities of commodities and services for which it is designed to serve as a medium of exchange.

We do not dare to allow it to be used freely in exchange. The turnover of bank deposits is highly subnormal, showing only a faint trace of life, as it were. The large amount of money in circulation in one way or another represents hoarding or other abnormal retardants of circulation.

Thus we do not know what a paper dollar is really worth. By the same token, *we do not know what quantity of gold there should be in a gold dollar.* Incidentally, we do not know what quantity of paper may be issued and must rely upon some indefinite feeling that already we have too much.

Under these circumstances something in the way of a free gold market must be allowed. The citizens in this country should be allowed to possess gold and to buy and sell it as they would any other reputable commodity. Our producers should be allowed to sell gold in the world markets. If a free gold market existed, we would soon be in little doubt as to the true value of the paper dollar, whether in exchange for Colorado potatoes or the pound sterling.

As it is, what do we find? We find ourselves fed with rumors and reports as to quotations for gold in foreign currencies which indicate that an ounce of gold may actually be worth anything between $50 and $80. Our Treasury sits there holding out a so-called price of gold which indicates that the paper dollar ought to be worth 1/35th of an ounce of gold. In the black markets, however, smart foreign traders in the Orient and elsewhere, register their judgment that the paper dollar is worth somewhere in the neighborhood of 1/70th of an ounce of gold. They are willing to bet that the American paper dollar is worth little if any more than half what the Treasury buying "price" holds it out to be. It is no wonder that across the borders of most countries today we find gold being smuggled for black market purposes. Gold pesos are being flow out of Mexico to enable the citizens of China, Iran, and Argentina to use them for savings and legal tender. Recently an American airman was arrested for engaging in such traffic from our own shores.

I do not undertake to say just how provision for a free gold market should be made. But as an economist, and as an honest man who believes in freedom, I am absolutely sure that the time is near at hand when we should be able to find out in an objective way what the relative values of paper dollars and gold dollars are.

Problems of Currency Liquidation

At this point the big political and economic problem of liquidation and readjustment should be considered. How are we to liquidate the mass of paper currency including demand deposits? How are we to realize on the sterilized hoards of gold?

One way would be to call in the notes and scale down the deposits, thus reducing the total claims. This would be precisely what the OPA administration did when, having issued more red tokens than there were pounds of meat and butter, they cancelled a part of the excess issue of such tokens.

Another way is to allow the currency outstanding to remain in effect, merely allowing and facilitating an upward readjustment in prices to a level at which the currency would be used at the normal rate of turnover.

Back in the early part of the 19th century during the Napoleonic wars, the eminent economist, David Ricardo, argued that the excessive note issues should be scaled down to fit the bullion reserves of the Bank of England. I wonder if such an approach is feasible at the present time. Frankly I doubt it, if for no other reason than that so large a part of the claims now outstanding in the shape of notes and deposits are held by individuals. Not only are they held by individuals, but, to an appreciable extent, they are held by the common people. It has been one of the main objectives of the administration to compel the people to subscribe to its bonds and to engage in forced war savings. The result is that the people are not going to sit by and see the principals of their savings bonds and the number of dollars in their deposit accounts, reduced. Even if they were willing to do this, whom would they now trust to do it?

Under the circumstances of such large inelastic and widely held masses of currency, or "liquid savings" as they are sometimes called, it seems likely that the value of the dollar will have to be readjusted downward. The number of paper dollars is large in relation to the relatively fixed quantity of gold. Very well—there will probably have to be some further devaluation, which means a reduction in the quantity of gold in the gold dollar. This, I believe, would in part be the only way that we could both (1) return to the gold standard and (2) retain anything like the number of dollars now existing in our circulation, in deposits, and in "liquid savings."

Note, furthermore, that it seems the more likely in that we have been led into an attempt to maintain a high exchange ratio for vast masses of foreign currencies in relation to our own. We have virtually agreed to a dilution of dollar exchange. The only alternative, a general scaling down of foreign currency issues, seems to be unlikely.

Prices to Be Maintained

Moreover, it seems that paper dollars will have to decline in purchasing power with relation to goods; that is, to the general run of comodities and services. This, of course, would mean higher prices. Such a further depreciation in the purchasing power of the currency, based upon devalued gold dollars, would enable us to use the existing currency. As prices rise, it takes more dollars to do a given physical volume of business. Such a rise, I think, is one condition of the return to equilibrium in our economic life.

While a rise in prices of this sort, is properly referred to as inflation, you will note that it is an inflation of the currency that already exists. The rise in prices is but a yielding to unfavorable economic forces. And it would be prevented from running away, by keeping paper dollars convertible into gold.

Probably, such a rise will go too far, and the momentum of it carry beyond the point of equilibrium. A business recession with some decline in prices would doubtless follow in due course—say sometime between now and 1951 at the latest. But I do not think that prices will at any time recede to the prewar levels, and I am sure that when the final equilibrium is restored, it will be at a permanently higher level.

Incidentally, this would probably keep the "secondary" war depression from being as great or as long as those following the Civil War and World War I.

A very important point to note in this connection is that the amount of gold in existence constitutes no objection to the use of gold as a monetary standard. Most emphatically there is no lack of gold. Not only are the hoards of gold maintained at various points scattered over the world enormous, but there has been considerable addition to the production capacity in recent years. The notable additions have been those in the Orange Free State, South Africa, and in the Canadian Northwest territory. The Siberian gold resources are by no means fully exploited. It seems to me probable, however, that the main factor in supply is the tremendous quantity of old gold that has been driven underground. After England's abandonment of the gold standard in 1931, followed shortly by the New Deal performance, gold went underground. So there is now not only the 20-billion hoard buried at Fort Knox; but also there is probably something like another 20 billion in private or government hoards scattered throughout the caves and cellars of the world. With the return to a gold standard the metal would emerge. As I have already indicated, one of the advantages of the gold standard would be the return to use of these now wasted gold resources

Conclusion

In conclusion, it is important to consider the essentials of money. For over a decade now, we have been bombarded with arguments in favor of a "managed currency" and against a resort to any objective standard. It is not going to be easy to offset the effect of all this propaganda, without going through a terrible depression which would compel people to see the fallacies of Keynes and the Communists.

The function of money is not that conceived by the New Deal, namely to serve as a means of central control and social reform —one that can be used for the purpose of giving everybody in the world a bottle of milk a day. The *function of money is to measure objective or free market values.* These are the values upon which economic democracy depends.

In order that money may fulfill this function, there are certain definite requirements. The first and most obvious one is that the *money must itself have objective value.* You can not measure distance without using a yardstick that has distance itself. Just so, you can not measure value without using a monetary unit that also has value *in the same sense that the thing measured has value.*

It follows from this that the money unit must be desired and must have scarcity. Any tyro in economic theory will tell you this. What then are the conditions of monetary desire and scarcity?

First, the thing used as money must be fit for the purpose. It must have "fitness value." It must be generally acceptable on account of its convenience, durability, divisibility, and portability. It must be stable in its value, so that it may serve as a basis for credit transactions and a standard for deferred payments.

The point of stability brings us to the supply side and the element of scarcity. Here note that it is most important that the quantity of the material be used for money to be limited by nature, but that the quantity available to man be variable according to the costs of production. In other words, the ideal money material must be producible, but costly. More than that, the cost must be pretty definitely ascertainable, not that of a mere by-product. In this respect, gold is ideal. In the present state of our knowledge, the total quantity of gold in the world is limited, but the quantity available for use can be increased, depending upon economic conditions, including freely determined costs of production.

Thus the commodity, gold, being desirable and scarce in the same sense that most economic goods are desirable and scarce, is fitted to play its part as a medium of exchange. Its general acceptability and the stability of its value, make it one of the best suited means for use as a standard of deferred payments.

Such is the case for a gold standard. If there be any other material that is more fit, let us choose it; only let us have some objective standard for our money that is as good as gold. This we must do unless we are prepared to surrender our individual freedom, and submit to the whims of the dictator in a managed economy with a managed currency.

The Blocked Sterling Balances: Enzig

(Continued from page 867)

and elsewhere, hold the view that a reasonable compromise, acceptable to both parties, should be negotiated. The figure they usually have in mind varies between one-third and two-thirds of the amount. A possible basis of some such compromise would be the acceptance of the principle that the debts should be scaled down on the basis of the purchasing power parities of Sterling in relation to the currencies concerned. Thus, if on the basis of the purchasing power parities the rupee ought to have been devalued to, say 9d, instead of being maintained at the overvalued rate of 18d, the debts due to India should be correspondingly reduced by 50%. Another formula is that debts arising from imports from the creditor countries should be recognized, while debts arising from the expenditure of British troops in India, Egypt, Iraq, Syria, Persia, etc., should be cancelled, since the presence of these troops saved the countries concerned from Axis invasion.

(4) The Security school. A realistic school of thought believes that the amount of Sterling balances recognized in relation to each credit or country should be equal to the total of British financial interests in those countries, not more and not less. The British debt to India would provide a security for the British owners of property or claims in India. Since the balances are only likely to be repaid over a very long period (50 years is the period usually suggested) the British investors will have ample time to liquidate their investments. And if meanwhile they should suffer losses through civil war or anti-foreign legislation, they will be compensated by the British Treasury out of the amounts of the consolidated Sterling balances.

Until comparatively recently there was also a fifth school of thought, according to which the Sterling balances were really a blessing in disguise, because they will secure a permanent market for British goods. In the meantime most people realized, however, that there is no point in exporting merely for the sake of creating employment. At the present moment the truth of this is brought forcibly home by the scarcity of labor, fuel and raw materials. And by the time the "age of plenty" has returned the negotiations for the funding of the Sterling balances will have been concluded. So for all practical purposes the negotiations will be conducted in an atmosphere inspired by acute scarcity of labor, in which the idea of exporting for the sake of creating employment will not appeal to many people.

In any case, under the Washington Loan Agreement Britain is precluded from stipulating that the released Sterling balances must be released in a form available for spending in any part of the world. British exporters will stand to gain no specific advantage from granting the creditors generous terms, for there will be no safeguards whatsoever against the money being spent in other countries.

Allowing for all these considerations, it is not surprising to note the pessimistic trend of the forecasts of the outcome of the negotiations with India. For the British Government could not afford to conclude an agreement which does not materially reduce the amount of the debt. On the other hand, the new Indian Government refuses even to consider the idea of a reduction of the total. So a deadlock must be considered a certainty.

Problems of Postwar Air Transportation

(Continued from page 867)

4,361 civil and military airports in operation in the United States. Of these, 3,566 were civil airports, the remainder being devoted to military purposes. (See Table I.) Generally, Class I airports, of which we now possess 1,334, are suitable only for private owner, small-type aircraft. Class II, of which we now have 1,208, are suitable for larger-type private owner aircraft and smaller transport planes for local and feeder service. Class III, of which we now possess 486, can accommodate present-day twin-engine transport aircraft; while Class IV or larger airports, of which there are 847, can serve the largest aircraft now in use and those planned for the immediate future.

TABLE I

United States Airports as of Oct. 1, 1946

Types of Operation	
Commercial	1,823
Municipal	1,383
CAA Intermediate	202
Military	795
All others	158
Total	4,361
Size Classification	
Class Sub. I*	486
I	1,334
II	1,208
III	486
IV and better	847
Total	4,361

*Indicates airports which exist but do not come up to Class I standards.

This summary would appear to present quite a good picture were it not darkened by the fact that numerous of the larger airports, built with Federal funds during the War, were constructed in places of no particular commercial importance and solely for military purposes. We therefore find small communities in the Southwest, for example, possessing large airports and many a good sized town in other parts of the country with nothing but a small airport or none at all. This raises a serious situation when airlines attempt to expand their services to new places. For example, among the 286 places now approved for air carrier service in this country there are approximately 140 which do not meet the desirable minimum of 5,000 foot paved runways. In addition, many of the airports used by commercial airlines have inadequate taxiways, parking and servicing aprons, an insufficient number of runways for the normal variation of winds, and obstructed approaches. Of course, where proper taxiways are not provided, runways must serve a dual purpose, with a serious loss in traffic capacity.

Applications to bring air service to 678 communities not now receiving it are on file with the Civil Aeronautics Board, but the residents of most of these places will not be able to obtain satisfactory scheduled air transportation unless airports are constructed or improved. Steps are being taken to improve the general situation but not in time to solve many of the immediate airport deficiency problems for commercial air transportation. Most of the Federal funds proposed to be spent in airport construction, matched with local funds, are to be invested in the smaller airports —Classes I and II—which are of no significance in commercial airline operations.†

† The 1947 Airport Program announced in January of that year by the Civil Aeronautics Authority calls for the construction of 232 new Class I, 109 new Class II, 44 new Class III airports. Projects for improvement of certain existing airports call for 82 Class I, 177 Class II and 153 Class III. This new construction and improvement will call for the expenditure of nearly $34 million in Federal funds and about $38 million provided by local or state governments.

It will be seen, therefore, that under conditions as they have existed in the past and still exist at many places, commercial air transport has been and still is carried on regularly and faithfully under several serious handicaps imposed by the limitations of the typical airport. In some cases the latest and most efficient types of planes, those most favored by passengers, cannot be operated safely out of existing airports and local service has to be given with older planes of much more limited performance, but having an advantage on the particular point of rapidity of take-off or angle of climb, or not given at all. In other cases operations are subject to the economic handicap of a limitation on maximum loading of the plane at its take-off to substantially below what it would be allowed to carry off a field of more adequate area. Some communities, although their airports suffice through the greater part of the year, find themselves deprived of service during periods of bad weather, especially during the snows of winter and the thaws of spring. Other airports, usable under good weather conditions, are unsatisfactory for instrument landings or even for visual approaches in bad weather until means have been found for removing some particularly unfavorable obstruction from the neighborhood or until the landing area itself has been enlarged.

(2) *Location.* The second inadequacy which has proved a serious handicap to airline plans for mass transportation has proven to be airport location. Only about half of the civil airports serving communities of any size are within three miles of their centers. More than 75% of all airports are, however, within six miles of the center of the community which they serve. In miles this does not appear to be such a bad situation but it is driving time between the city and the airport that is of most importance. Here the big city suffers because at such places airports are of necessity at greater distances from business centers. It is highly desirable that airport locations be as close the center of the cities they serve as is possible but the airlines themselves can do little to improve this situation. The solution appears to be the development of express highways or other high-speed ground transportation to and from airports so as to decrease the ground time of passengers, particularly of those only going a comparatively short distance by air.

(3) *Inadequate passenger and cargo handling facilities.* There is not a single airport in the United States with adequate facilities today to handle the volume of passenger or cargo business which could be developed by the airlines; and which must be developed if they are ever to be considered as "mass market" carriers.

As far as passengers are concerned, the airlines spend considerable sums for harmoniously decorated plane interiors, for comfortable seats, for hostess service, for hot meals aloft, and for many other items that make passengers comfortable. Yet, at the end of the trip, when air traveler steps from a plane, he is often forced to enter an air terminal building where conditions are far from satisfactory. There is often no place to sit down, restaurant facilities would not do credit to a bus station, let alone to a facility serving a premium type of transportation. Baggage handling is slow and inefficient and the whole standard of air terminals is far below what it should be from the standpoint of available space and convenience for the passenger. The result is that many first-time air travelers become disgusted and the airlines lose them as potential customers. In many ways this is not the fault of the airlines.

As far as cargo goes there is not an airport in the country with even a vestige of the proper facilities for handling it in volume. The cargo potential for air transportation is tremendous yet many minutes or hours, which mean miles in the air, are now wasted because of airport cargo deficiencies in ground handling. It may well be that larger communities will find it necessary to develop airports particularly for cargo handling before many years have passed.

The second principal circumstance that has arisen in connection with air transportation is the safety factor. Recent air crashes have directed public attention to this matter and despite the fact that 1946 was the best year, from a safety standpoint, which our airlines have ever enjoyed (See Table II) with only 1.6 fatalities per hundred million passenger-miles flown, there is every indication that there will be a Congressional investigation of the whole situation. Such an investigation may well bring out the fact that the airlines themselves are not to blame for some of the situations leading to accidents but that for others they are. The safety situation is composed of two parts: (1) The situation on our airways and around airports. (2) The safety of the planes themselves. The first of these involves airway and airport traffic control under the Civil Aeronautics Authority, the installation of blind-landing and other devices to aid aerial navigation, and the general acceptance on the part of airlines of whatever system the Federal authorities may adopt. The second is a matter of avoiding accidents by the airlines through perfected equipment kept constantly airworthy, the employment of conscientious, experienced and intelligent personnel, directed by a conservative executive policy; thorough training of new personnel before they assume responsibility; constant checking of work being done; alterness in foreseeing the possibilities of accidents and preventing them before they can occur; and more efficient cooperation between operating units.

Generally speaking, adverse weather is a major contributing factor in the more disastrous air accidents. Congress cannot change the weather, but it can provide for better observations and more accurate forecasts of weather through appropriations for research work and for a larger and better trained personnel. Also, Congress can provide for better facilities to meet the hazards of darkness, low visibility and adverse weather. Another cause entering into almost every major accident to a greater or lesser degree, is human error. This applies alike to ground and flying personnel. In nearly every case had one less error occurred, the accident probably could have been prevented. The purpose of legislation now in effect, and which may be proposed in the future, should be to provide such regulations and facilities as will reduce human errors to the lowest possible minimum.

TABLE II

Domestic Airline Passenger Fatalities Per 100,000,000 Passenger-miles, 1929-46

Year	Number of Passenger Fatalities	Rate per 100 Million Passenger-miles
1929	14	18.27
1930	24	28.57
1931	25	23.49
1932	19	14.96
1933	8	4.61
1934	17	9,05
1935	15	5.78
1936	44	10.10
1937	40	8,39
1938	25	4.48
1939	9	1.20
1940	35	3.05
1941	35	2.35
1942	55	3.71
1943	22	1.34
1944	48	2.12
1945	76	2.17
1946	75	1.06

There is much for the airlines to do before their tremendous capacity as mass carriers or people and cargo can reach full development. They can do a lot of what needs to be done themselves, but they will also need a continuing assistance from Federal, State and local governments. Where to draw the line is the question. But air transportation is possessed of too great potentialities for social and economic progress to permit it to wither or die because of a lack of public realization of its problems.

Outlook for Motion Picture Industry

(Continued from page 864)

stockholders; and I was asked if I would say something concerning the situation to this group in general. At first I said I would rather not, because there was nothing tangible to take hold of. On Jan. 23 we really got something tangible. Mr. Baxter issued a report on the motion picture industry.

The Baxter Report

I read Mr. Baxter's reports regularly. I read them because every once in a while I get too enthusiastic. But when Mr. Baxter's report comes in for that week, why, it takes most of it out of me and I get down to a sane and sensible level again.

Mr. Baxter picked all the things which have been stated to be wrong with the motion picture business—his conclusion could be summed up as follows: "By all means get out of the motion picture business." But, since Mr. Baxter has lately said that you should get out of all stocks as fast as you can, why, we think that just means that we are just even with everybody else. But he did make sufficiently tangible assertions that I felt I could discuss them in an open meeting.

The basic inherent idea behind all these assertions that we are headed for trouble is the one that the national income is going to go down, and if the national income goes down the disposable income will go down; and if the disposable income goes down, consumer expenditures will go down and the motion picture business will go down along with it.

In fact, people who have reached the idea that the motion picture business has been inflated feel it will go down two or three times as fast as the others.

In 25 years that hasn't happened. For 25 years the motion picture business—that is, the gross levels in the motion picture business—have been practically a constant proportion of consumer expenditures in this country. Prior to 1940 it was possible to draw a constant correlation between national income and motion picture expenditures. In 1940, and to some extent in a few of the preceding years, where the rate of taxation in proportion to national income became very high — and that started about 1936 — the correlation began to go wrong. So, from 1936 to 1940 we went back and got the figures on disposable income and we had another set of correlations and we decided we would correlate from then on with the disposable income.

In other words, starting in 1936, the ratio of taxes to national income had gone up, the ratio of money that people had to expend for the purposes of their own living went down. So we began to correlate with disposable income.

In 1940 and 1941 a new factor entered the situation, and it has stayed in existence up close to the present time—not quite up to the present time, because we are now back closer to disposable income than we were in the war years. The thing that happened then was enforced savings. The enforced savings at times during the war reached figures of $30 to $40 billions, and those savings represented funds which were not available to the motion picture industry but for government loans. So from 1940 on, we went back and got a new set of figures, and that is consumer expenditures back to 1920; and the motion picture income correlates all the way through with consumer expenditures.

With the end of the war last year, consumer expenditures began to creep up on disposable income.

Operates on Level of Income

On the basis of experience I think that you are entitled to believe, as we do, that the motion picture business will operate at levels which will be determined by the national income, by the disposable income, and consumer expenditures.

All those developments which bring consumer expenditures closer to national income, are good for the motion picture business. From that standpoint, when the Republican Party got control of Congress some months ago, it looked like that might be good for the motion picture business, because they evidently came into power on an assumption that there was going to be a decrease in taxation. If the late issues of the newspapers mean what they say, maybe that is not going to happen.

There are many prognostications of what the levels of consumer expenditure, disposable income, and national income are likely to be over the next year.

The American Economic Association had a meeting in Atlantic City at the end of the year, and a number of well known economists made estimates as to what was likely to happen to American income during the coming year. The surprising thing is that there is almost universal agreement that for the year 1947, at least the levels of consumer expenditures, national income, and disposable income are likely to be perhaps slightly higher than they were in 1946. If that turns out to be true, there seems to be little reason to suppose that the motion-picture business is going to be picked out as the one which will suffer while all the rest remain high.

There is another theory with respect to consumer expenditures and that is that people are going to use their money for durable consumer goods — automobiles, radios, television sets, washing machines; all things of that nature. In the past it never seemed to make much difference in the motion picture business which product they used their money for. The motion picture gets its share. We don't see any reason why it should make any difference in 1947.

No Basis for Pessimism

So we can't help wondering a little bit about just what all the pessimism toward amusement securities is based on. But, being cautious—and I told you the pessimism started several months ago —at least one of the companies started a program in Hollywood of producing pictures on a more efficient basis. I refer to Metro-Goldwyn-Mayer.

Metro-Goldwyn-Mayer is the largest studio in Hollywood. The effort on their part to realize economies in production, and the impression that their efforts have made upon the personnel in Hollywood, has been very beneficial to the situation that existed out there.

So it seems to me that if we are to look at this situation, that the outlook from our American standpoint is perhaps a little more favorable than it was.

There is another point with respect to the motion picture business or the amusement business in that the people who are pessimistic about it say it is not a growth business, and that anybody who is intelligent will have all his money in growth securities.

I don't know what they mean by a growth business, but basically all stable consumer businesses are growth businesses as long as the population of the United States continues to increase. The pessimistic statements of various people who have worked out growth curves for populations have been belied over the last ten years—in fact, a great many of them ten years ago said the population would be stationary by 1950. Census reports indicate it is still growing healthily.

More Leisure Time

Our business is a growth industry in another sense. The motion picture consumes leisure time for the so-called common people. Leisure time in this world exists in America to probably a greater extent than it does throughout most of the rest of the world. But it has not been a long time that much leisure time has existed in America. If we go back a hundred years and examine how long men worked in manufacturing plants and how much time a housewife and mother had to work to keep her house going and her family comfortable, we get some surprising figures.

The average worker in an industrial plant a hundred years ago worked about 65 hours a week. I don't know whether you realize what 65 hours a week of work means. Excluding Sunday from the 168 hours in the entire week—and certainly most of them didn't work on that day—and you are down to 144 hours, or six days. If a man gets eight hours sleep a day, you deduct 48 hours from the 144 total, and you are down to 96 hours left. If he eats three meals a day and takes any time at it at all, he must take at least one hour and maybe two a day; so you take six to 12 hours off from the 96. And you are down to 84 to 90 hours in which a man has to get dressed in the morning to go to his work, to sit down and smoke his pipe; and the sum of all the time available for those items a hundred years ago was just 20 hours a week.

The housewife, with her hours of labor at that time, practically had no leisure time. It takes about 20 hours a week the man had just to do the things about life that one has to do. To do the little errands that are not concerned with our work. So you can say that at that time the ordinary working man had no leisure hours.

When you get up to the period between 1900 and 1915 we still find that man working 54 hours a week. In other words, by that time he has acquired ten leisure hours. Ten leisure hours aren't really very many, especially when you want to divide it up among sports, hunting, fishing, and the motion picture business. And also if you include all those other leisures which are generally described under the name of sex. Anybody between the ages of 15 and 25 at least spends a great deal of time on that subject. So there still wasn't much leisure time.

By 1929 those leisure hours were increased by another ten. So from practically no leisure a hundred years ago we had gone to say, ten leisure hours in 1905, 20 leisure hours by 1929; and then came the Roosevelt Administration and took credit for the trend that had been going on for some time and said that everybody ought to have more leisure hours; so that by 1937 the ordinary working hours of the country were in the neighborhood of 37 to 38 hours. And we reached 27 or 28 leisure hours per week that could be used to go to the movies.

During the war the working hours increased again, but the laws under which we have a 40-hour week in this country are still on the books, and with the end of the war and the unwillingness of manufacturers to pay for overtime, leisure hours came back again with a great jump. And, as would be expected, people came back to the movies.

The trend toward more leisure time is a trend which I think most of us believe has not stopped. It is a trend that can continue as long as the technical development of manufacturing skills, of selling ideas, continues. In other words, every gain which helps to produce goods more readily must finally turn in some sense to giving people more leisure time. And as it gives people more leisure time, they have more time to spend on amusements and the movies.

From that standpoint we are unable to see why the amusement business isn't a growth business just as much as a great many others.

The development of the amusement business has paralleled the development of that leisure time. In 1909, which is the first year for which there is any survey available from which the income of the motion picture industry could be calculated—and, by the way, the survey that was made at that time was made in connection with a commission trying to find out whether they could tax the movies or not, a procedure which our politicians are still well familiar with—showed about 78 million dollars being spent in the motion picture business.

The next survey, made by a committee of the New York Legislature in 1917, showed a somewhat higher figure, $192 millions; a survey made in 1920-21 showed $494 millions.

The business increased with the increase of national income from 1920 until a peak was reached in 1930 of about $756 millions. That $756 millions was at admission prices, which were almost as high as they are at the present time. For the theatres in which Paramount is interested, the admission prices, based on a survey of attendance versus dollars, were higher in 1930 than they are at the present time by about 12%.

Following that period, there came a price deflation in the motion picture business. The price of admissions dropped to almost 50% of the top 1929-30 level.

It was amazing to see that that price drop was evidently calculated by some 15,000 exhibitors of the country to keep the theaters well attended, and there is a lot of good showmanship psychology in trying to do that. There is nothing more exasperating than to sit in a theater with an audience of 15 or 20 people and watch the reaction to a good comedy. Nobody laughs. When the theatre is full, the audience response is just what the producer would hope it would be. So you will find that exhibitors usually price their theaters to maintain a fairly regular attendance which fills the theater at least at the peak hours.

These price decreases and that condition of exhibitors' desire to fill the theater for maximum audience reaction produced a condition where the 1933 deflation in the picture business was largely a price deflation. It was not an attendance deflation. Since that time prices in theaters have started to crawl back again.

The price in 1929 of the average admission was just under 40 cents. The price of the average admission throughout the country by 1934 had descended to about 22 cents. That price is probably back again to around 38 cents, or 39 cents at the present time.

The prices I am giving you are net after taxes, so when you look at me and say, "I know better than that," because you pay more in some of the places where you go to see the motion pictures, you are saying that that price is 48, 49, or 50 cents. As far as you are concerned it is that; as far as we are concerned, it isn't. The difference is just part of that money which the Government takes in taxation and which is not available for the benefit of any industry at all.

You have heard, I am quite certain, and probably are aware of a great many spots where the things which I have just stated are not true. I can name some of them myself. The most glaring example of where they aren't true, of course, is where shipbuilding was taking place during the war. The large cities on the West Coast were shipbuilding centers. Newport News was another one. Those cities are heavily deflated as far as the motion picture business is concerned. I happen to know more about the figures in Newport News than I do about some of the other situations in the country. Newport News theaters during the war were so full for so long that I suspect some of the people, unable to find housing, were using them for lodging houses. At the present time in Newport News we consider it a good week when we do 35 to 40% of the business that was done there during the war.

But taking the country by and large, that situation simply does not exist.

Foreign Difficulties

I have just covered the two really good things about the motion picture business, and that is that, looked at from the long-range standpoint, it will be just as good as the rest of your securities are and that it will probably grow just as extensively. That doesn't mean that everything is good about the motion picture business. The motion picture business has been the missionary of America to the rest of the world. It has probably told the rest of the world more about what the standard of living is in America and what are our Hollywood dreamers' views on what they would like to see in America than any other industry. In doing that, it has profoundly influenced the rest of the world with the amount of liberty of action which exists in America; and it has produced great dissatisfaction in a great many countries with the conditions under which the people lived in those countries.

In doing that, it has made it tough for the governments of those countries, because invariably, prior to the war the American motion picture represented conditions—and you can call them Pollyana conditions if you like—which were much more appealing to those people than those under which they had to live.

We have a great many critics in the world who say you shouldn't treat people to that kind of amusement fare. Most of your critics on the newspapers who review motion pictures, who review plays, who review books, are ardent realists; and they say that literature and motion pictures are great when they portray the fact that, in addition to the pleasant things of life, there are a great many unpleasant things in life. They call that realism. They call that literature. And it stirs us profoundly when we read it and see it. But when we are tired at the end of the day, we don't like to walk down the corner and pay money and see it all over again. We have probably had enough of it in our life during the day and we want to get away from it.

Hollywood has realized that. And there is much more portrayed of it in our motion pictures than there really is in the world—I am speaking of optimism and pleasant conditions. But that is what the people want, that is what they are willing to pay for, and that is what other governments who don't have living conditions like we have here, quite often object to.

So you have two reasons why the American motion picture meets with difficulty in foreign markets. Now, that isn't altogether true of the situation in England.

In my basic philosophy toward the English I probably could be called an Anglophile, because I have a great respect for the things that the English have done over the past century in bringing to a great many distant places in the world some of their philosophy of democracy and of social development. However, the British, who during that period lived on their colonies and on their income from shipping and insurance, are in a difficult situation. They are losing not only their economic grip but also their political grip on those other nations associated with the British Commonwealth. They have watched the growth of the American motion picture in that situation. They have watched its effect on those people. And there is no doubt in my mind that they are determined that the motion picture is an inducement which, if they can be successful in appealing to people throughout the world with their ideas in the motion picture, they can regain some of that control and influence which they have lost.

So there is a definite campaign on in England for the development of British pictures.

I don't think there is any motion picture company which doesn't approve of that idea. They like it. I think they will all make pictures in England. But it is difficult to accept, as the English say, that they can't let any more money come to America for the pictures which the Americans have sent them in the past and which they will send them in the future. It is particularly difficult when the head of the British Board of Trade makes the definite statement that pictures made in England must have cultural values, they must uplift the level of society.

Our experience over here is that the public will stand a certain amount of that kind of material, but they won't stand too much of it.

British Competition

I had dinner with a man who had made a motion picture survey for the head of the Board of Trade in England some time ago, and we discussed the motion picture business (and by the way, the motion picture business has seen the development of theater chains in England and the problems with them are just the same as they are in America, and nobody can justifiably say that the theater chains over here keep out British pictures), but we discussed two British pictures which have come over here during the past year and have produced considerable comment. The two were "Caesar and Cleopatra" and "Henry V."

"Henry V" has had great critical acclaim, and perhaps it should. It is a Shakespeare story. It is beautifully done from the standpoint of composition of the picture. It has a marvelous musical score. But it has just about as much suspense and drama in it as a Mother Goose rhyme. So for those people in the metropolitan centers who are particularly interested in art and art forms, the picture is one to which everybody goes. The ordinary businessman—and I have heard this from so many of them — whose wife dragged him to it because of what she had heard about it from the critics, came out and said he slept through most of it.

"Caesar and Cleopatra" is a picture made probably in what you would understand best if I called it the DeMille technique. It is fairly successful here in America, even in the small towns.

When I talked to this gentleman and told him that I didn't think there would be any trouble with English pictures over here if they just made them like Caesar and Cleopatra and not like Henry V, he told me they didn't have any intention of doing that. They were going to make them like Henry V because that was the kind of pictures they wanted to have the British industry make. And they didn't want them made like Caesar and Cleopatra.

There is a curious situation, because it seems to me that if they make pictures like Henry V they can't get them played in America for the money that they want to get out of America. If they make them like Caesar and Cleopatra, which isn't the way they seem to want them to be made—and I can read you a statement of Sir Stafford Cripps to that effect, not mentioning Caesar and Cleopatra but mentioning the content which should be in pictures—they are not going to get them played. And all I have to say is they are probably not going to get them played in England either. If they will make them, and the American companies will make them over there, under the standards which they are made here, and which are standards which have been developed by the testing of pictures on audiences, it is probable that we will have no trouble with the British situation, because their pictures will be successful here and ours will be successful there.

I could go on and discuss other points which have been brought up concerning the future of the motion picture business for some time, but I am a little afraid that the time allotted to me is beginning to run out. I would like to feel that you people here are in the same relationship to me that you would be if you were sitting across a desk from me in an office. You know problems about the picture business which have impressed you. There must be questions on your mind which I have not answered, and if there are, I would like to devote some time to letting you ask me those questions and seeing whether I can answer them or not.

Increase in Resources Of Fed. Savs. & Loan Insurance Corp. in '46

Resources of the Federal Savings and Loan Insurance Corporation, which covers savings invested in some 2,500 savings and loan associations, increased by $11,126,000 during 1946, William H. Husband, General Manager of the Corporation, announced on Jan. 25. This growth brings the aggregate resources of the Insurance Corporation to $176,387,000—as compared with its original capital of $100,000,000 when established by Congress in 1934, the report of the Agency said; it added:

"All reserves of the Corporation, plus unallocated income, totaled $72,621,139 on Dec. 31, a rise of $10,452,422 over the previous year-end figure."

The Insurance Corporation's net income for the last six months of 1946 amounted to $5,270,945, compared with $4,675,937 for the same period of 1945, Mr. Husband said. The $265,007 of administrative expenses of the Corporation for the six months amounted to only 4.8% of the Corporation's total income, which is derived from premium payments from insured savings and loan associations, admission fees from institutions newly insured and interest on the Corporation's invested capital and reserves.

Insurance premiums earned during the last six months of the year reached $3,529,702, which is $628,915 more than the amount earned in the comparable months of 1945. Mr. Husband pointed out that the gain is the result of a large increase in the savings of the public held by insured associations as well as the enrollment of additional institutions into the insured group during the year.

during the years 1934 to 1939 while the quantity of gold in the gold dollar had been reduced nearly 50%, and the price of gold was raised from $20.67 paper dollars to $35 paper dollars per ounce, or about 70%. Obviously, it would have been impossible that commodity prices other than that of gold could have remained unchanged while the gold dollar was cut in two, if our prices had been measured in terms of gold dollars.

Nor is it any truer that internationally we are on some sort of a gold standard. True, the government has bought gold. It has also, after due consideration, allowed gold to be shipped abroad. But this is only after all political angles have been considered. Exchange controls prevail. Financial and political arrangements govern the action of the authorities. There is hardly a trace of automatic action whereby the value of the dollar in exchange for other currencies would depend upon its convertibility into gold. Why do foreign traders think gold worth $70 an ounce despite the so-called price of $35 adopted by our Treasury?

As already pointed out, the scarcity of the dollar in international trade is entirely due to the scarcity of products in the hands of those who desire to trade for American goods.

Having faced the fact that we are on no standard in this country, and thus come to understand better what a standard is, the next step should be to decide what standard we should point toward. Without boring you with an extended discussion of this subject, I will state my conclusion that only one standard has ever worked, namely the gold standard. I do not say that it is easy to attain and maintain any standard, whether in morals or literature or money. Where is there perfection in the world? But I do say that the nearest to perfection that has ever been attained in the way of a monetary standard, and the only one that has persisted in effect for long periods of time, has been one based on gold. Look into any alleged case in which fiat currency has worked for a time and you will always find that its apparent success has been a belief or hope in its convertibility into gold or silver.

The Gold Standard

My conclusion is that we should point toward the gold standard, and my thought is that the first step is to find out what gold is worth in terms of the paper dollar, or if you please, to find out what the paper dollar is worth in terms of gold. (How can you do one thing without the other?)

The fundamentals of the situation are that we have outstanding a vast amount of currency. The total amount of demand deposits and money in circulation is in the neighborhood of $107 billions. It is highly important to note that this currency is inelastic. In other words, there is no automatic retirement for it. One of the curses of inflation based on public debt is that claims in the form of bond-secured notes and deposits must be faced.

This vast amount of inelastic currency is several times larger than it was in 1934, when all the shooting began. It has increased far out of proportion to any increase in the quantities of commodities and services for which it is designed to serve as a medium of exchange.

We do not dare to allow it to be used freely in exchange. The turnover of bank deposits is highly subnormal, showing only a faint trace of life, as it were. The large amount of money in circulation in one way or another represents hoarding or other abnormal retardants of circulation.

Thus we do not know what a paper dollar is really worth. By the same token, *we do not know what quantity of gold there should be in a gold dollar.* Incidentally, we do not know what quantity of paper may be issued and must rely upon some indefinite feeling that already we have too much.

Under these circumstances something in the way of a free gold market must be allowed. The citizens in this country should be allowed to possess gold and to buy and sell it as they would any other reputable commodity. Our producers should be allowed to sell gold in the world markets. If a free gold market existed, we would soon be in little doubt as to the true value of the paper dollar, whether in exchange for Colorado potatoes or the pound sterling.

As it is, what do we find? We find ourselves fed with rumors and reports as to quotations for gold in foreign currencies which indicate that an ounce of gold may actually be worth anything between $50 and $80. Our Treasury sits there holding out a so-called price of gold which indicates that the paper dollar ought to be worth 1/35th of an ounce of gold. In the black markets, however, smart foreign traders in the Orient and elsewhere, register their judgment that the paper dollar is worth somewhere in the neighborhood of 1/70th of an ounce of gold. They are willing to bet that the American paper dollar is worth little if any more than half what the Treasury buying "price" holds it out to be. It is no wonder that across the borders of most countries today we find gold being smuggled for black market purposes. Gold pesos are being flow out of Mexico to enable the citizens of China, Iran, and Argentina to use them for savings and legal tender. Recently an American airman was arrested for engaging in such traffic from our own shores.

I do not undertake to say just how provision for a free gold market should be made. But as an economist, and as an honest man who believes in freedom, I am absolutely sure that the time is near at hand when we should be able to find out in an objective way what the relative values of paper dollars and gold dollars are.

Problems of Currency Liquidation

At this point the big political and economic problem of liquidation and readjustment should be considered. How are we to liquidate the mass of paper currency including demand deposits? How are we to realize on the sterilized hoards of gold?

One way would be to call in the notes and scale down the deposits, thus reducing the total claims. This would be precisely what the OPA administration did when, having issued more red tokens than there were pounds of meat and butter, they cancelled a part of the excess issue of such tokens.

Another way is to allow the currency outstanding to remain in effect, merely allowing and facilitating an upward readjustment in prices to a level at which the currency would be used at the normal rate of turnover.

Back in the early part of the 19th century during the Napoleonic wars, the eminent economist, David Ricardo, argued that the excessive note issues should be scaled down to fit the bullion reserves of the Bank of England. I wonder if such an approach is feasible at the present time. Frankly I doubt it, if for no other reason than that so large a part of the claims now outstanding in the shape of notes and deposits are held by individuals. Not only are they held by individuals, but, to an appreciable extent, they are held by the common people. It has been one of the main objectives of the administration to compel the people to subscribe to its bonds and to engage in forced war savings. The result is that the people are not going to sit by and see the principals of their savings bonds and the number of dollars in their deposit accounts, reduced. Even if they were willing to do this, whom would they now trust to do it?

Under the circumstances of such large inelastic and widely held masses of currency, or "liquid savings" as they are sometimes called, it seems likely that the value of the dollar will have to be readjusted downward. The number of paper dollars is large in relation to the relatively fixed quantity of gold. Very well—there will probably have to be some further devaluation, which means a reduction in the quantity of gold in the gold dollar. This, I believe, would in part be the only way that we could both (1) return to the gold standard and (2) retain anything like the number of dollars now existing in our circulation, in deposits, and in "liquid savings."

Note, furthermore, that it seems the more likely in that we have been led into an attempt to maintain a high exchange ratio for vast masses of foreign currencies in relation to our own. We have virtually agreed to a dilution of dollar exchange. The only alternative, a general scaling down of foreign currency issues, seems to be unlikely.

Prices to Be Maintained

Moreover, it seems that paper dollars will have to decline in purchasing power with relation to goods; that is, to the general run of comodities and services. This, of course, would mean higher prices. Such a further depreciation in the purchasing power of the currency, based upon devalued gold dollars, would enable us to use the existing currency. As prices rise, it takes more dollars to do a given physical volume of business. Such a rise, I think, is one condition of the return to equilibrium in our economic life.

While a rise in prices of this sort, is properly referred to as inflation, you will note that it is an inflation of the currency that already exists. The rise in prices is but a yielding to unfavorable economic forces. And it would be prevented from running away, by keeping paper dollars convertible into gold.

Probably, such a rise will go too far, and the momentum of it carry beyond the point of equilibrium. A business recession with some decline in prices would doubtless follow in due course—say sometime between now and 1951 at the latest. But I do not think that prices will at any time recede to the prewar levels, and I am sure that when the final equilibrium is restored, it will be at a permanently higher level.

Incidentally, this would probably keep the "secondary" war depression from being as great or as long as those following the Civil War and World War I.

A very important point to note in this connection is that the amount of gold in existence constitutes no objection to the use of gold as a monetary standard. Most emphatically there is no lack of gold. Not only are the hoards of gold maintained at various points scattered over the world enormous, but there has been considerable addition to the production capacity in recent years. The notable additions have been those in the Orange Free State, South Africa, and in the Canadian Northwest territory. The Siberian gold resources are by no means fully exploited. It seems to me probable, however, that the main factor in supply is the tremendous quantity of old gold that has been driven underground. After England's abandonment of the gold standard in 1931, followed shortly by the New Deal performance, gold went underground. So there is now not only the 20-billion hoard buried at Fort Knox; but also there is probably something like another 20 billion in private or government hoards scattered throughout the caves and cellars of the world. With the return to a gold standard the metal would emerge. As I have already indicated, one of the advantages of the gold standard would be the return to use of these now wasted gold resources

Conclusion

In conclusion, it is important to consider the essentials of money. For over a decade now, we have been bombarded with arguments in favor of a "managed currency" and against a resort to any objective standard. It is not going to be easy to offset the effect of all this propaganda, without going through a terrible depression which would compel people to see the fallacies of Keynes and the Communists.

The function of money is not that conceived by the New Deal, namely to serve as a means of central control and social reform—one that can be used for the purpose of giving everybody in the world a bottle of milk a day. The *function of money is to measure objective or free market values.* These are the values upon which economic democracy depends.

In order that money may fulfill this function, there are certain definite requirements. The first and most obvious one is that the *money must itself have objective value.* You can not measure distance without using a yardstick that has distance itself. Just so, you can not measure value without using a monetary unit that also has value *in the same sense that the thing measured has value.*

It follows from this that the money unit must be desired and must have scarcity. Any tyro in economic theory will tell you this. What then are the conditions of monetary desire and scarcity?

First, the thing used as money must be fit for the purpose. It must have "fitness value." It must be generally acceptable on account of its convenience, durability, divisibility, and portability. It must be stable in its value, so that it may serve as a basis for credit transactions and a standard for deferred payments.

The point of stability brings us to the supply side and the element of scarcity. Here note that it is most important that the quantity of the material be used for money to be limited by nature, but that the quantity available to man be variable according to the costs of production. In other words, the ideal money material must be producible, but costly. More than that, the cost must be pretty definitely ascertainable, not that of a mere by-product. In this respect, gold is ideal. In the present state of our knowledge, the total quantity of gold in the world is limited, but the quantity available for use can be increased, depending upon economic conditions, including freely determined costs of production.

Thus the commodity, gold, being desirable and scarce in the same sense that most economic goods are desirable and scarce, is fitted to play its part as a medium of exchange. Its general acceptability and the stability of its value, make it one of the best suited means for use as a standard of deferred payments.

Such is the case for a gold standard. If there be any other material that is more fit, let us choose it; only let us have some objective standard for our money that is as good as gold. This we must do unless we are prepared to surrender our individual freedom, and submit to the whims of the dictator in a managed economy with a managed currency.

The Blocked Sterling Balances: Enzig

(Continued from page 867)

and elsewhere, hold the view that a reasonable compromise, acceptable to both parties, should be negotiated. The figure they usually have in mind varies between one-third and two-thirds of the amount. A possible basis of some such compromise would be the acceptance of the principle that the debts should be scaled down on the basis of the purchasing power parities of Sterling in relation to the currencies concerned. Thus, if on the basis of the purchasing power parities the rupee ought to have been devalued to, say 9d, instead of being maintained at the overvalued rate of 18d, the debts due to India should be correspondingly reduced by 50%. Another formula is that debts arising from imports from the creditor countries should be recognized, while debts arising from the expenditure of British troops in India, Egypt, Iraq, Syria, Persia, etc., should be cancelled, since the presence of these troops saved the countries concerned from Axis invasion.

(4) The Security school. A realistic school of thought believes that the amount of Sterling balances recognized in relation to each credit or country should be equal to the total of British financial interests in those countries, not more and not less. The British debt to India would provide a security for the British owners of property or claims in India. Since the balances are only likely to be repaid over a very long period (50 years is the period usually suggested) the British investors will have ample time to liquidate their investments. And if meanwhile they should suffer losses through civil war or anti-foreign legislation, they will be compensated by the British Treasury out of the amounts of the consolidated Sterling balances.

Until comparatively recently there was also a fifth school of thought, according to which the Sterling balances were really a blessing in disguise, because they will secure a permanent market for British goods. In the meantime most people realized, however, that there is no point in exporting merely for the sake of creating employment. At the present moment the truth of this is brought forcibly home by the scarcity of labor, fuel and raw materials. And by the time the "age of plenty" has returned the negotiations for the funding of the Sterling balances will have been concluded. So for all practical purposes the negotiations will be conducted in an atmosphere inspired by acute scarcity of labor, in which the idea of exporting for the sake of creating employment will not appeal to many people.

In any case, under the Washington Loan Agreement Britain is precluded from stipulating that the released Sterling balances must be released in a form available for spending in any part of the world. British exporters will stand to gain no specific advantage from granting the creditors generous terms, for there will be no safeguards whatsoever against the money being spent in other countries.

Allowing for all these considerations, it is not surprising to note the pessimistic trend of the forecasts of the outcome of the negotiations with India. For the British Government could not afford to conclude an agreement which does not materially reduce the amount of the debt. On the other hand, the new Indian Government refuses even to consider the idea of a reduction of the total. So a deadlock must be considered a certainty.

Problems of Postwar Air Transportation

(Continued from page 867)

4,361 civil and military airports in operation in the United States. Of these, 3,566 were civil airports, the remainder being devoted to military purposes. (See Table I.) Generally, Class I airports, of which we now possess 1,334, are suitable only for private owner, small-type aircraft. Class II, of which we now have 1,208, are suitable for larger-type private owner aircraft and smaller transport planes for local and feeder service. Class III, of which we now possess 486, can accommodate present-day twin-engine transport aircraft; while Class IV or larger airports, of which there are 847, can serve the largest aircraft now in use and those planned for the immediate future.

TABLE I

United States Airports as of Oct. 1, 1946

Types of Operation	
Commercial	1,823
Municipal	1,383
CAA Intermediate	202
Military	795
All others	158
Total	4,361
Size Classification	
Class Sub. I*	486
I	1,334
II	1,208
III	486
IV and better	847
Total	4,361

*Indicates airports which exist but do not come up to Class I standards.

This summary would appear to present quite a good picture were it not darkened by the fact that numerous of the larger airports, built with Federal funds during the War, were constructed in places of no particular commercial importance and solely for military purposes. We therefore find small communities in the Southwest, for example, possessing large airports and many a good sized town in other parts of the country with nothing but a small airport or none at all. This raises a serious situation when airlines attempt to expand their services to new places. For example, among the 286 places now approved for air carrier service in this country there are approximately 140 which do not meet the desirable minimum of 5,000 foot paved runways. In addition, many of the airports used by commercial airlines have inadequate taxiways, parking and servicing aprons, an insufficient number of runways for the normal variation of winds, and obstructed approaches. Of course, where proper taxiways are not provided, runways must serve a dual purpose, with a serious loss in traffic capacity.

Applications to bring air service to 678 communities not now receiving it are on file with the Civil Aeronautics Board, but the residents of most of these places will not be able to obtain satisfactory scheduled air transportation unless airports are constructed or improved. Steps are being taken to improve the general situation but not in time to solve many of the immediate airport deficiency problems for commercial air transportation. Most of the Federal funds proposed to be spent in airport construction, matched with local funds, are to be invested in the smaller airports —Classes I and II—which are of no significance in commercial airline operations.†

† The 1947 Airport Program announced in January of that year by the Civil Aeronautics Authority calls for the construction of 232 new Class I, 109 new Class II, 44 new Class III airports. Projects for improvement of certain existing airports call for 82 Class I, 177 Class II and 153 Class III. This new construction and improvement will call for the expenditure of nearly $34 million in Federal funds and about $38 million provided by local or state governments.

*It will be seen, therefore, that under conditions as they have existed in the past and still exist at many places, commercial air transport has been and still is carried on regularly and faithfully under several serious handicaps imposed by the limitations of the typical airport. In some cases the latest and most efficient types of planes, those most favored by passengers, cannot be operated safely out of existing airports and local service has to be given with older planes of much more limited performance, but having an advantage on the particular point of rapidity of take-off or angle of climb, or not given at all. In other cases operations are subject to the economic handicap of a limitation on maximum loading of the plane at its take-off to substantially below what it would be allowed to carry off a field of more adequate area. Some communities, although their airports suffice through the greater part of the year, find themselves deprived of service during periods of bad weather, especially during the snows of winter and the thaws of spring. Other airports, usable under good weather conditions, are unsatisfactory for instrument landings or even for visual approaches in bad weather until means have been found for removing some particularly unfavorable obstruction from the neighborhood or until the landing area itself has been enlarged.

(2) *Location.* The second inadequacy which has proved a serious handicap to airline plans for mass transportation has proven to be airport location. Only about half of the civil airports serving communities of any size are within three miles of their centers. More than 75% of all airports are, however, within six miles of the center of the community which they serve. In miles this does not appear to be such a bad situation but it is driving time between the city and the airport that is of most importance. Here the big city suffers because at such places airports are of necessity at greater distances from business centers. It is highly desirable that airport locations be as close the center of the cities they serve as is possible but the airlines themselves can do little to improve this situation. The solution appears to be the development of express highways or other high-speed ground transportation to and from airports so as to decrease the ground time of passengers, particularly of those only going a comparatively short distance by air.

(3) *Inadequate passenger and cargo handling facilities.* There is not a single airport in the United States with adequate facilities today to handle the volume of passenger or cargo business which could be developed by the airlines; and which must be developed if they are ever to be considered as "mass market" carriers.

As far as passengers are concerned, the airlines spend considerable sums for harmoniously decorated plane interiors, for comfortable seats, for hostess service, for hot meals aloft, and for many other items that make passengers comfortable. Yet, at the end of the trip, when air traveler steps from a plane, he is often forced to enter an air terminal building where conditions are far from satisfactory. There is often no place to sit down, restaurant facilities would not do credit to a bus station, let alone to a facility serving a premium type of transportation. Baggage handling is slow and inefficient and the whole standard of air terminals is far below what it should be from the standpoint of available space and convenience for the passenger. The result is that many first-time air travelers become disgusted and the airlines lose them as potential customers. In many ways this is not the fault of the airlines.

As far as cargo goes there is not an airport in the country with even a vestige of the proper facilities for handling it in volume. The cargo potential for air transportation is tremendous yet many minutes or hours, which mean miles in the air, are now wasted because of airport cargo deficiencies in ground handling. It may well be that larger communities will find it necessary to develop airports particularly for cargo handling before many years have passed.

The second principal circumstance that has arisen in connection with air transportation is the safety factor. Recent air crashes have directed public attention to this matter and despite the fact that 1946 was the best year, from a safety standpoint, which our airlines have ever enjoyed (See Table II) with only 1.6 fatalities per hundred million passenger-miles flown, there is every indication that there will be a Congressional investigation of the whole situation. Such an investigation may well bring out the fact that the airlines themselves are not to blame for some of the situations leading to accidents but that for others they are. The safety situation is composed of two parts: (1) The situation on our airways and around airports. (2) The safety of the planes themselves. The first of these involves airway and airport traffic control under the Civil Aeronautics Authority, the installation of blind-landing and other devices to aid aerial navigation, and the general acceptance on the part of airlines of whatever system the Federal authorities may adopt. The second is a matter of avoiding accidents by the airlines through perfected equipment kept constantly airworthy, the employment of conscientious, experienced and intelligent personnel, directed by a conservative executive policy; thorough training of new personnel before they assume responsibility; constant checking of work being done; alterness in forseeing the possibilities of accidents and preventing them before they can occur; and more efficient cooperation between operating units.

Generally speaking, adverse weather is a major contributing factor in the more disastrous air accidents. Congress cannot change the weather, but it can provide for better observations and more accurate forecasts of weather through appropriations for research work and for a larger and better trained personnel. Also, Congress can provide for better facilities to meet the hazards of darkness, low visibility and adverse weather. Another cause entering into almost every major accident to a greater or lesser degree, is human error. This applies alike to ground and flying personnel. In nearly every case had one less error occurred, the accident probably could have been prevented. The purpose of legislation now in effect, and which may be proposed in the future, should be to provide such regulations and facilities as will reduce human errors to the lowest possible minimum.

TABLE II

Domestic Airline Passenger Fatalities Per 100,000,000 Passenger-miles, 1929-46

Year	Number of Passenger Fatalities	Rate per 100 Million Passenger-miles
1929	14	18.27
1930	24	28.57
1931	25	23.49
1932	19	14.96
1933	8	4.61
1934	17	9,05
1935	15	5.78
1936	44	10.10
1937	40	8,39
1938	25	4.48
1939	9	1.20
1940	35	3.05
1941	35	2.35
1942	55	3.71
1943	22	1.34
1944	48	2.12
1945	76	2.17
1946	75	1.06

There is much for the airlines to do before their tremendous capacity as mass carriers or people and cargo can reach full development. They can do a lot of what needs to be done themselves, but they will also need a continuing assistance from Federal, State and local governments. Where to draw the line is the question. But air transportation is possessed of too great potentialities for social and economic progress to permit it to wither or die because of a lack of public realization of its problems.

Outlook for Motion Picture Industry

(Continued from page 864)

stockholders; and I was asked if I would say something concerning the situation to this group in general. At first I said I would rather not, because there was nothing tangible to take hold of. On Jan. 23 we really got something tangible. Mr. Baxter issued a report on the motion picture industry.

The Baxter Report

I read Mr. Baxter's reports regularly. I read them because every once in a while I get too enthusiastic. But when Mr. Baxter's report comes in for that week, why, it takes most of it out of me and I get down to a sane and sensible level again.

Mr. Baxter picked all the things which have been stated to be wrong with the motion picture business—his conclusion could be summed up as follows: "By all means get out of the motion picture business." But, since Mr. Baxter has lately said that you should get out of all stocks as fast as you can, why, we think that just means that we are just even with everybody else. But he did make sufficiently tangible assertions that I felt I could discuss them in an open meeting.

The basic inherent idea behind all these assertions that we are headed for trouble is the one that the national income is going to go down, and if the national income goes down the disposable income will go down; and if the disposable income goes down, consumer expenditures will go down and the motion picture business will go down along with it.

In fact, people who have reached the idea that the motion picture business has been inflated feel it will go down two or three times as fast as the others.

In 25 years that hasn't happened. For 25 years the motion picture business—that is, the gross levels in the motion picture business—have been practically a constant proportion of consumer expenditures in this country. Prior to 1940 it was possible to draw a constant correlation between national income and motion picture expenditures. In 1940, and to some extent in a few of the preceding years, where the rate of taxation in proportion to national income became very high — and that started about 1936 — the correlation began to go wrong. So, from 1936 to 1940 we went back and got the figures on disposable income and we had another set of correlations and we decided we would correlate from then on with the disposable income.

In other words, starting in 1936, the ratio of taxes to national income had gone up, the ratio of money that people had to expend for the purposes of their own living went down. So we began to correlate with disposable income.

In 1940 and 1941 a new factor entered the situation, and it has stayed in existence up close to the present time—not quite up to the present time, because we are now back closer to disposable income than we were in the war years. The thing that happened then was enforced savings. The enforced savings at times during the war reached figures of $30 to $40 billions, and those savings represented funds which were not available to the motion picture industry but for government loans. So from 1940 on, we went back and got a new set of figures, and that is consumer expenditures back to 1920; and the motion picture income correlates all the way through with consumer expenditures.

With the end of the war last year, consumer expenditures began to creep up on disposable income.

Operates on Level of Income

On the basis of experience I think that you are entitled to believe, as we do, that the motion picture business will operate at levels which will be determined by the national income, by the disposable income, and consumer expenditures.

All those developments which bring consumer expenditures closer to national income, are good for the motion picture business. From that standpoint, when the Republican Party got control of Congress some months ago, it looked like that might be good for the motion picture business, because they evidently came into power on an assumption that there was going to be a decrease in taxation. If the late issues of the newspapers mean what they say, maybe that is not going to happen.

There are many prognostications of what the levels of consumer expenditure, disposable income, and national income are likely to be over the next year.

The American Economic Association had a meeting in Atlantic City at the end of the year, and a number of well known economists made estimates as to what was likely to happen to American income during the coming year. The surprising thing is that there is almost universal agreement that for the year 1947, at least the levels of consumer expenditures, national income, and disposable income are likely to be perhaps slightly higher than they were in 1946. If that turns out to be true, there seems to be little reason to suppose that the motion-picture business is going to be picked out as the one which will suffer while all the rest remain high.

There is another theory with respect to consumer expenditures and that is that people are going to use their money for durable consumer goods — automobiles, radios, television sets, washing machines; all things of that nature. In the past it never seemed to make much difference in the motion picture business which product they used their money for. The motion picture gets its share. We don't see any reason why it should make any difference in 1947.

No Basis for Pessimism

So we can't help wondering a little bit about just what all the pessimism toward amusement securities is based on. But, being cautious—and I told you the pessimism started several months ago —at least one of the companies started a program in Hollywood of producing pictures on a more efficient basis. I refer to Metro-Goldwyn-Mayer.

Metro-Goldwyn-Mayer is the largest studio in Hollywood. The effort on their part to realize economies in production, and the impression that their efforts have made upon the personnel in Hollywood, has been very beneficial to the situation that existed out there.

So it seems to me that if we are to look at this situation, that the outlook from our American standpoint is perhaps a little more favorable than it was.

There is another point with respect to the motion picture business or the amusement business in that the people who are pessimistic about it say it is not a growth business, and that anybody who is intelligent will have all his money in growth securities.

I don't know what they mean by a growth business, but basically all stable consumer businesses are growth businesses as long as the population of the United States continues to increase. The pessimistic statements of various people who have worked out growth curves for populations have been belied over the last ten years—in fact, a great many of them ten years ago said the population would be stationary by 1950. Census reports indicate it is still growing healthily.

More Leisure Time

Our business is a growth industry in another sense. The motion picture consumes leisure time for the so-called common people. Leisure time in this world exists in America to probably a greater extent than it does throughout most of the rest of the world. But it has not been a long time that much leisure time has existed in America. If we go back a hundred years and examine how long men worked in manufacturing plants and how much time a housewife and mother had to work to keep her house going and her family comfortable, we get some surprising figures.

The average worker in an industrial plant a hundred years ago worked about 65 hours a week. I don't know whether you realize what 65 hours a week of work means. Excluding Sunday from the 168 hours in the entire week—and certainly most of them didn't work on that day—and you are down to 144 hours, or six days. If a man gets eight hours sleep a day, you deduct 48 hours from the 144 total, and you are down to 96 hours left. If he eats three meals a day and takes any time at it at all, he must take at least one hour and maybe two a day; so you take six to 12 hours off from the 96. And you are down to 84 to 90 hours in which a man has to get dressed in the morning to go to his work, to sit down and smoke his pipe; and the sum of all the time available for those items a hundred years ago was just 20 hours a week.

The housewife, with her hours of labor at that time, practically had no leisure time. It takes about 20 hours a week the man had just to do the things about life that one has to do. To do the little errands that are not concerned with our work. So you can say that at that time the ordinary working man had no leisure hours.

When you get up to the period between 1900 and 1915 we still find that man working 54 hours a week. In other words, by that time he has acquired ten leisure hours. Ten leisure hours aren't really very many, especially when you want to divide it up among sports, hunting, fishing, and the motion picture business. And also if you include all those other leisures which are generally described under the name of sex. Anybody between the ages of 15 and 25 at least spends a great deal of time on that subject. So there still wasn't much leisure time.

By 1929 those leisure hours were increased by another ten. So from practically no leisure a hundred years ago we had gone to say, ten leisure hours in 1905, 20 leisure hours by 1929; and then came the Roosevelt Administration and took credit for the trend that had been going on for some time and said that everybody ought to have more leisure hours; so that by 1937 the ordinary working hours of the country were in the neighborhood of 37 to 38 hours. And we reached 27 or 28 leisure hours per week that could be used to go to the movies.

During the war the working hours increased again, but the laws under which we have a 40-hour week in this country are still on the books, and with the end of the war and the unwillingness of manufacturers to pay for overtime, leisure hours came back again with a great jump. And, as would be expected, people came back to the movies.

The trend toward more leisure time is a trend which I think most of us believe has not stopped. It is a trend that can continue as long as the technical development of manufacturing skills, of selling ideas, continues. In other words, every gain which helps to produce goods more readily must finally turn in some sense to giving people more leisure time. And as it gives people more leisure time, they have more time to spend on amusements and the movies.

From that standpoint we are unable to see why the amusement business isn't a growth business just as much as a great many others.

The development of the amusement business has paralleled the development of that leisure time. In 1909, which is the first year for which there is any survey available from which the income of the motion picture industry could be calculated—and, by the way, the survey that was made at that time was made in connection with a commission trying to find out whether they could tax the movies or not, a procedure which our politicians are still well familiar with—showed about 78 million dollars being spent in the motion picture business.

The next survey, made by a committee of the New York Legislature in 1917, showed a somewhat higher figure, $192 millions; a survey made in 1920-21 showed $494 millions.

The business increased with the increase of national income from 1920 until a peak was reached in 1930 of about $756 millions. That $756 millions was at admission prices, which were almost as high as they are at the present time. For the theatres in which Paramount is interested, the admission prices, based on a survey of attendance versus dollars, were higher in 1930 than they are at the present time by about 12%.

Following that period, there came a price deflation in the motion picture business. The price of admissions dropped to almost 50% of the top 1929-30 level.

It was amazing to see that that price drop was evidently calculated by some 15,000 exhibitors of the country to keep the theaters well attended, and there is a lot of good showmanship psychology in trying to do that. There is nothing more exasperating than to sit in a theater with an audience of 15 or 20 people and watch the reaction to a good comedy. Nobody laughs. When the theatre is full, the audience response is just what the producer would hope it would be. So you will find that exhibitors usually price their theaters to maintain a fairly regular attendance which fills the theater at least at the peak hours.

These price decreases and that condition of exhibitors' desire to fill the theater for maximum audience reaction produced a condition where the 1933 deflation in the picture business was largely a price deflation. It was not an attendance deflation. Since that time prices in theaters have started to crawl back again.

The price in 1929 of the average admission was just under 40 cents. The price of the average admission throughout the country by 1934 had descended to about 22 cents. That price is probably back again to around 38 cents, or 39 cents at the present time.

The prices I am giving you are net after taxes, so when you look at me and say, "I know better than that," because you pay more in some of the places where you go to see the motion pictures, you are saying that that price is 48, 49, or 50 cents. As far as you are concerned it is that; as far as we are concerned, it isn't. The difference is just part of that money which the Government takes in taxation and which is not available for the benefit of any industry at all.

You have heard, I am quite certain, and probably are aware of a great many spots where the things which I have just stated are not true. I can name some of them myself. The most glaring example of where they aren't true, of course, is where shipbuilding was taking place during the war. The large cities on the West Coast were shipbuilding centers. Newport News was another one. Those cities are heavily deflated as far as the motion picture business is concerned. I happen to know more about the figures in Newport News than I do about some of the other situations in the country. Newport News theaters during the war were so full for so long that I suspect some of the people, unable to find housing, were using them for lodging houses. At the present time in Newport News we consider it a good week when we do 35 to 40% of the business that was done there during the war.

But taking the country by and large, that situation simply does not exist.

Foreign Difficulties

I have just covered the two really good things about the motion picture business, and that is that, looked at from the long-range standpoint, it will be just as good as the rest of your securities are and that it will probably grow just as extensively. That doesn't mean that everything is good about the motion picture business. The motion picture business has been the missionary of America to the rest of the world. It has probably told the rest of the world more about what the standard of living is in America and what are our Hollywood dreamers' views on what they would like to see in America than any other industry. In doing that, it has profoundly influenced the rest of the world with the amount of liberty of action which exists in America; and it has produced great dissatisfaction in a great many countries with the conditions under which the people lived in those countries.

In doing that, it has made it tough for the governments of those countries, because invariably, prior to the war the American motion picture represented conditions—and you can call them Pollyana conditions if you like—which were much more appealing to those people than those under which they had to live.

We have a great many critics in the world who say you shouldn't treat people to that kind of amusement fare. Most of your critics on the newspapers who review motion pictures, who review plays, who review books, are ardent realists; and they say that literature and motion pictures are great when they portray the fact that, in addition to the pleasant things of life, there are a great many unpleasant things in life. They call that realism. They call that literature. And it stirs us profoundly when we read it and see it. But when we are tired at the end of the day, we don't like to walk down the corner and pay money and see it all over again. We have probably had enough of it in our life during the day and we want to get away from it.

Hollywood has realized that. And there is much more portrayed of it in our motion pictures than there really is in the world—I am speaking of optimism and pleasant conditions. But that is what the people want, that is what they are willing to pay for, and that is what other governments who don't have living conditions like we have here, quite often object to.

So you have two reasons why the American motion picture meets with difficulty in foreign markets. Now, that isn't altogether true of the situation in England.

In my basic philosophy toward the English I probably could be called an Anglophile, because I have a great respect for the things that the English have done over the past century in bringing to a great many distant places in the world some of their philosophy of democracy and of social development. However, the British, who during that period lived on their colonies and on their income from shipping and insurance, are in a difficult situation. They are losing not only their economic grip but also their political grip on those other nations associated with the British Commonwealth. They have watched the growth of the American motion picture in that situation. They have watched its effect on those people. And there is no doubt in my mind that they are determined that the motion picture is an inducement which, if they can be successful in appealing to people throughout the world with their ideas in the motion picture, they can regain some of that control and influence which they have lost.

So there is a definite campaign on in England for the development of British pictures.

I don't think there is any motion picture company which doesn't approve of that idea. They like it. I think they will all make pictures in England. But it is difficult to accept, as the English say, that they can't let any more money come to America for the pictures which the Americans have sent them in the past and which they will send them in the future. It is particularly difficult when the head of the British Board of Trade makes the definite statement that pictures made in England must have cultural values, they must uplift the level of society.

Our experience over here is that the public will stand a certain amount of that kind of material, but they won't stand too much of it.

British Competition

I had dinner with a man who had made a motion picture survey for the head of the Board of Trade in England some time ago, and we discussed the motion picture business (and by the way, the motion picture business has seen the development of theater chains in England and the problems with them are just the same as they are in America, and nobody can justifiably say that the theater chains over here keep out British pictures), but we discussed two British pictures which have come over here during the past year and have produced considerable comment. The two were "Caesar and Cleopatra" and "Henry V."

"Henry V" has had great critical acclaim, and perhaps it should. It is a Shakespeare story. It is beautifully done from the standpoint of composition of the picture. It has a marvelous musical score. But it has just about as much suspense and drama in it as a Mother Goose rhyme. So for those people in the metropolitan centers who are particularly interested in art and art forms, the picture is one to which everybody goes. The ordinary businessman—and I have heard this from so many of them — whose wife dragged him to it because of what she had heard about it from the critics, came out and said he slept through most of it.

"Caesar and Cleopatra" is a picture made probably in what you would understand best if I called it the DeMille technique. It is fairly successful here in America, even in the small towns.

When I talked to this gentleman and told him that I didn't think there would be any trouble with English pictures over here if they just made them like Caesar and Cleopatra and not like Henry V, he told me they didn't have any intention of doing that. They were going to make them like Henry V because that was the kind of pictures they wanted to have the British industry make. And they didn't want them made like Caesar and Cleopatra.

There is a curious situation, because it seems to me that if they make pictures like Henry V they can't get them played in America for the money that they want to get out of America. If they make them like Caesar and Cleopatra, which isn't the way they seem to want them to be made—and I can read you a statement of Sir Stafford Cripps to that effect, not mentioning Caesar and Cleopatra but mentioning the content which should be in pictures—they are not going to get them played. And all I have to say is they are probably not going to get them played in England either. If they will make them, and the American companies will make them over there, under the standards which they are made here, and which are standards which have been developed by the testing of pictures on audiences, it is probable that we will have no trouble with the British situation, because their pictures will be successful here and ours will be successful there.

I could go on and discuss other points which have been brought up concerning the future of the motion picture business for some time, but I am a little afraid that the time allotted to me is beginning to run out. I would like to feel that you people here are in the same relationship to me that you would be if you were sitting across a desk from me in an office. You know problems about the picture business which have impressed you. There must be questions on your mind which I have not answered, and if there are, I would like to devote some time to letting you ask me those questions and seeing whether I can answer them or not.

Increase in Resources Of Fed. Savs. & Loan Insurance Corp. in '46

Resources of the Federal Savings and Loan Insurance Corporation, which covers savings invested in some 2,500 savings and loan associations, increased by $11,126,000 during 1946, William H. Husband, General Manager of the Corporation, announced on Jan. 25. This growth brings the aggregate resources of the Insurance Corporation to $176,387,000—as compared with its original capital of $100,000,000 when established by Congress in 1934, the report of the Agency said; it added:

"All reserves of the Corporation, plus unallocated income, totaled $72,621,139 on Dec. 31, a rise of $10,452,422 over the previous year-end figure."

The Insurance Corporation's net income for the last six months of 1946 amounted to $5,270,945, compared with $4,675,937 for the same period of 1945, Mr. Husband said. The $265,007 of administrative expenses of the Corporation for the six months amounted to only 4.8% of the Corporation's total income, which is derived from premium payments from insured savings and loan associations, admission fees from institutions newly insured and interest on the Corporation's invested capital and reserves.

Insurance premiums earned during the last six months of the year reached $3,529,702, which is $628,915 more than the amount earned in the comparable months of 1945. Mr. Husband pointed out that the gain is the result of a large increase in the savings of the public held by insured associations as well as the enrollment of additional institutions into the insured group during the year.

The Public Debt and National Income

(Continued from page 865)
ciate the shock which it gives any layman who contemplates it, let us go back over three decades.

The total debt is now $263½ billion.

Thirty years ago, before we entered World War I—in early 1917—it was only a little over $1 billion.

The peak of the debt after World War I was reached in August 1919 at a mere $26.6 billion, about one-tenth of this war's debt.

In 1930, after a decade of "prosperity" and repayment of the debt of World War I, it was $16 billion.

In the summer of 1939, when the war broke out in Europe, our dobt was $40 billion, after nearly a decade of net deficit financing. Thus the debt multiplied over sixfold in the brief period of six years after the war broke out in Europe.

In summary—a debt of $1 billion in 1917—over $260 billion in 1946; a total of $26 billion as the legacy of World War I; a ten-fold total of $260 billion as the legacy of World War II.

The extent to which the debt constitutes a burden has nowhere been so graphically set forth as in the first paper of the Committee on Public Debt Policy entitled "Our National Debt After Great Wars," written by the late General Leonard Ayres. Today the debt amounts to slightly less than $2,000 for each man, woman and child in the United States; as contrasted with $240 in 1920, and about $78 at the close of the Civil War, a more burdensome debt for our then poor country, General Ayres concludes, than that which followed World War I.

National Income Growth

But our national income, too, has grown during the war years—although not so astronomically as the debt. For the year 1946 as a whole it is estimated at $164 billion and, currently, it is at an annual rate of $174 billion. This is about 145% higher than the $71 billion of 1939.

Thus today the debt is 150% of our current national income. At its height in 1919 it was about 45% of the national income—a fraction, not a multiple.

There is one further fact to be considered—one which lightens the burden of this debt—the unusually low interest rate which it bears. Currently that rate averages slightly over 2% in contrast with over 4¼ in 1920. The computed annual charge on the public debt in the last quarter of 1946 was at the rate of $5.3 billion, and for the coming fiscal year (1947-48), was estimated at $5 billion in the President's annual budget message.

Importance of Debt Retirement

Thus, unless the debt is rapidly retired, we must look forward to a minimum of $5 billion annual charge upon us as taxpayers for current interest charges alone and even this total may increase. This is not far from the total amount spent for the entire activity of the Federal Government in any year prior to 1934 and nearly half as large as the annual budget during the Thirties.

It is this $5 billion charge which constitutes a first charge upon national revenues. At present levels, it is a little under 3% of the total national income. This is nearly double the share of the national income which the service on the public debt of 1920 required, even at more than double the present interest rates. Although, looking back over our own history, the relative increase in the total debt is very great, we may perhaps take some comfort from the fact that other countries, even in peacetime, have borne an even larger burden. The United Kingdom, in 1939, before the war, devoted 4½% of its national income to service of its public debt, in 1944, 4.8%.

If the interest charge on the public debt alone constituted the measure of the debt burden, and if we had reason to believe that national income would be sustained at current dollar levels, we could perhaps contemplate the future without undue concern. But that is **not** the limit of the debt problem *per se*. The American tradition is to pay off our debts, both private and public, and current discussions indicate that that tradition is still strong today. Thus debt retirement, too, must be taken into account. The amount cannot be estimated; it will certainly vary from year to year with the economic situation, and, presumably, be largest in periods of high national income and large tax revenues. But here, too, new magnitudes must be comprehended. With a debt of $260 billion, the net repayment rate of the 1920's—when the late President Calvin Coolidge was praised for repaying one or two billion a year—will scarcely scratch the surface.

Expenditure Commitments

But debt detirement is not all. There are other obligations of the Federal Government, which, are just as inescapable, though they may not be in the form of fixed contracts. They include commitments for agricultural support prices, which are an immediate problem; certain social security payments which will eventually be larger, and the vast array of contingent financial guarantees of bank and building and loan association deposits, and of insured mortgages. He did not mention, though he might well have done so, a group of obligations of a non-financial character—we might call them moral obligations—that are large and equally compelling, although they will vary in amount from year to year. They include veterans' payments, the support of a much larger program than prewar for the Army, Navy, and Air Corps; and other expenditures that arise from our new international obligations. Some of these obligations are larger in amount and may, in the long run, constitute an even more serious problem than the service of the debt; for interest may be reduced if the debt is retired, while some of these other obligations may increase.

All told, as a Nation, we have obligated ourselves to pay very much larger sums than $5 or $10 billion which the Federal debt alone implies. The President has proposed a Federal budget of $37 billion in expenditures, with comparatively little provision for debt retirement for the coming fiscal year, out of a national income apparently assumed to be $175-$180 billion. Thus, these proposed budget expenditures are about 20% of national income, and of this, the debt service would account for only about 3%. There are, in addition, rather inflexible payments which the State and local governments must make for police, education and other purposes, totaling about $11 billion. This total is close to 25% of our unusually high national income. The magnitude of this total raises the two very broad questions—first, the effect of the high taxes which must be raised to support this debt upon the enterprise of individuals and businesses and whether they will strive to produce and earn more, and, second, the whole question of the effect upon the economy of having such a very large and important share of the national income channeling through and under the control of Government—Federal, State, and local. But both of these questions go far beyond the scope of this paper.

The debt problem, however, is by no means a short-run matter; we must look far beyond the next year or two. In the long run, the management of the debt may well turn on the future of national income. There are students of the debt problem who apparently assume that the current dollar level of national income will be maintained beyond the next year or two. This is based apparently upon anticipation of inflated prices resulting from the gigantic volume of money and of credit potential at the disposal of industry and individuals. Close study of the price aspect of the situation alone indicates, however, that the price level is almost certain eventually to fall. It has done so after every war. More than that, credit will not necessarily be used to bid for scarce goods unless business can be sure that they can be marketed at those prices. The choice is now facing American producers and consumers.

Probable Fall in Prices

I do not wish to venture a guess today on the precise level at which either national income or prices will settle. It has generally been true that the first downward move following an inflationary period is fairly sharp. Only after a considerable period of time have wholesale prices returned to their low prewar levels and consumers' prices never did so after World War I. Circumstances today differ in important respects from the earlier postwar periods, most importantly with respect to the available volume of purchasing power. Because of that volume of purchasing power and the large credit base, prices may settle at a relatively higher level than prior to this war. But few observers believe that the present price level can hold.

It may be worthwhile to consider in somewhat more detail the current level of prices and what it implies for the future. Prices at wholesale are now about 20% below their 1920 peak, with a rise of about 33% since V-J Day and 24% since July 1, 1946, when price controls were first relaxed. The general level is up 85% from the summer of 1939. This is a somewhat smaller rise than in the period of the First World War, but it is sufficiently great to form the familiar pattern of price inflation which has always accompanied great wars. I am astonished at people who inquire anxiously, "Are we going to have inflation?" The answer is: "We have it. It is here now."

Price Structure Distorted

This war, like all wars, has distorted the price structure to an extraordinary degree. Some prices have doubled or trebled, others are up 10, 20, or 30%. Prices of farm products, moving from extremely low levels in the summer of 1939, had advanced 179% at their peak in the third week of December 1946, while prices of all commodities other than farm and food products were up about 55% in the second week of January (1946) and have been rising steadily for a year and a half.

However, most students of the price situation are of the opinion that we are at or near the peak of prices. Already some important speculative prices have broken; the stock market is down; prices of luxury goods have weakened; city real estate values apparently ceased to rise.

No Precipitate Price Fall

Nevertheless, few observers expect such a precipitous and widespread drop in prices as that which occurred in the spring and summer of 1920, first, because support prices are provided for important agricultural products for two crop years after the cessation of hostilities, at 90% or more of parity; second, because certain speculative prices such as silk, some of the metals, and coffee, that led the general break in 1920, are relatively not so high now.

Moreover, a more important segment of the economy today is governed by "sticky" or "institutionalized" prices which do not move up rapidly, but once up, they stay there for an extended period. There is one further factor which will restrain price reductions—namely, the current higher levels of wage rates. Wages are an important component of costs. They, too, are "sticky," and now, with the rapid rise in living costs in the past six months, workers will use all their bargaining power to secure still higher wages, and to resist any attempts at reduction.

The Economic Report of the President, centering upon the prospects for continued full employment and concerned with real income, rather than money income, expresses the general opinion that high prices today, following the rapid rise of the last six months, constitute an unfavorable factor for the outlook in 1947. The Report indicates that if the Economic Budget of the country is to be balanced, and production, consumption, and employment are to be sustained in silghtly larger volume next year, prices must be reduced. The Report recommends:

"Business should reduce prices wherever possible in order to bring about the necessary increase in consumer purchasing power to bolster their markets. Price reductions are especially needed in the case of goods such as many articles of food, clothing, housefurnishings, and building materials, whose prices have risen out of line. If business makes these reductions in a timely and orderly way, it will help sustain markets rather than destroy them.

"Farmers must realize that last year's exceptional farm prices will fall somewhat as world food supplies increase and as consumers find a more ample supply of durable goods to purchase. Existing price supports afford protection against a severe price decline."

In the discussion of public debt in recent economic journals I find frequent references to the fact that the burden of the public debt will be an influence leading toward a "price policy" of sustained high prices. It is time to face the fact that if the Federal Government and the American people have a "price policy" today, it is to let prices find their own levels in the market. As the Economic Report of the President states:

"Removal of emergency price and wage controls has restored the main responsibility for prices and wages to business, labor, farmers and consumers. The government can point out dangers seen from the perspective of the whole economy, but the corrective must largely be applied by others."

Price controls have been eliminated except for those on sugar and rice. In any event, these controls were designed to prevent rising prices, not to put a floor under existing prices.

Support prices are provided only for agricultural products. In other basic industries there is now no mechanism by which the Federal Government can directly affect **specific** prices, as such, except by its own purchases of supplies for peacetime requirements. Even the legislation which put a floor under prices of bituminous coal in the interests of minimum wages has lapsed. In a period such as the present, it would require a major change in thinking to promulgate quickly a program of support prices or some similar mechanism that was generally applicable.

When Pinch of Debt Comes

When prices fall, the dollar total of national income will fall. It is then that we will really feel the pinch of the national debt. The Nation, like a family, will find then what millions of farm families, for example, found in the period of the low prices for farm products in the 1920s: The burden of debts contracted at high prices—payments on mortgages, on instalments for equipment and cars bought in prosperous times, on insurance premiums and even the cost of supporting old or ill members of the family—meant not only a sacrifice of education, of opportunities, but of the everyday necessities of food and clothing. For a Nation, heavy fixed obligations for the future mean, in a period of smaller dollar incomes, that many governmental services that go to make up the national standard of living may be impossible unless a way is found to handle the debt.

Suppose, to take an extreme case for the sake of illustration, that the national income declined to $100 billion. (As some of you may recall, such a large total as this seemed impossible of achievement even in the most optimistic period of the 30s, when the highest total fell $20 billion short of that mark.) A $5 billion debt service would mean 5% of a national income of $100 billion, or about the same relative burden as in the United Kingdom in 1944. Those who know the sacrifices of the citizens of the United Kingdom who paid taxes to sustain a debt of such proportions and still do to maintain their social services, would certainly not welcome such a tax burden here—but it has been done in Anglo-Saxon countries, in our times.

Changing Distribution of National Income

There is finally the question which the changing distribution of the national income raised for tax experts who must raise the revenues to support this debt and its retirement. For the first eight months of this year about 65% of the national income went into all types of wages and salaries. This is a decline from the peak of 71% in the war years. But the decline is due almost wholly to pay to employees of the Federal Government and to the Armed Forces, which yield little in the way of taxes in any case. There has also been a reduction in the share which manufacturing payrolls have contributed, but a much more than offsetting rise in other private industries such as construction, trade and services.

This means essentially that the government must continue to look to income taxes on relatively small incomes, levied upon a group of people who are not large holders of the public debt and will in turn receive little in interest. The other components of the national income which present somewhat different problems of revenues are, first, agriculture whose net realized income accounts for only 8½% of the national total. Here the share has gone up with the rise in prices from about 6% before the war but may fall somewhat with declining prices.

There has been, of course, a marked decline in the receipts from dividends and interest combined from about 12½%. of the national income before the war to about 8% at the present time. This results in large part from the lowered return from interest. Dividends are higher. Thus, taxes on this group cannot be counted upon to contribute the same relative share of the national income that they did before the war.

There is finally that large category which the Department of Commerce refers to as "non-agricultural entrepreneurial net income and net rents and royalties." Here there are three divergent segments that have moved in different directions. Business profits have gone up and so long as the level of activity remains high, they will continue to yield sizable revenues. Rents must have declined rather sharply in view of the comparative stability of home rentals which form a large part of the total. Commercial rentals, of course, have been unregulated and have advanced by very large amounts. Nonetheless, this segment of the national income which is generally taxed by State and local authorities is bearing a proportionately heavier share of the tax burden and can provide little to meet higher relative local budgets.

Thus, the tax expert faced with the necessity for raising much larger sums than before the war to finance the heavy and inflexible obligations of governments, both Federal, State and local, must probably accustom himself to the fact that income taxes in the lower brackets must be a continuing feature of our tax structure, though rates might be somewhat lower than at present.

At this point, having stated the problem, made some rash predictions and asked some questions, I defer to experts in taxation and debt management. The problem is one of ways and means. It is clear that this debt weighs heavily when added to other necessary expenditures. Perhaps, after all, if might possibly be as manageable as other expenditures.

Restrictions on Right to Strike

(Continued from page 872)

In a number of cases since that time—the caption which will come to the mind of most of us is that of Bailey *v.* Alabama—the Supreme Court has given content to that protection. That protection carries with it the guarantee against the use of penalties or governmental sanctions for a refusal by an individual to make his services available.

There has been a studied attempt to draw a line between the right of one worker to leave his job free from government interference, and the right of a number of workers to leave their jobs jointly. Those to whom basic democratic rights are not mere abstractions but are living and vital realities must reject such a demarcation.

The right of free speech in our society would have no meaning or value if the exercise of the right could be restricted only to those circumstances in which the speech is ineffective. The right of free speech would have no meaning if I could be told by a governmental agency that while I am free to speak, I may exercise that right only in the privacy of my home and not before an audience. The right of the free press could not be regarded as very significant if it involved merely the right to place one's views on paper but denied the right to publish, promulgate and distribute those views as the only means of making them effective.

By the same token, the right of a single employee of the giant United States Steel Corporation to leave his job is of relatively limited significance. The act of a single employee in leaving his job will have little effect and impact on the willingness or unwillingness of the corporation to better his working conditions. The right of that employee to leave his job becomes really significant and important only when it includes the right to act in conjunction with his fellow employees. The right of each of them becomes of importance only by virtue of the fact that they may leave their jobs in unison, and may hope and expect that that action will have value and meaning and significance for the betterment of their working conditions.

We must reject any notion that constitutional rights are meaningless abstractions. And if the right to refuse to make ones services available is to have real vitality it must encompass the joint exercise of that right by many workers.

Bills Restricting Right to Strike

The proposals to restrict and prohibit strike action take many and complex forms. Frequently the proposals themselves are ill-defined, but encompass in a broad sweep a variety of activities including the strike itself. The proposals relate to many different laws. Sometimes they are offered as amendments to the Wagner Act; sometimes, as amendments to the antitrust laws; sometimes, as amendments to the Norris-LaGuardia Act, and sometimes as new statutes apparently unrelated to anything that has gone before.

The Ball-Taft-Smith Bill (S. 55) for example, has the usual declaration that it is not to be construed as requiring individual employees to render labor or service without their consent. But the Ball-Taft-Smith Bill includes among the ingredients of the warmed-over hash which constituted the Case Bill of last year the following:

(a) A cooling-off period of at least 60 days before a strike may be called.

(b) A provision imposing both criminal penalties and injunctions on workers who join in a refusal to work on materials made by an employer operating under substandard conditions.

(c) A provision imposing criminal penalties and injunctions on workers who join in an effort to require their employer to recognize and bargain with their organization, even where such recognition and bargaining is thoroughly legal.

I refer to these specifically not because they are the sole or even the major evils of this bill, but because they come to mind as portions of the bill specifically related to the exercise of the right to strike.

We are told in one section of the bill that it is not to be construed as requiring an individual employee to render labor of service without his consent. But in another section of the same bill we are told that if a group of employees undertake to refuse their services in connection with certain kinds of materials or articles, their act is criminal, punishable by a fine up to $5,000 and imprisonment of up to one year.

We are told in one section that the bill is not to be construed as permitting any court to issue any injunctions to compel performance of service by any individual employee. But another section of the same bill declares that if a group of employees refuse their services under certain conditions the District Courts are to have jurisdiction on application of the employer to issue injunctions. In fact, for this purpose the provisions of the Norris-LaGuardia Act are to be set aside so that such injunctions may be issued without notice, without open court hearing, and regardless of any of the other specific requirements outlined in the Norris-LaGuardia Act.

It is the kind of double-talk which characterizes so much of the drive behind the largest portion of the anti-labor legislation now under debate in Congress. Uniformly these bills violate basic principles, principles which the sponsors of these bills would not dare openly to attack. Uniformly the intent and effect of the bills is shrouded in general slogans while hypocritical lip service is paid to the very principles which the bills attack. They would not dare, for example, to suggest a repeal of the Clayton Act declaration, adopted over three decades ago, that the labor of a human being is not a commodity or article of commerce. But when American workers gather together in free and democratic organizations with the aim of fostering and advancing industrial democracy and opposing the autocratic and anti-social domination of our economy by giant monopolies, then there are those who actually dare to attempt to turn the clock of history backward by seeking to decimate labor organizations under a fallacious anti-monopoly slogan.

I have been asked to pose here today some of the issues relating to attempted restrictions on the right to strike. I am pleased to note that other sessions of this conference have been devoted to an analysis and discussion of the terrifying trend toward concentration of the control of our economy in a few banking houses, the spectacle of profit levels and price gauges unprecedented in our history, while mass purchasing power and real wages are declining. These are trends which are moving us at a dizzy pace in the direction of anti-democratic authoritarianism and economic catastrophe.

Anti-Labor Bills Drive to Aid Monopoly

These are what we must recognize as the major danger and evil which this country—labor and management alike—face today. The drive for anti-labor legislation is simply one part, one symptom, one prong of the general drive of the monopolists and the profiteers directed against the welfare of all of the people. Labor is singled out in that attack because it represents the strongest organized voice of the plan people of the country seeking a more equitable and economically more sound distribution of our national product.

Restriction on the right to strike is a most important part of the general drive against labor. It poses a number of basic legal and constitutional issues, to some of which I have made reference. As a matter of economics and policy it poses an equally basic issue as to whether the powers of the government in this country are to be subverted and aligned against the efforts of American workers to achieve for themselves a decent standard of life and for the nation as a whole the maximum protection against the ravages of inadequate purchasing power, mass unemployment and general economic decline.

Permit me to close with two quotations from Abraham Lincoln which cannot be too often repeated. I commend them to the attention of many members of Congress, including the leaders of the Party which today bears the same name as the Party he founded. Lincoln said:

"All that harms Labor is treason to America. No line can be drawn between these two. If any man tells you he loves America, yet he hates labor, he is a liar. If any man tells you he trusts America, yet fears labor, he is a fool.

"There is no America without labor."

On the specific subject of our discussion this morning, Lincoln said in 1860:

"I am glad to see that a system of labor prevails under which laborers can strike when they want to, where they are not obliged to work under all circumstances, and are not tied down and obliged to labor whether you pay them or not. I like a system which lets a man quit when he wants to, and wish it might prevail elsewhere. One of the reasons why I am opposed to slavery is just here."

Washington And You

(Continued from page 865)

destruction of the essential mass market if reciprocal tariff concessions are curbed. Shortly, the Reciprocity Information Committee will receive from Motion Picture Czar Eric Johnston a brief delineating the industry's stake in the April Geneva conferences on U. S. pacts with 18 nations.

* * *

Oratorical House Republicans don't like to admit it, probably won't, but nonetheless are pretty thoroughly convinced they can't blockade the Geneva conferences. Nor can they be placated with the pious talk of compromise by Senate Republicans pledged to the reciprocal trade policy. End results will be new damage to Republican unity and postponement of a tariff crisis until 1948.

* * *

Campaign for congressional help to exterminate the 4-cent foreign copper excise tax looks hopeless. Reasons are mainly two: (1) opposition is organized while support is lackadaisical, (2) most legislators haven't been convinced that fabricators couldn't endure the $80 per ton duty. However, not to be overlooked is the possibility that reciprocal trade negotiations might cut the impost.

* * *

For 65 cents you can buy from the Superintendent of Documents Government Printing Office, Washington, publication 2699, "International Agencies in Which the United States Participates," just released by the State Department. The manual classifies and defines such agencies in the following groups: commercial and financial; commodity; agricultural; educational, scientific and cultural; political and legal; social and health; and transport and communications. It covers 216 international agencies.

New business birth rate during the first half of 1946 was lower in the finance, insurance and real estate family than any other of the eight major industry group classifications by the Commerce Department. New business ventures in finance, insurance and real estate during the six months averaged 113 for each 1,000 established firms. Birth rates for other major groups were: contract construction, 553; wholesale trade, 306; manufacturing 269; service, 218; retail trade, 207; mining and quarrying, 188; transportation and public utilities, 149.

* * *

Death rate for the half year was lower in finance, insurance and real estate than five of the eight major groups. Finance, insurance and real estate discontinuances averaged 52 for each 1,000 going establishments. Death rates for other major groups were: mining and quarrying, 108; contract construction, 89; wholesale trade, 72; manufacturing, 71; service, 59; transportation and public utilities, 44; retail trade, 42.

* * *

Active establishments increased 10% in number in finance, insurance and real estate as against 24% in the eight major industry groups from December 1943 to June 1946.

* * *

House Republicans are just about set to reincarnate the Small Business Committee which the Democrats operated last Congress. They've glanced at the crystal ball, discovered enough votes to smother Democratic opposition. The GOP brethren aren't above filching the Democrats' book of etiquette on how to court the nation's small business proprietors.

* * *

Dollar diplomacy can't bend Export-Import and International Bank policies without rousing wrath on Capitol Hill. Reports that State Secretary Marshall is cupping attentive ears to aids who would utilize the banks to brace our ideology abroad provoked warnings this week that such course would circumvent congressional intent. Lawmakers are poised and awaiting the first apparent gesture by Mr. Marshall in that direction.

* * *

Business census in 1948 covering 1947 remains the ambition of the Census Bureau. The bureau will shortly forward to Congress a request for necessary enabling legislation, will urge a vote not later than June. Delay beyond that date would allow inadequate time for preparatory operations.

* * *

Impending request by Treasury Secretary Snyder for legislation continuing the right of Federal Reserve Banks to purchase up to $5 billions in Federal securities from the Treasury won't be granted until Senate and House Banking Committees have asked a heap of questions. Federal Reserve Banks now exercise this privilege under war powers. Secretary Snyder wants the authority retained to help keep Treasury funds fluid between income and outgo movements.

* * *

Congress is beginning to wonder about the Administration's position on the Federal Reserve Board's bid for authority to guarantee up to 90% of member bank loans. Chairman Tobey of the Senate Banking Committee introduced such legislation by Board request, then was left dangling by Administration silence. Tobey will tire of waiting, order committee hearings, call for Administration testimony.

* * *

Steel industry can expect congressional pressure to hike allocations forfreight car production. The industry has agreed to allot sufficient steel for 7,000 cars monthly. Many lawmakers aren't satisfied with this deal, argue the steel supply should be more closely tailored to the nation's needs and the manufacturers' ability to roll out 14,000 new cars monthly.

* * *

Senate and House Commerce Committees momentarily are too occupied by safety explorations to deal with Civil Aeronautics Board request for authority to pass on security issues by commercial airlines. That will come later. Curbstone tendency of some committee members is to oppose the CAB formula, but that situation could change after CAB testimony.

* * *

An orchid for the most efficient small warehouse bookkeeping system is being propagated by the Commerce Department. Department agents will shortly girdle the nation to study record keeping and accounting methods of wholesale grocery warehouses. The ultimate purpose—publication of a booklet enshrining the most effective system.

* * *

If you want to gamble on rents, it's a good even money bet that Federal controls will not be allowed to lapse, will be continued in a form calculated to relieve landlords. Rent mail reaching Congressmen is about evenly split — half for and half against decontrol.

* * *

Social Security Board recommendations to Congress Tuesday that the Social Security Act be overhauled and liberalized was coolly received, will be filed for consideration in 1948 or later. No social reform is on the 1947 calendar.

Are Americans Too Gold-Minded?

(Continued from page 868)

ical Consequences of Lord Keynes' Theories" and your article on "The Dollar Mystery" are really excellent publications. They both express your rigidity of mind. In these days of frequent economic change flexibility of mind is essential. Lord Keynes was one of Britain's most brilliant Economists, but he was never remarkable for consistency. The revolution he effected in economic thinking is of immense value. He had a flexible mind but, like all revolutionaries, as he got older he became frightened at the amount of energy he had released. His swan song to which you refer is a recantation of much of his teaching. The great majority of Britons accept his work with immense gratitude but we apply it with discrimination.

I note you still persist in saying "the gold standard is not responsible for the great depression," but you do not deny with evidence what I said in point five of my letter addressed to you on the 12th August last—that the deflation came before the depression. You say that America does not want to repeat some of the same mistakes which were made at the time of the 1929 depression, but if press reports and the information I receive from various eminent sources in America are reliable she is at this time repeating the same mistakes, but in a more intensive form and the results will again prove to be a reflection upon the gold standard system.

U. S. Gold Accumulation

It is as well to remember that the United States started accumulating and sterilizing gold in 1921 and continued, with some periods of intermission until 1941. In 1931 its accumulation was $5,000 million. In 1941 its accumulation was over $20,000 million.

There is some truth in what you say that France accumulated between 1924 and 1927 a large amount of foreign exchange in the form of deposits in American and English banks. It was not until 1928 that France returned to the gold standard and used her foreign exchange between 1928 and 1932 in accumulating and sterilizing gold. This action, accompanied by the U. S. A. accumulating and sterilizing gold, was the direct cause of the gold standard being unworkable.

You say that there was no scarcity of credit anywhere in the world before 1929. The position is that there was great scarcity of credit in Britain from 1924 onwards.

Just what do you mean by saying, "We cannot have democracy without an individual competitive free enterprise system?" The great majority of the people of this country would accept this point of view but with some qualification. If one is a golfer one plays subject to certain rules. The same applies if one is playing billiards, cricket, bowls or any other organized game, and if you mean that the individual competitive free enterprise system shall have no rules—or in this case perhaps it would be better expressed in the words "code of conduct" within which the fullest individual freedom and enterprise can operate, democracy definitely cannot survive.

Totalitarianism and Exchange Control

There appears to be no evidence whatsoever that there is an organic relationship between totalitarianism and exchange controls. If so, the U. S. A. is a totalitarian country. Exchange control is a legitimate defence of national money whether adopted by a totalitarian or a democratic nation. I am glad I shocked you by revealing the truth about exchange control by the United States. The interpretation of your paragraph three practically amounts to this: Exchange control of the dollar is perfectly legitimate while exchange control of any other currency in the mind of the U. S. A. is a crime. The restrictions placed on the possession of gold by the Criminal Law of the United States is exchange control. What I mean by international dollars is dollars circulating outside the United States and, so long as dollars remain a scarce currency it is not possible for Britain to convert sterling into non-existent circulating dollars. Your article, "The Dollar Mystery" is not the complete answer and makes no contribution to solving Britain's problem. The solution of the British problem is, of course much wider than the balance of payments of the United States. Britain's problem is to create an international currency that will take the place of the gold which the United States has withdrawn from circulation and buried at Fort Knox. Britain has made substantial progress in this direction and there is now approximately £4,000 million worth of sterling in international circulation which within the sterling area is freely convertible.

The $5 Billion Deflation

The $5 billion deflation referred to in my previous letter took place between 1929 and 1932. The United States was solely responsible for this international deflation. "The U. S. and World Economy" published by the U. S. Department of Commerce is greatly respected in this country. Its great value is that it reveals to the world, after 12 years secrecy, the dimension of the dollar deflation and its devastating effect on world economy.

Why limit your arguments to what you refer to as the facts before 1929—18 years ago? I can well appreciate our friendly difference of opinion now that you admit that you are concerned only with the facts which occurred before 1929. So much has happened over these years, changes have been so rapid one has only been able to keep in step with some difficulty.

The great depression, meaning the world depression of 1931, was undoubtedly caused by the two international deflations referred to in my letter addressed to you on Aug. 12 last. You seem to confuse the great depression with the United States depression which was due to the collapse of Wall Street speculation in October, 1929. All the evidence goes to show that the deflation of dollars in international circulation was the cause of the great depression in Britain and the rest of the world. It transformed the gradual diminution of international credit between 1924 and 1929 into a world-wide and disastrous depression which culminated at the end of 1931.

I am fully aware of the consequences of monetary inflation and the rise in prices both during and after world war number two. The U. S. is more familiar with these consequences than Britain. It was a great mistake for Great Britain to return in 1925 to a gold standard at prewar parity of the £. I opposed this very strongly when I contested the Barnsley constituency in the 1924 General Election and what has occurred since fully justified my opposition. Mr. Winston Churchill was Chancellor of the Exchequer at the time, and in 1932 he admitted in the House of Commons that the advice his experts had given to him was a mistake. The major folly of Britain, however, was going on to a gold standard which was already being mismanaged by the U. S.

In normal conditions, that is when a buyers' market prevails under a free enterprise system, the buyer has a greater influence on prices than the seller, therefore, Britain, as the greatest purchasing nation in the world, has a greater influence on world prices than the U. S. That influence has been temporarily eclipsed by the magnitude of her war efforts, but is gradually returning.

The Commodity Standard

You ask me what I mean by a Commodity Standard. It is the fixation of the value of money in terms of a world price index instead of in terms of gold. It was originally a conception of American Economists, but was adopted by Britain when gold failed as an international currency. It is true that Britain had adopted a managed currency based on the commodity standard. I emphasize this because America on a gold standard, which is the most managed currency that has ever operated, managed it for 17 years, 1914-31, when it collapsed. Britain managed it excellently for two years short of a century, 1816-1914. I respectfully point out that you are not correct in saying that the recovery had begun before Great Britain left the gold standard. The official statistics of unemployment, national income and foreign trade demonstrate that Britain's recovery did not begin until 1932, shortly after leaving the gold standard.

I have read your paragraph eight several times and I am still trying to grasp your contradiction. You say—

(a) "Paper money has the power to buy."

(b) "Paper money is not purchasing power."

May I ask what is purchasing power but the power to buy?

Fluctuations in Gold's Value

I will not contest your point that the wild fluctuations which take place in the value of gold have nothing to do with the Gold Standard. This observation seems to me to be an attempt to evade the real issue. The facts are that the principal causes of the wild fluctuations in the value of gold are:

1. Hoarding of gold by the American Government;

2. hoarding of gold by the Indian people.

But, whatever the causes its wild fluctuations of value render it unsuitable as a standard of value. Bretton Woods was intended to be a gold standard, but owing to the wild fluctuations in the value of gold it is impossible for it to function as was intended. It would be more correct today to say that Bretton Woods is on a dollar standard which is backed by gold at the price of $35 per ounce, and yet recently gold has been sold to India at a price of $80 per ounce, which would be true to say is today's market value. Under these conditions, may I ask how can such a gold standard, which is so inconsistent, produce the stability which is so essential for world stability? In many responsible quarters, in Washington as well as in London, there is serious talk of the advisability of increasing the price of gold.

This takes my mind back to what occurred after the settlement of the debt owing by Britain to the U. S. following world war number one. The action of the U. S. made it impossible for Britain to pay her debt and gave the impression in the U. S. that Britain had defaulted. She was a debtor whose attempts to pay by every effort in her power had been defeated by the policy of a creditor to whom the receipt of payments was an embarrassment rather than an asset. No doubt you wil recollect that President Hoover finding the war debts unpayable, owing to the withdrawal of gold from the international currency in 1931, granted a moratorium. The hoarding of gold by the United States (and France) raised the sterling price of gold by 54%, with the result that when the time came for the resumption of payments on the expiry of the Hoover moratorium Britain was confronted with the payment of £30 million for her December instalment instead of £19 million, the amount of the bond. You may further recollect that the Supreme Court of the United States ruled that the enforcement of the gold clause in a debt contract was illegal. This applied to all contracts except that between the U. S. and Britain, which had been made by the then Mr. Stanley Baldwin for payment of our first world war debt in gold. It is incidents of this kind, that will be accentuated if the price of gold is again increased, which brings the capitalist system into disrepute.

"Imaginative Rapsodies" Questioned

You say the Gold Standard has served the cause of peace and has been an admirable instrument of international cooperation. I really do not understand your imaginative rapsodies on the gold standard. These can readily be discounted by the following:

(1) Gold has no stability;

(2) Its market price has risen from $20.67 an ounce in 1933 to $80 an ounce at present;

(3) It makes daily fluctuations in world markets.

You also speak of the liberty of movement of gold, whereas in fact it has no liberty of movement. One method of exchange control adopted by the Government of the U. S. is to make it a crime to possess gold (subject to a few minor exceptions). Every country in the world—even Britain—restricts the free movement of gold.

Britain's Debt to Foreign Countries

Like many other Americans you have a misconception of the £4,000 million worth of British debt to foreign countries. Every person in Britain with an elementary knowledge of money is aware that the £4,000 millions of sterling balances is British indebtedness to foreign countries. But it is an indebtedness which demonstrates the strength of British credit. The prestige and credit of a commercial bank is determined by the volume of its deposits—that is by the volume of its indebtedness to the public. Other nations, unable to get gold or dollars, are using sterling balances increasingly as international currency. True they are blocked to some extent until Europe recovers from war devastation, but so are the tied loans of the United States Import and Export Bank blocked, and I respectfully submit with less justification. So you do not hesitate to call this £4,000 millions worth of British debt a curse on the British people. It certainly is not working out in that way. Your so-called curse is proving a blessing in providing British exporters with an almost unlimited sellers' market.

You are surely mistaken when you say that dollars are freely exchangeable into pounds. Dollars are not freely exchangeable into pounds, even the dollar loans of the U. S. Import and Export Bank are specifically precluded from being freely exchangeable into pounds.

Americans Not Free Traders

I do not know what you mean when you say "We are free traders," as the United States is regarded as one of the foremost exponents of economic nationalism as instanced by its tariffs, the loans and shipping clauses of its Import and Export Bank, its preferential arrangements with the Philippines, Cuba and Porto Rico, its restrictions on U. S. coastline shipping and, last but not least, the use of the American loan to restrict Britain's methods of international trade.

In your letter of Dec. 2, in which you made one or two corrections to your letter of Nov. 26, you suggest that I am requesting a continuance of monetary inflation in which the U. S. had to indulge during the war. This further shows that you have a misconception of Britain's indebtedness. The £4,000 millions of sterling balances held by other nations is definitely not a continuance of monetary inflation. It serves the following four purposes:

(1) Reflation against the £3,000 million gold and dollar deflations culminating in 1931-1932;

(2) reflation against the existing dollar scarcity;

(3) reflation against the disappearance of French francs, lira and reichsmarks from international currency;

(4) insurance against a repetition of the dollar deflation of 1929-32 if, and when, the present boom in the U. S. collapses.

May I conclude by saying how much I appreciate this interchange of views. I feel that the more frank both parties are on the vital points discussed the greater certainty there is of arriving at common understanding, which is essential to the development of better relations between our respective countries, which I am convinced we both whole-heartedly desire shall be established.

Yours sincerely,

W. CRAVEN-ELLIS.

MR. CORTNEY'S REJOINDER

Feb. 4, 1947.

Mr. W. Craven-Ellis
Estate House
Dover Street
London, W. 1.
England

Dear Mr. Craven-Ellis:

This will acknowledge receipt of your letter of Jan. 24 which I read with great interest.

I wish to make clear once more that the main reason which prompted me to demonstrate that the gold standard was not responsible for the great depression, but that the great depression engulfed the gold standard, was to clear the ground for a more realistic diagnosis of the great depression. I do not believe that the gold standard is a perfect system and I have said so. Practically all human institutions are imperfect, we, the authors of these institutions being imperfect ourselves. I am, however, in favor of some form of gold standard (and the Bretton Woods arrangements constitute a form of the gold standard) for the simple and good reason that any monetary and financial system which does not entail some automatic check on the freedom of the government to print and spend money, will result in a debauchery of currency, and therefore, is a menace to our social system and liberties.

Appraisal of British Loan Premature

You are entitled to your own opinion regarding the British Loan and the International Monetary Fund. I submit, however, that it is too early to form any historic judgment on the merits of the loan and of the fund.

In my answer of Nov. 26, I stated that I did not understand what you mean by "a deflation of $10 billion of gold for which the United States and France were jointly responsible." Between 1924 and 1934, the amount of gold held by the United States was unchanged. If the United States was able to accumulate about $2½ billion gold between 1914 and 1924, it is because firstly, European belligerents needed American materials and merchandise, and secondly, because even after the war ended, neither England nor France wanted to buy gold at the market price; therefore gold was flowing into the United States.

Credit Scarcity Doubled

I do not understand what you mean by "the deflation came before the depression" in view of the fact that I share the view (See: "The Great Depression" by Lionel Robbins) that the great depression was due mainly to a debauchery of credit between 1924 and 1929, which was fed by and from the United States, and also thanks to the device of the "gold exchange standard." Furthermore, I cannot find any support for your contention that there was "great scarcity of credit in Great Britain from 1924 onward."

I maintain that we cannot have democracy without an individual competitive free enterprise system. This does not mean, however, that we do not need some code of conduct. This "code of conduct" is provided by the General Laws, and if one more code is needed, it is to plan and force competition between employers and between wage earners. I am against monopoly, both of business and of labor.

Insists U. S. Does Not Practice Exchange Control

Your remarks regarding the United States having an exchange control are puzzling to me. I cannot see why you persist in wishing to call "exchange control" something for which there is another name. In my answer to your letter of Aug. 12, I have clearly explained what is meant by exchange control.

In your letter of Aug. 12, you call exchange control, the system by which loans are tied up to exports. Now you choose to call exchange control, the restrictions placed on the possession of gold by the criminal law of the United States. I am against this restriction, but this is not what is meant by exchange control. It is already difficult to avoid misunderstandings between human beings when using words with their accepted meanings, but the confusion would certainly become inextricable if we attach to the same words different meanings.

Your remarks regarding international dollars are rather confusing. You say: "I mean by international dollars, the dollars circulated outside the United States." I submit that while there are at all times a certain amount of dollar **bills** circulated outside the United States, I do not believe that this is what you have in mind. The only international currency known so far is gold. Then you say: "Britain's problem is to create an international currency that will take the place of the gold which the United States has withdrawn from circulation and buried at Fort Knox."

I am puzzled to see you maintain stubbornly that the £4 billion worth of sterling foreign deposits, which is only a debt of England to foreign countries, constitute, in your view, an international currency. Besides, in the proportion that Great Britain is paying this debt, it annihilates your so-called international currency.

Cites Robbins Article

I wish you would read the article by Lionel Robbins in the January "Bulletin" of Lloyd's Bank. I am certain that you will finally agree that the £4 billion sterling foreign deposits are a curse on Great Britain, and not "an international currency."

There is a curious confusion in your mind regarding the role of international currency and the way international trade is financed. This point deserves clarification.

What constitutes an international currency? Strictly speaking, only gold, because only gold has world-wide acceptance.

Gold Only Needed to Settle Unbalances

How much of this international currency does the financing of international trade require? In a world in equilibrium, only a relatively small amount of international currency is needed. What actually happens is that commodities and services are exchanged against commodities and services (bills of exchange being used as a medium of exchange), and the international currency (gold) is needed only to settle balances, or rather unbalances, of accounts between nations which in a world in equilibrium are small, and should be small, if the world is actually in equilibrium.

The foregoing explanations will also serve to clarify a point on which you hammer so often, namely, that there was a deflation of $5 billion (between 1929 and 1932) for which the United States was solely responsible. Let me quote the U. S. Department of Commerce publication, "The United States in the World Economy" on this point: "The abrupt fall in the dollar supply by some $5 billion or 68% over the short space of three years (from 1929 to 1932) necessitated vast changes in the foreign use of dollars and in the economic systems from which the demand arose."

What did the U. S. Department of Commerce mean? It simply meant that in 1932 the United States bought from the rest of the world $5 billion less goods, services and investments than it bought in 1929. The international purchasing power (what you call "the international currency") is constituted mainly by the goods and services which the United States buys abroad. In other words, goods and services purchased create the purchasing power, or if you like, the international currency to buy foreign goods and services.

Americans Moving Toward Trade Multilateral

I grant that there are still too many impediments to free trade originating in the United States, but unmistakably, it is the definite will and purpose of the American people and government to make world trade free and multilateral.

In my letter of Nov. 26, I said that "metallic money IS purchasing power and paper money HAS purchasing power, and in the mere fact that you do not see the distinction, lies the difference between your conception of money and mine. Metallic money, like gold or for that matter, silver, IS purchasing power because like any other commodity which is needed or wanted, it represents a value in its own right. Paper money, not endorsed by gold, HAS purchasing power, or power to discharge debts, merely because the government makes it, by law, legal tender.

Regarding the price of gold in India, I wish to remark that the high price is due merely to exchange controls and to the sterling area, making money non-convertible into dollars.

Expects General Increase in Gold Price

Regarding the advisability of increasing the price of gold, it seems to me that this increase is probable, but also that if and when it comes, it will be general. On the other hand, the relative value of the pound vs. the dollar will depend on other factors, like British exports, British productivity, etc.

I share your view that a frank and intelligent discussion of the issues involved in our exchange of letters can only be beneficial to our two countries. The more I look at the world, the more I am convinced that the future of what we call "the western civilization" depends on a close and loyal cooperation between the United States, England and France.

Please believe me, dear Mr. Craven-Ellis,

Yours ~~most~~ sincerely,

PHILIP CORTNEY.

An Inventory of Our Situation

(Continued from page 868)

money has been kept under restraint.

Not only are the characteristics of that earlier depression almost entirely lacking, but out of our new social consciousness there have been established safeguards to mitigate the effects of any recession that might develop during the processes of economic adjustment. These are cushions which should operate to prevent any temporary slackening of business tempo from reaching disastrous proportions.

Bulwarks Protecting Our Economy

Let us examine a few of these bulwarks protecting our economy.

Today, we have functioning the mechanisms to prevent any ruinous collapse of farm prices.

Today, through the provisions of the Social Security legislation, we have unemployment insurance which guarantees that never again will there be any sudden curtailment of individual income on a mass scale.

Now, we have the safeguards surrounding the savings of the people under the Federal Deposit Insurance legislation. This we can count as a very real asset in sustaining the confidence of the people in our banking system.

Furthermore, through the operations of the Securities and Exchange Commission, investors in securities are more certain of the soundness of their investments.

These products of economic statesmanship are tough and sturdy girders beneath the floor of our business structure. There are other elements. Particularly important are the accumulated savings of the people and of industries. Tens of millions of citizens have invested in United States Savings Bonds. The liquid assets of individuals at the end of December were estimated at $191,000,000,000, an all-time high, and compare with less than $70,000,000,000 in 1941. These assets are more widely distributed than before the war. The net working capital of American corporations nearly doubled during the war years, and the latest estimate places the total at a record high of $55,000,000,000. They hold cash and United States securities alone totaling $40,000,000,000 — more than twice the prewar figure.

There is no dearth of funds for employment, either in the acquisition of consumer goods, or for the financing of production and expansion of industry.

Stimulants to Business and Employment

Not only do we have the means to attain continued prosperity, but we have the stimulus. There is, despite current high production levels, an unsatisfied demand for virtually all kinds of goods. Our nationwide housing shortage is one of our critical problems, but this shortage will serve as a most important stimulant to business and employment. It will take years to fill this demand, and as you know, high construction levels spread demand throughout a multitude of supplying industries. As new homes are occupied, there is a call for furniture and furnishings, and many other related items.

And let us not overlook the record-breaking foreign demand for our goods.

And let me list as one of the most important assets we have in this year 1947, the sheer physical volume of our production of goods and services. Equally important is the spirit, the ability, and courage, and energy, and ingenuity of our people that was demonstrated in our attainment of production for victory, in our amazingly speedy reconversion and in our steadily expanding output of peacetime goods.

Let us look at the picture in some detail.

Indices of industrial production, carloadings, electric power, and the like, bear eloquent testimony to our progress since the cessation of hostilities.

Freight carloadings in mid-January exceeded those for the corresponding period in every year since 1930, when the average per-car capacity was much smaller than it is now.

Industrial production continues at peacetime high levels. The Federal Reserve Board's adjusted index of production for December stood at 179% of the 1935-39 average.

Steel ingot production in January had risen to 93% of capacity —a new postwar high.

Electric power output in the week of Dec. 21, rose to the highest level on record.

Production of soft coal in January reached the highest level in 20 years.

More and more durable consumer goods are reaching the market in quantities exceeding those of before the war—shipments of washing machines, vacuum cleaners, electric ranges, and radios are from 59 to 68% above prewar levels. The shipment of mechanical refrigerators and the production of passenger automobiles are approaching prewar volume.

The output of many building materials has reached new postwar highs; some reached all-time highs during 1946.

The production of lumber and lumber products in December was 142% of the 1935-39 average.

Civilian employment has increased three million since the end of the war, and was approximately 56,300,000 in December.

I would not discount the fact that we have some liabilities on our national ledger. There have been inflationary excesses in some areas that will have to be corrected.

The year just past was marked by labor-management strife. Prosperity demands a high degree of cooperation. It seems to me that in recent weeks there has been evidence of a happier, more cooperative, more realistic approach in labor-management relations.

This Administration has gone a long way toward relaxing the controls over our economy demanded by the war emergency. It is the President's purpose to remove all remaining controls as rapidly as possible. From now on, it is largely up to us, all of us. We shall need to exercise restraint, whether we are consumers, or producers, or distributors.

Problem of National Debt

There is another problem we face as a nation, a problem that is closely related to our general economy, and which is of primary importance to the business community. That is the problem of our national debt, and its management.

It is of primary importance that we reduce our Government expenditures, now, to the utmost compatible with our national security, our economic well-being, and the fulfillment of our just obligations. Already, from a wartime high of $100,000,000,000 a year, we have reduced expenditures to an annual rate of $42,000,000,000 for fiscal year 1947. This curtailment of spending by almost 60% does not represent the attainment of a goal.

Budget proposals for the next fiscal year contemplate a further reduction, and it is the policy of the Administration to continue this economy program as rapidly as the liquidation of war and its aftermath permit.

It is essential that we establish our national budget on a soundly balanced basis, and begin now to apply a surplus of receipts over expenditures to the retirement of our large public debt. In this present state of extraordinary prosperity, sound business principles demand that we give priority to the debt liquidation program.

Wants no Major Tax Reductions Now

I believe this would be a greater contribution to national fiscal soundness than major tax reductions now. We should maintain tax rates high enough to effect as rapid a reduction in the public debt as is consistent with the maintenance of a high-production, high-employment economy. When the time comes when some reduction in the tax rates should be possible, I believe these reductions should be concentrated in those areas where they will be most useful in maintaining purchasing power and in providing the incentives necessary for a continued high level of production throughout the economy.

Gentlemen, let me conclude. I believe an objective appraisal of our assets and our problems will reveal a magnificently prosperous nation. With all of our advantages, the American system of free enterprise is capable of developing a driving force that will carry us on to even greater national well-being.

National Securities Corp. in Seattle

SEATTLE, WASH. — National Securities Corporation is being formed with offices in the White Building, to engage in the securities business. Officers will be Howard W. Jones, President; Stuart M. Norris, Secretary, and George B. Peabody, Treasurer.

Howard W. Jones

Mr. Jones and Mr. Norris were formerly officers of the First Washington Corporation.

SEC Confers With Secs. Administrators

The Securities and Exchange Commission held with the Executive Committee of the National Association of Securities Administrators the fourth of a series of conferences in connection with proposed revisions of the securities acts.

Commissioner Robert K. McConnaughey presided at the conference in the absence of James J. Caffrey. Among those at the conference were D. D. Murphy, President of the National Association of Securities Administrators and South Carolina's Commissioner of Securities; Paul Deems and Pointelle Downing of the Illinois Securities Commission; Greene Johnston, Executive Secretary of the Florida Securities Commission; Myron Honigman of the Pennsylvania Securities Commission; Maurice Hudson, Corporation Commissioner of Oregon, and Harold Johnson, Assistant Director of the Nebraska Department of Banking.

Mr. McConnaughey said that the Administrators plan to appoint a special committee to confer with the SEC on the program of revisions and to keep in touch with developments of the extensive study the Commission has undertaken to obtain public reaction to the proposal.

The Critical Tasks Ahead

(Continued from page 874)

And, so, my fellow Republicans, let this be our grand strategy. Let us plan to win because we deserve to win, and because America "wins" with us.

This should not be too difficult for men of good will, common sense, Lincoln tradition and constitutional fidelity. Indeed, here at home, there probably is no reason why the people of the United States should not right now be upon the threshold of their greatest era of sustained, mass prosperity.

If we quit abusing our illimitable opportunities; if we quit making senseless war against each other here at home; if we quit false theories of fake economics, still dished up by the repudiated peddlers of yesterday's nostrums; if we quit corruption including corruption of the spirit; if we quit shackling initiative and stifling thrift; if we quit the tyranny of bureaucrats and pressure groups and special interests; in a word, if we quit aborting the American way of life the future is rich with cheer. I take it, Mr. Chairman, that we have a mandate from the American people not to quit ourselves until all the rest of the "quitting" is accomplished.

U. S. Position Splendid

America has the resources. It has every element for a great and wholesome prosperity. It has this great chance. I sometimes wonder if our people fully realize their relative blessings, particularly when they allow themselves even temporarily to flirt with alien lures or with the phobias of some of our high-faluting domestic crackpots and fellow travelers or with the melancholy nonsense of such distinguished, so-called "liberals" as the top agitator of them all who warned us in 1945 that we would have from six to eight million unemployed in 1946. Let me give you an exhibit which points a moral to adorn this tale.

At the last General Assembly of the United Nations, we had to allocate to each of the 55 member nations its share of the annual budget on the basis of relative capacity to pay. Experts presented an intensive study of the subject and said the United States has 50% of the total income capacity of all these 55 nations.

I fought the accuracy of this study as a basis for assessments. But I said to my Soviet colleagues and his satellites: "If our economic system is so good that 5% of the people of the earth have anything like 50% of all its income capacity, then our economic system ought to be made mandatory for all members of the United Nations so they can catch up with us."

That rankled for about 10 days. Then I got this public answer from my Soviet colleague: "You have put the wrong interpretation on these statistics; they do not testify to the superiority of your economic system; they simply reflect the fact that not one bomb fell on America in World War I and not one bomb fell on America in World War II."

Mr. Chairman, we both were right. On the one hand, it is very necessary for us to remember that, despite all our tremendous sacrifice and loss in the war, we were mercifully spared the physical destruction which made a tragic shambles of countless Allied areas — and we are not through with our war responsibilities until we have cooperated in their recuperation.

On the other hand, if, even in the presence of these dislocations, the United States, with 5% of the earth's population, has even 40% of the world's income capacity (and that is the temporary figure finally certified), our system of free enterprise and free men is demonstrated to be the best on earth. We would be fools to desert it in any respect. It must be faithfully nourished and maintained. And that is what the American people said with their ballots last November. And that is our Republican job.

Now, my fellow countrymen, this calls, first of all, for peace—and I mean peace at home. With this tremendous heritage, it is sheer public suicide for labor and capital to be ever at each other's throats; and it is wanton neglect of the public welfare, including the true welfare of every man who toils to longer ignore the need for rational progress in the law respecting labor-management relationships. I hasten to say that the surest improvements will be those which flow from voluntary agreements and from mutual acceptance of the axiom that in the long run capital and labor will sink or swim together. Their destiny is indivisible.

Wants New Labor Law

But some new law seems unavoidably required — not in a punitive spirit of revenge because of recent threats to the whole national life, but in a spirit of prudent preparadness against a repetition of evils which must end for the common good, including the good of healthy organized labor itself.

I am thinking, for example, that strikes against the government or summary strikes against public health and safety, like any other civil rebellion, cannot be tolerated; that jurisdictional strikes and secondary boycotts must stop; that unions must be made as effectively responsible for the integrity of contracts as are their employers; that the new monopoly—power of labor leadership—must be tempered with greater rank-and-file democracy; and that violence and force must be as illegal here as in every other phase of life under law in America.

I would protect labor's total right to free collective bargaining—on a two-way, fair-play basis—to the last ditch. I would not retrogress one inch. But free, collective bargaining will be the more impregnable when it is reasonably mutualized and when it is purged of the excesses which cost it so heavily and so dangerously in popular good-will.

I would seek for labor the highest practicable wage. Our national economy requires it. But I would recognize the fact that high wages must be accompanied by high production or high prices will continue to nullify the net gain and will pyramid to ruin for all concerned — despite reliance too often on fanciful, deceptive, self-serving statistics to the contrary.

I should like to hear an authentic labor voice in the United States saying what the seasoned President of the British Trade Union Congress recently said: "We shall have to re-examine many union trade practices where they tend toward restriction on production."

"If high real wages—high purchasing power for workers — is the goal, our own leadership must preach the gospel of high production."

Favors Flexible Profit-Sharing

In view that way lies high wages, low prices and a minimum of friction. Then if you will add a constant study of the flexible "profit-sharing principle" — despite its complications and its difficulties—and it we may reduce work stoppages to a minimum, we may find the greatest good for the greatest number, and we can here perpetuate free enterprise for free men under an economic system which is the envy of the "common man" all round the globe.

The advantage, to say nothing of the joy, flowing from the current lull in industrial strife—compared with 113,000,000 man-days of idleness from this source last year—is a stimulating sample of the universal importance of pursuing these objectives to the last attainable degree.

Now, Mr. Chairman, let me repeat my theme. The people have told us with their ballots that they want this system nourished and maintained, and this is our Republican job. There can be no doubt this means the earliest possible termination of all war controls — with rare and temporary exceptions where supply lags far behind demand.

It means the utmost voluntary restraint in pricing lest shortsightedness invite consumer reprisals. It means the maximum demobilization of bureaucrats and overlords. It means that "red tape" must be fought as relentlessly as "red ink." It means aggressive social progress without State socialism—and nowhere has this possibility been better demonstrated, as in public health, than right here in Michigan.

It means the vigilant preservation of free competition against monopoly. It means a chance for "little business" as well as "big" and certainly it means sleepless battle against the poison of imported subversion which gnaws not only at our livelihoods but also at the very foundation timbers of the republic.

It means also an end to waste and extravagance in government; and end to the morass of deficit spending; a beginning of sound fiscal policy which reduces expenditures, public debts and taxes—each in its own time and place.

Federal Debt Needs Trimming

The President's budget of $37½ billion is timid medicine. It requires major surgery. It would mean that in our third post-war year we shall be spending 38% of our wartime maximum.

By contrast, in the third post-war year after World War I, expenditures had fallen to 19% of the wartime level. Further, the proposed $37½ billion expenditure compares with only $13 billion in the last pre-war budget of 1940 and is four times our budget in 1939.

Such comparisons make a mockery of the President's budget, and suggest a congenital hangover from the reckless New Deal yesterdays when a dollar too often was just something to print instead of something to earn.

The Republican pruning knife is out and sharpened. It must not cut, at the expense of adequate national defense during this critical era when there are still great powers which think only in terms of force. It cannot cut at the expense of our veterans. It must not be Shylock's knife.

But it can and it must cut at the expense of every dispensable expenditure in the vast and still swollen Federal machine. The benefits must go, first, to a reasonable reduction in the public debt which is a priority mortgage upon everything that any of us own or hope to own; and then it must go to reasonable relief for the hard-pressed taxpayer particularly in the lower brackets where the increased costs of living have imposed a particularly cruel burden.

Republican administration cut the national debt 40% in ten years after World War I. Republican administration also cut the people's taxes. Yes, and it is significantly worth remembering that every time the rates went down the resultant revenues went up.

Predicts Return to Sound Fiscal Management

I venture the belief that the country this year will enjoy sound fiscal management for the first time in 14 prodigal years.

Now, Mr. Chairman, I should like to submit a few swift paragraphs on a few other matters before coming to my final and most important theme of all.

I should like to say that the Republicans in the Senate have insisted upon maintaining the famous "Truman Committee" for the impartial and implacable investigation of war frauds despite the united opposition of our political opponents who sought to detour this chastening justice into other hands.

It is my view that the American peole want a complete and relentless audit of the $400 billion spent in the war years; and one of their mandates to us is to see that the guilty, if such there be, shall not escape the retribution due those who took illicit toll of our sacrificial flesh and blood. That's what jails are for.

Portal-to-Portal Outrage

Then I should like to say, Mr. Chairman that we intend to do something about this scandalous "portal-to-portal" outrage which violates every American concept against *ex-post-facto* laws; which abuses the legislative intent of Congress, not a man of whom remotely contemplated any such perversion when the Wages and Hours Act was passed; which threatens the solvency of many a business and the jobs of its employees—to say nothing of the Treasury of the United States.

Imagine what labor would say if the courts, in a reverse situation, were to find some excuse for employers to go back over the years and recapture some of the wages paid upon jobs long since finished and forgotten. The principle of the thing cannot be allowed to stand if any sort of a stable economy is to save America.

Again, Mr. Chairman, I should like to say that it is the Republican purpose at this session to initiate studies which shall lead to a liberalization of coverage and benefits in old-age insurance on a pay-as-we-go basis. This involves elementary, humane and decent fair-play for those who are passing into sunset years which must not be poor-house years.

I should like to say that we are urgently seeking ways and means to straighten out the housing mess.

Also I have no doubt that we shall enthusiastically give the Michigan Legislature a chance to enthusiastically approve a constitutional amendment enthusiastically limiting the Presidency to two terms.

Then, Mr. Chairman, I should like to take this opportunity to make one other suggestion to the Legislature. I wish it might make it a little more dangerous for irresponsible mud-slingers to rape the truth in our political campaigns. I speak out of personal experience.

Last fall, the CIO-PAC put out a vicious, race-baiting circular in Detroit which accused me of being a a leader against anti-poll tax legislation, against anti-lynching legislation, and against the FEPC—although I have consistently supported all of this legislation, without a break, from start to finish.

It was an unmitigated lie. Probably it did no harm. That is beside the point. It was a filthy fraud upon the electorate. To the credit of some CIO leaders with whom I have discussed the matter, I hasten to say they agree that any such bald perversion of facts ought to be stopped.

I do not mean these were the only offenders. There are plenty of others on all sides. Nor would I for an instant curb free speech. Nor would I fail to realize that certain latitudes of the imagination are a traditional part of our campaigns. But for the sake of decency and honest elections I wish you could find a way to put deliberate, self-confessed political libel and slander out of business.

And now, Mr. Chairman, I come finally to the subject dearest to my heart and to the heart of the nation and the world. I speak of something which utterly transcends politics. I speak of peace. I speak of stopping World War III before it starts. I speak with what I hope is justified pride in a record of Republican cooperation which has done its full part in making possible united American foreign policy in pursuit of peace with justice in a free world of free men.

If republicanism is true to its best instincts this cooperation will continue to the last, practicable degree.

"No Nation Can Defend Peace Alone"

None of us can face the facts of life and deny to science the grim and sanguinary credit for such progress in the bitter arts of cruel mass destruction that another total war—measured perhaps in minutes instead of months—would almost literally consume the earth. Time and space and distance no longer matter. Pearl Harbor ended one era. Hiroshima began another. Therefore, none of us can face the facts of life and deny that no nation hereafter can defend its peace alone. The peaceful nations of the world must defend their peace together.

They must covenant in advance against the aggressor of tomorrow. In our own enlightened self-interest, we have helped to build the United Nations, and, for the sake of our own children, we must give it all our strength and all our prayers.

I have no illusions regarding its sufficiency. It needs growth, improvement and power. But neither have I any illusions regarding its indispensability.

Already it has tempered many a situation which, under the old order, could have flamed into the raging prairie fires of conflict. It is the world's "safety valve," so long as it works, the world's boilers will not blow up. So long as we keep controversy in the council chamber it will not graduate to battlefields.

Under the auspices of the United Nations we hopefully approached the beginnings of world disarmament. Our own American position is clear. We shall not disarm alone. We shall trust no example. We shall not repeat our mistakes of 25 years ago.

We shall take no "sweetness and light" for granted behind the "iron curtain" which still blacks out great sectors of the earth. We do not intend to be at anybody's mercy; nor do we intend to emasculate our authority with those who still think in terms of force. But we will joyfully match the utmost limits of disarmament to which other great powers will go, if there be summary disciplines which guarantee against bad faith.

I repeat, however, that this cannot happen in ambush or on a one-way street.

So, too, with atomic bombs. We monopolize the secret for yet a few more years. In the greatest exhibition of international goodwill since time began, we are prepared to abandon this advantage, if, as and when all the world is prepared to outlaw the destructive use of atomic energy for keeps; if, as and when the renunciation is protected by totally and provable competent inspections and controls; if, as and when the world in general—and Soviet Russia in particular—agrees to swift and conclusive punishment which shall stop treachery at its source. This is our price; and the "price" must be paid. We shall not trust alone to fickle words. Too many words, as at Yalta and at Potsdam and in Poland at this very hour, have been distorted of all pretense of integrity. We ask nothing for ourselves. We ask everything for peace.

The record, Mr. Chairman, stands clear. We plan no conquests against any other power on earth. We are no shadow of a threat to any peace-loving land. We shall no longer condone or appease the conquests of others. We shall maintain maximum national defense until alternative reliances prove their dependability.

There are deadlines or our ideals which all the world must come to know we shall never again desert. To this end, we must always say what we mean and mean what we say. We will live in this world of rival ideologies, if we are allowed to do so.

Collective Security Goal

For the sake of all these objectives, Mr. Chairman, we must faithfully sustain all sound efforts, both economic and political, to make collective security succeed through international cooperation, international law and wrecked and mangled world.

Anything less would be treason to our own self-interest. I hope we shall make it plain to an earth which craves our moral leadership that no change in American administrations will dilute these fidelities. As an American first, and then, as a Republican, for myself, I take this pledge.

Ladies and gentlemen of the convention, it has been a great joy for me to have been able at long last to come back to home, sweet home with these greetings to my fellow citizens who have been so generous to me in my absence. I congratulate Republicanism upon its reborn vigor and vitality. I congratulate you particularly upon your magnificent sweep of victory in Michigan. I congratulate Republicanism upon its opportunities and then upon its destiny when we "make good."

Soon we shall be celebrating our dedication to the memory of the greatest of all Republicans, the immortal Lincoln, on the approaching anniversary of his birth. If we may catch some measure of his spirit, of his dedication, and of his pattern, we can deserve the good opinions of mankind. God willing, it is our great chance.

Bureaucracy Trend Toward Collectivism

(Continued from page 873)

them in 1787 by the lawyers who made up the majority of the convention which drew the Federal Constitution. Of the 55 delegates who attended that immortal session, 34 were lawyers. Ten of them had been judges, and they all went to Philadelphia not to serve the interests of groups or classes, or even geographical sections. They went there to frame a new government in the interests of all. When these men drew the preamble of the Federal Constitution, they were not thinking in terms of special groups or of class government. They were thinking in terms of the people as a whole. They were thinking of justice for all individuals. They were thinking of domestic tranquillity, of the common defense, and of the general welfare. They sought to build a government that would, in their language, "secure the blessings of liberty to ourselves and to our posterity." They were thinking, therefore, of individuals. They were thinking of the men, women and children who at that time constituted, and who in all the days to come continue to constiture, the people of this great nation.

If we who are the lawyers of this generation, following in the footsteps of these great predecessors of ours, are to preserve the ideal of government which they cherished, we shall have to begin by re-dedicating ourselves to the great cause in which they served, namely, the cause of free government. And our first task will be to determine why it has come about in our generation that the principle of free government has been giving away steadily to the principle of authoritarianism.

I know of no nobler task to which the modern lawyer can dedicate himself than this. The rising tide of collectivism threatens to engulf the whole world. It will engulf us here if we do not understand the cause and go immediately about the task of applying the remedy.

Drift Toward Centralization

Centralism in government has markedly increased in our time, not alone in the totalitarian states, but in countries like Great Britain and this, the people of which are still absolutely loyal to the principle of popular sovereignty. It was a British lawyer who many years ago wrote a great book on the development of administrative law under the title, "The New Despotism," for he recognized that government bureaus tend to develop arbitrary powers. The same theme was adopted here by a great American lawyer and a member of the House of Representative in his volume which he called, "The Wonderland of Bureaucracy." Both of these books were written long before the New Deal, a fact which I casually mention in order that it may be clear that the development of centralism in the United States is not to be charged against any particular party or individual. Administrative bureaus in government, more of which are being suggested even now by the members of the 80th Congress, like national labor unions, are the result of the appearance of national and international business corporations. Indeed, it is not too much to say that the modern business corporation is the most significant single social institution of our time.

I speak not of the corporation which is managed and owned by the same individuals, but of the corporation which is owned by one group and managed by a small group of experts who usually own but a fraction of the corporate stock. Such an institution, in truth and in fact, is a collectivist economic state, because it is the organization of the collective capital and the collective labor of thousands, and sometimes hundreds of thousands, of individuals under the leadership of expert managers who themselves are not the owners of the property they handle.

To say this is not to attack such a corporation. To say it is not even to suggest that corporations of this character are not beneficial. Quite to the contrary. It is not too much to say that the United Nations would have had difficulty in crushing Germany and Japan if it had not been for the giant American corporation. It was the industrial power, the productive capacity, the genius of accomplishment of these giant corporations that made it possible for us to arm ourselves and all our allies. Surely that should not close our eyes to the fundamental fact that the modern industrial corporation is utterly and completely different from the enterprise which is carried on by a man in his individual capacity with his individual capital and his own individual operating skill. It is the difference between collectivist activity and individual activity. Our troubles stem largely from the fact that the public does not comprehend the difference between the corporation which is managed by its own owners and the corporation which is owned by one group and managed by another. The latter bears much more resemblance to a government operation than does the former, and if it is our purpose to preserve the system of private property, that is to say the capitalistic system, it is of the utmost importance that we should comprehend the narrow margin which separates the giant collectivist economic state of the modern world from the authoritarian political economic state which threatens the very basis of human liberty.

Growth of Business Corporation

Public comprehension of this basic fact has been slowly taking form. As long ago as 1929, President Herbert Hoover established a special research committee on social trends. The chairman of that committee was the distinguished economist, Dr. Wesley C. Mitchell, under whose editorship a report was published during the closing year of President Hoover's administration.

One of the most significant chapters of this work was written by Dr. Charles E. Marion, in which the economic powers of certain corporations were compared with the economic powers of states and cities, as measured by their revenues and the number of their employees.

This chapter showed that in 1930 New York City, which enjoyed the largest gross revenues of any political organization in the country, except the Federal government, did not enjoy the revenue of the Pennsylvania Railroad System, General Motors, the Great Atlantic and Pacific Tea Company or the United States Steel Corporation. In that year New York City, with 86,509 employees, had revenues amounting to $611,571,000. General Motors, however, with 172,938 employees, had revenues exceeding $996,000,000. The Atlantic and Pacific Tea Company took in more than $1,000,000,000, and United States Steel more than $1,200,000,000.

That was in 1930. In 12 years, General Motors had taken first place from United States Steel. The number of employees had increased from 172,000 to 314,000, and its revenues had jumped from $996,000,000 to $2,250,000,000.

In 1942 the State of New York had reached a higher rank in terms of revenue than the City of New York by about $6,000,000 ($720,306,000 for the State as against $714,653,000 for the City). Yet it was still outranked by corporate giants like General Motors, United States Steel, American Telephone and Telegraph Company, Great Atlantic & Pacific Tea Co., General Electric and the Pennsylvania Railroad System.

When some of these corporate giants are considered in terms of the number of their employees and the number of their stockholders, it becomes apparent at once, when the families of the employees are taken into consideration, that they are economic states, sometimes with what may be called an industrial population of more than one million persons. Every one of the so-called billion dollar corporations, about thirty-four in number, is more wealthy and powerful than most of the soverign states of this Union and practically all of our cities. In other words, the modern industrial corporation, which, as I said before, is the foremost social institution of our time, has become so great that it can match resources even with governments. Only this week the newspapers carried the account of the filing of a suit by a citizen of the United States against an American oil company operating abroad for the recovery of some six million dollars on the ground that the plaintiff had succeeded in transferring from the corporation to the government of Great Britain an obligation which otherwise the company would have had to bear for the support of King Ibn Saud. That the line of distinction between industrial enterprise and political government is becoming vague is illustrated by the story of the operation of American oil companies abroad. The political hazards they must encounter, the tremendous expenditures they must make, the municipal services they must provide for their employees and for the inhabitants of the area in which their enterprises are carried on, are so great that they frequently pool their resources and enter upon joint ventures that are as far beyond the capacity of individuals to carry on as an airplane in the stratosphere is beyond the ken of the mortals walking upon the surface of the earth.

To think of such organizations as though they were individuals is a fundamental error out of which stems the confusion that makes our age so turbulent. Although the modern industrial organization is actually more like a government than it is like an individual, we treat it as though it were an individual. We think of it as having the privileges and rights of an individual, whereas every lawyer knows that a corporation is a creature of man, while man is a creature of God. No corporation can come into existence save by permission of some government. But man makes the government which makes the corporation. In our time the corporate creature has been more powerful than its human creature, and the failure of the lawyer and the politician has been that he has been unable to develop the formula by which the creature shall be kept in proper relation to its creator.

Failure to comprehend this distinction and to provide the rule of order by which the modern economic state shall be made, as the political state was made by our Federal Constitution, a servant of the people, has led directly to the appearance of totalitarianism.

Arbitrary Economic and Political Power

When the business and political leaders of Europe failed to solve this, the greatest question of our time, and the people of Europe were unable to support themselves because they no longer had control of the economic instrumentalities by which the modern world lives, they turned to central government for relief. They listened to the false preaching of Lenin, Mussolini and Hitler, and gave to the political state arbitrary power over themselves as well as over the economic system, with the appalling results that were written in the blood of 34 million people from 1939 to 1945.

Some of us act now as though World War II were like last year's Army-Navy football game, a contest that is over and done with. We seem to cherish the fond hope that we can revert to some vague "normalcy" and go on about the business of living without coming to grips with the most important fact of our time, namely, that we no longer are living in a world of individuals, but in a world of organizations, and that there can be no solution of our problem until we find a rule by which these economic organizations, whatever they are—corporations, trade associations, labor unions, organizations of consumers, pressure groups of every kind—may live together in understanding and mutual helpfulness for the benefit of all the people.

One of our mistakes has been the effort to proceed by way of punishment for abuses instead of encouragement of the obvious good that proceeds from this type of organization. There are abuses in modern industrial organization. There are corporate abuses and labor union abuses. Racketeers in their time have sought to use both types of organizations for narrow and small personal and selfish aggrandizement rather than for the public good. But despite these blotches upon the body of modern economic organization, no one can doubt that both the corporation and the labor union have been productive of vast benefit to the social system. The modern world would be impossible without these organizations. It is just as great an error to destroy the labor organizations as it would be to try to destroy the corporate organization.

We can not go back to the time when our economic life was the product of the capital and the labor of a few men under a system whereby the worker could talk personally with his employer, and both could move on to new geographic frontiers when thoroughly dissatisfied with the conditions they were enduring. The frontiers of this generation are in the field of technology and science, the great blessings of which cannot possibly be developed for mankind except through economic organization. It follows, therefore, that we have no alternative but to write a rule of responsibility for the new social institution which is the mark of our time, the organization, corporate or otherwise, by which groups of men act together. If we believe, as the lawyers who wrote the Federal Constitution believed, that the people are the source of all authority that may be exercised over them, then we can not possibly be willing to endure a condition by which a handful obtain the power to wield these modern agencies and the masses are compelled to endure whatever conditions may be imposed upon them.

We must open our eyes to the fact that the large corporation, the national labor union and the government administrative bureau are all aspects of the same development. The large corporation was necessary because otherwise mankind could not use the great instruments invented by genius and discovered by science. The national labor union was necessary because otherwise the workers who could no longer negotiate with the owners of the enterprises for which they labored, would have been unable to safeguard their just interests. The government administrative bureau was necessary because, as the new economic organizations spread beyond local boundaries, crossing mountains and rivers and spanning the whole country, it was no longer possible for local governing authority to regulate them in the public interest.

Centralization and Collectivism

Thus the powers of the city and the state have been steadily diminishing, while the power of the central government has been steadily expanding. As it expands, collectivism spreads from the economic sphere to the political sphere. We see it all around us. We see political collectivism stretching out to embrace all Europe. We see Socialism taking over the government of England. We see great industrial enterprises which we like to call private enterprise though they are in fact collectivist enterprises, taken over by the government of Great Britain. We know that of all the great nations of the world only the United States still adheres to a belief in the capitalistic system. If it is to survive, then it follows that we in the United States must make it survive. That, I think, is the task of the lawyer; the lawyer whose function has always been to make as well as to interpret the rule of social order. The lawyer fills our legislatures and our Congress, just as he filled the Constitutional Convention, and if the modern lawyer believes as his predecessor believed, that the people are the soverign masters, then he will undertake now to help save the capitalist economy by helping to write the rule under which the managers of all modern economic organizations are made responsible to the people.

This rule can only be written by the Congress of the United States, which in the Federal Constitution was given explicit power to regulate all commerce among the states and with foreign nations in the interests of the whole people for whom that Constitution was written.

Indirect Benefits of Service Charges to Banks

(Continued from page 866)

The question may be asked: "Would the earnings of member banks shrink on the average by 4% if the service charge on deposit accounts were discontinued?" The evidence suggests that a categorical answer can be given to this query, viz., the operating income would shrink by much more than that percentage. Unquestionably the most important elements which bank officials should take into account when evaluating the dollar and cents contribution of a service charge plan are the *indirect* effects of such plan on the income and net profits of the bank.

It is well known that the elimination of service charges on deposit accounts would result in a much larger volume of checks being written against existing accounts, but also that the operating expenses entailed in the handling of this extra burden would not rise by any proportionate amount due to the fixed nature of many of these costs. On the other hand the elimination of the service charge would automatically dispense with the costs involved in its administration. Setting these cost changes in juxtaposition in context is not intended to suggest, however, that they necessarily offset one another.

It is also recognized that the elimination of the service charge would be accompanied by an influx of numerous small accounts. These deposit accounts would be opened by people whose financial means are such that they have been deterred from obtaining the advantages of a checking account by the relatively small financial burden imposed by the present service charges. Taking into consideration the extra cost of servicing these new accounts, the current difficulty in putting funds to work, and the extremely low interest rates now prevailing, most bankers would probably agree that these new accounts would not be self-sustaining.

Would these favorable and unfavorable factors cancel out? The paucity of data on these particular indirect effects make it impossible to give a conclusive answer. Evaluating these factors as a group the error would seem to be on the side of conservatism to say that they approximately cancel out. It seems very probable that for member banks as a group the unfavorable factors predominate, i.e., the alteration in costs and revenue associated with these particular indirect effects would result in a net shrinkage in profits if the service charge were removed.

But the most important indirect result of the service charge from an earnings standpoint is the effect which the removal of the charge would have on the total volume of existing demand deposit accounts.

This statement is based upon the observed close connection between the volume of a bank's deposits and the volume of its earning assets. The above statement is also based upon the assumption that many depositors, where the accounts are owned by individuals, rather than receive nothing on deposit balances would convert a considerable proportion of these balances into various types of earning assets other than time deposits.

The service charge on deposit accounts provide, to a greater or less extent a successful deterrent to such an eventuality, since by retaining relatively large balances (balances much larger than the price level and the volume of payments which it is convenient to pay with checks would require) customers avoid, or minimize, these service charges and thereby earn in effect a return on these deposit balances.

A withdrawal of deposits from member banks at the present time would force most of these banks to dispose of an approximately equal volume of their earning assets, since the volume of excess reserves in the system is relatively small. During the first half of 1946 these excess reserves amounted to approximately $1 billion.

Such a forced liquidation of assets would not, however, be compulsory with all banks. The small non-member country banks in Kansas, for example, now possess a larger volume of excess reserves than they held even before the war. It is probable that these banks would meet such deposit withdrawals by simply drawing on their excess reserves. But this situation can be considered typical even for non-member banks in other states.

It seems reasonable to assume that the shrinkage in existing demand deposits which would accompany the elimination of the service charge would be almost wholly confined to those accounts owned by individuals. It therefore becomes pertinent to determine the volume of these accounts and to make some estimates of the extent to which they would be withdrawn.

The November, 1946 "Federal Reserve Bulletin" reports that personally owned demand deposits for all insured banks amounted to approximately $27.6 billion as of July 31, 1946, or 35.6% of all demand deposits of these banks (excluding governmental and inter-bank deposits and items in transit). Assuming the same percentage is applicable to member banks a figure of $21.7 billion is obtained as the estimated personally owned demand deposits in these banks as of June 29, 1946.

What would have been the volume of these individually owned demand deposits in the absence of the service charge? An admittedly very crude figure was obtained by the following procedure: (1) estimating the volume of personally owned demand deposits for the most recent period possible which was still relatively free from the influence of the service charge; (2) projecting this figure down to the middle of 1946; and (3) subtracting this latter figure from the estimated volume of such deposits in member banks as of June 29, 1946.

The date selected for the first figure was Dec. 31, 1938, and the figure estimated, based upon data in the May, 1940 "Federal Reserve Bulletin," came to $5.1 billion. This amounted to 25.0% of all demand deposits (excluding governmental and inter-bank and items in transit) in the member banks as of that date.

In projecting this figure to June 29, 1946 it was assumed that two factors would be controlling: income payments to individuals, and wholesale and retail prices. It is recognized that many other factors determine the volume of demand deposits held by individuals including: changes in preference as between currency and checks in effecting payments, changes in the number and age distribution of the population, changes in expectations as to income payments and prices, alterations in opportunities to invest funds, rates of interest prevailing, etc., but it was not believed that these factors were of a controlling nature for the relatively short period under consideration.

In view of the fact that income payments to individuals (on an annual basis) have risen by about 124%, wholesale prices by about 58%, and the cost of living by approximately 41% (Bureau of Labor Statistics figures) from the end of 1938 to June, 1946, it did not seem unreasonable to conclude that demand deposits held by individuals, in the absence of the service charge, would have risen by more than 100%.

If this assumption is accepted the projected figure for individually owned demand deposits in member banks as of June 29, 1946 becomes $10.2 billion, or a decrease of $11.5 billion from the estimated figure of $21.7 billion as of that date.

It does not follow, however, that the removal of the service charge, even if it resulted in a drawing down of personally owned demand deposits by this amount, would cause an equal reduction in the volume of earning assets. This process of withdrawing deposits (where the deposits are not being converted into cash) creates excess reserves in the system and these could be used to meet a part of these withdrawals. If therefore, deposits were reduced by any such figure as $11.5 billion, the net decrease in earning assets would need to be only approximately $9.86 billion (using a weighted average reserve ratio for the system of .16).

It is also reasonable to assume that if banks were forced to disgorge $9.86 billion of earnings assets for the above reasons, they would dispose of their lowest earning assets, viz., government obligations.

During the first half of 1946 member banks earned an average return of 1.45% on these investments. Sale of the above amount of governments would (on a six month basis) result in a reduction of operating income of $72,507,000. This represents 6.1% of their total operating income of $1,175,000,000 reported for this period.

In other words the estimated *indirect* loss in income due to the abandonment of the service charge would be over one and one-half times as great as the loss of income *directly* attributable to it. The total estimated loss in income for this period, both direct and indirect would be approximately $119,507,000 or 10.1% of the operating income of these banks.

The effects on net profits would be even more salutary. Net profits of member banks in the first six months of 1946 were reported at $429,000,000. A loss of the above magnitude would amount to 28.0% of these profits.

It may be concluded, therefore, using the most conservative of estimates, that the *indirect* importance of the service charge to the earnings of member banks is even more important than the earnings directly attributable to it, and that the abandonment of service charges would cause a loss to the banks of more than one-quarter of their net profits.

Ver Meulen Co. in Racine

RACINE, WIS.—Ver Meulen & Co. has been formed with offices at 523 Main Street to engage in the securities business. Officers are John W. Ver Meulen, President and Treasurer; Geneva Ver Meulen, Secretary; and John Wiechers, Vice-President. Mr. Ver Meulen was formerly with the Wisconsin Company for many years.

Charles Draper Dies

Charles Dana Draper, partner in the New York Stock Exchange firm of H. N. Whitney, Goadby & Co., and a former President of the Association of Stock Exchange firms, died of a heart attack at his home at the age of 68.

Cyril Helfrich Dead

Cyril C. Helfrich, head of the investment firm of C. C. Helfrich & Co., Allentown, Pa., died at his home at the age of 46.

Aftermath of the American-British Loan

(Continued from page 875)

on one side, always a somewhat comic version of the proceedings to those who ever knew Lord Keynes in argument.

But while, for the time being, we are thus in a position to meet our bills, we should be living in a complete fool's paradise if we thought that the situation was in any way satisfactory. The solid criticism of the loan agreement was not that the loan was too large, but that there was danger that it might prove too small. The march of events since it was concluded has done much to justify such fears. The exact figures of our current position, our present and probable future resources in hard currencies, have not been vouchsafed to us. But there can be little doubt that, notwithstanding the loan, our dollars are going to be very short and that we shall need all the effort we can muster, all the luck that we can hope for, if we are to get into equilibrium before our reserves have run out.

The Adverse Factors

Several adverse factors are responsible for this position. The rise in commodity prices diminishes the purchasing power of our dollars. Our external commitments are heavy. The German position, in particular, is a running drain on our scanty resources; we are using our precious reserves not merely on our own account but on Germany's. If it had been deliberately resolved anywhere to take measures which would involve the maximum difficulty to this country and confront us with the risk, either of financial crisis or of the curtailment of our area of influence, the situation which involves the continuation of uncertainty and unbalance in Germany could hardly have been better contrived.

These things are well-known. There is, however, another danger which perhaps is less apparent. We make no contribution to the solution of this problem if we sell our exports on credit or if they are paid for by drafts on existing sterling balances. When the balance of payments is adverse, only sales against hard cash bring advantage. To sell on credit or against inconvertible currency for which we have no use, or against our own past debts, is simply to fritter away our export drive in ways which bring no direct benefit. We are, in effect, handing over to others the benefits of the loan which we ourselves need so desperately. How far this is happening today it is not possible to say precisely. But it is clear from the trade statistics that a substantial proportion of our exports is going to countries with which our balance of payments is favorable; and it is by no means obvious that all the payment is likely to be in terms of money which is freely convertible and that none of it is merely the cancellation of past debt.

Argentine Settlement Dangerous

There is no easy remedy for this. The direction of exports to special areas is easier to talk about than to put into practice. It would be reassuring to learn that effective steps were being taken to prevent past sterling balances being used to pay for present exports; the Argentinian settlement involved a degree of open-handedness with our scarce hard currencies which, whatever may have been the justification in this special instance, would be highly dangerous if generalized. We must hope that the imprudence of lending or repaying past debts when we are still in external disequilibrium is constantly in the minds of those in authority. For the rest, we can only work hard, safeguard the policy of the export drive from the various perils which beset it, and trust that the new apparatus of international finance which has been so laboriously brought into being since Bretton Woods will soon begin to make available a general flow of lending to temporarily impoverished areas. A series of untied loans to the countries with which we have a favorable current account would lend powerful aid to our position.

Beyond all this, however, there are further rocks to be negotiated. We cannot hope for an indefinite prolongation of the present vacuum in the international market for exports. Whatever the likelihood of an immediate setback, I see no reason to expect prolonged depression in America. Public opinion in this country is still so obsessed with the recollection of what happened in the inter-war years that it has failed to realize that public opinion in the United States may also be depression-conscious. If there does occur a setback in the United States, whatever party is in power I should expect massive action to be taken to put it right. But we cannot hope forever to have the market to ourselves; and, if nothing has been done in the meantime, there will certainly come a day when other countries are exporting too and when the obstacles to world trade which have accumulated in the last 20 years, will be a limitation on our further expansion. If this should be the case, then, even if we achieve our export target for the time being, we may find it difficult to maintain later on.

The remedy for this, I should have thought, was sufficiently plain. There is no way out by attempting to create a closed bloc against the United States. We have neither the means to make it acceptable nor the resources to carry on while it is in the process of formation. Moreover, if it were a question of creating closed blocs, it is not to be believed that the United States, with her almost limitless capacity to lend and to subsidize, would remain quiescent; and it is not pleasant to think of the damage to the political equilibrium of the world which might follow from such economic warfare. The men who have urged this course have given bad advice, discreditable to their understanding and dangerous to our future wellbeing. Surely, the clear path of self-interest and common sense is to go forward with the policy which the present government has so wisely adopted: namely, to attempt by international agreement to secure the acceptance of an international code of good behavior which, while it provides exceptional escape clauses for those who, like ourselves, are in grave disequilibrium, provides at the same time for a general clearance which will make possible the emergence of a larger volume of world trade in the future. We need an apparatus which will permit to distressed areas the adoption of extraordinary safeguards, subject to rules which preclude their adoption by countries who do not need them. We need the formation of a club open to all who are willing to accept its obligations, which will guarantee to each of its members the enjoyment of clearances freely negotiated in return for equivalent concessions. It is a reflection of the extent to which for the time being we have lost our sense of proportion that such a policy should be continually subject to denigration and belittlement. Far from being a hindrance to our recovery, it is, in fact, the main hope of our regaining once more some sort of long-period equilibrium.

Bond Prices as a Stock Market Forcaster

(Continued from page 862)

To bring us back to more recent developments, the bond market turned down in February of last year and completely ignored the fact that the stock market kept going higher. Stocks made their average top at the end of May, 1946. It is most significant that at that time **bonds had been in a down trend for four months** and once again forecast the direction of the stock market as the September-October break of 1946 has passed along into history.

Currently the bond market made its low in October of 1946 and kept steady at a slightly higher average level throughout November. It showed a decided improvement in December and closed on January 31, at its best prices for the month and higher than any time since last September. This behavior indicates a reversal in the down trend of 1946—the beginning of a minor up trend which could very well be the beginning of another major up trend.

In our opinion it has already progressed far enough to anticipate a higher livel for security prices during most of 1947.

Date	Trend of bond market	Trend of stock market	Approximate percent
Winter, 1902	down	declined	40%
Spring, 1904	up	advanced	110
Winter, 1905	down	declined	47
Spring, 1908	up	advanced	90
Summer, 1909	down	declined	28
Spring, 1911	up	steady	
Fall, 1912	down	declined	22
Spring, 1914	up (war)	declined	
Spring, 1917	down	declined	35
Fall, 1918	up	advanced	50
Fall, 1919	down	declined	50
Winter, 1921	up	advanced	50
Fall, 1922	down	declined	15
Spring, 1928	down	advanced	90
Winter, 1929	up	declined	59
Fall, 1931	down	declined	65
Summer, 1933	up	advanced	150
Summer, 1937	down	declined	50

*Market closed because of World War I.

Digressions

From 1902 to 1928 there seemed to be only one digression from the formula and that took place in 1914. This being the year of the outbreak of World War I, we may consider it an honorable exception.

With respect to the two complete failures, the first of which took place in 1928, we must resort to specious arguing and farfetched reasoning to find a proper apology for lack of the bond market's prophetic ability. The background was as perfect as it had been before; the trend of bond prices had been up in a steady line from 1924 and accurately had forecast the rising stock market swing which followed. Reference to the chart mentioned below, discloses that the stock market had advanced 150% when the bond market turned down in January of 1928. Hence, one would have every logical reason to assume that (1) the bond market had been an accurate forecaster before, and (2) the stock market had advanced so much, it certainly was overdue for a reversal. What actually happened is stock market history.

The stock market average which already had advanced from 85 to 220 kept on going up, on up, through 1928 and 1929 to 380!! How can one rationalize this performance? When your automobile exceeds the speed limit, either a red light or a traffic cop may slow you down but when the man driving the car is drunk in the bargain—sees neither danger signal nor traffic cop and keeps on going faster and faster—ultimately and inevitably he is bound to meet his destruction!! Of course we know that bonds were sold to buy stocks — that money rates were advancing because of the stock market inflation, etc.—all of which is no comfort for the man who follows automatic signals. Of course if he had the courage to stay out of the market during those halcyon days of 1928 and 1929 his patience was rewarded.

The second deception occurred immediately after the first one. The stock market had broken in 1929, in fact it had completely collapsed; then it rallied into the spring of 1930 and thereafter resumed its downward trend. Bonds, however, after having been in a bear market for two years, turned up in December of 1929 and continued in a fairly steady upward trend into the summer of 1931. Once again, the bond market was going in a diametrically opposite direction from the stock market. How can we explain this behavior? One apology could be that the bond index in turning upwards was anticipating eventual business improvement and that this business improvement actually was on the way but the sudden and unexpected collapse of the European economy and failure of a number of important middle-European banks knocked the underpinning from attempts at United States industrial recovery. In September, 1931, the bond market gave up the ghost and collapsed.

Ever since 1933, the bond market has resumed its previous role of security forecaster and to date, the record is once again as good as it was before 1928.

Favor 20% Tax Cut as Temporary Expedient

(Continued from page 874)

and taxes reduced at the same time, provided that "there be a sufficient will to reduce the Federal spending."

Individual Income Taxes

In recommending changes in individual income tax rates, the Committee said:

"Various ways of granting tax relief are possible. Our approach is guided by the considerations which we regard as most important for the economy as a whole.

"We recognize that an increase of personal exemptions and credits for dependents is a possible method. But we do not approve it, because:

"1. An increase of the exemption by $100 would reduce the revenue, at 1945 tax rates, by about $1.5 billion, and diminish the number of taxpayers by more than 3,000,000 persons.

"2. If the exemptions were increased by more than $100, the yield would be so greatly reduced as to preclude any further revision of the wartime income tax. . .

"The income tax has become the major source of Federal revenue. As such, it should apply to a large number of taxpayers. Any material increase of the exemptions would narrow it to a limited class.

"We regard it as highly important to ease the income tax burden throghout the range of incomes."

The Committee stressed that a most important task which can and should be undertaken now is a revision of the surtax rates. It pointed out:

"The present surtax bracket rate reaches 50% at $18,000. Of the next dollar the 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 more than two-thirds and the earner keeps one-third. The bracket rates reach nearly 77% at $70,000. Of the next dollar the individual earns, the Treasury gets more than three-fourths, and the earner keeps less than one-fourth.

"Taxation of this magnitude has definitely repressive effects upon incentives."

Recommended Tax Structure

The Committee recommended a tax structure which provides: (1) A top rate of 50% on taxable income of $100,000 and above; (2) A scale of rates on incomes below that figure adjusted to budget requirements. The Committee said:

"We propose to adjust the initial rate of this scale to the revenue need. Thus the smaller incomes would be in the forefront to benefit from expenditure reductions."

The Committee said that "as a temporary expedient, to the extent that the 1947-48 budget will permit," a percentage reduction in income taxes might be made—"with the understanding that it would be supplanted by the tax rate adjustments made in a general tax revision."

Assuming that Federal spending in 1947-48 could be kept at or under $32 billion, the Committee indicated, as one possible pattern for tax and debt reduction:

1. The existing tax law (if national income stays at $165 billion) would bring in $37.7 billion. If the scheduled reduction of excise taxes is suspended, the receipts will be $38.9 billion.

2. Hence, there will be a surplus of 5.7 billion—or, if the present excises are retained, of $6.9 billion.

3. A 20% reduction of individual income taxes would diminish revenues by about $3.3 billion.

4. Thus, there would be available for debt repayment a surplus ranging from $2.4 billion to $3.6 billion.

Concerning corporation taxes, the Committee said:

Corporate Income Taxes

"The present tax rate on corporation income is far above any rate imposed prior to the second World War. This is equally true, of course, of the taxes on individual incomes. We believe that there is good reason for seeking lower taxes on both corporate and individual incomes. However, with the budget at a high level, it is not possible to proceed simultaneously with a downward revision of both corporate and individual income taxes. Our reasons for giving the individual income tax the precedence have been given.

"We are convinced, however, that after there has been reasonable and substantial tax relief provided for individuals, similar treatment should be accorded to the corporate taxpayers. This is particularly important in the case of new corporations, and of rapidly growing companies."

On the reduction of excise tax rates, originally scheduled to become effective next July 1, the Committee advised caution — or "such additions and amendments to the excise system as would at least cover the loss occasioned by the rate reductions." The Committee explained:

"Excises afford greater revenue stability than do the income taxes. There must be some such offset to the drop in income tax receipts which is certain to occur with any slackening of business activity.

"Without setting a precise quota, we believe that the excises should produce a revenue yield of the general magnitude of one-quarter of the total tax revenues."

Members of the Committee on Postwar Tax Policy, in addition to Mr. Magill, are: Walter A. Cooper, certified public accountant and member of the U. S. Treasury's advisory committee on corporate income taxes; Fred R. Fairchild, Knox Professor of Economics, Yale University; Rowland R. Hughes, comptroller of the National City Bank of New York; and Thomas N. Tarleau, member of New York Bar and former Tax Legislative Counsel of the U. S. Treasury.

The background work in preparing the Committee report was done by a research staff under direction of Dr. Harley L. Lutz, Professor of Public Finance, Princeton University, who served as director of research on the project, and Alfred Parker who was associate director.

Problems of Distribution in 1947

(Continued from page 867)

dollar, but allowing for this, increases of 126% are out of line.

The only problem of merchandisers during the War years and during 1946 was the problem of getting goods. During the year 1945, Sears, Roebuck & Co. returned to its catalog customers $115,000,000 in cash, and in 1946 $250,000,000 in cash, for orders that we could not fill. In the catalog business, we have an exact record, but the figures quoted, do not include the business we lost in our 600 retail stores, because we have no record in these stores. Supply is now beginning to catch up with demand, and by the end of 1947 I believe that supplies will be adequate in most lines.

The War has brought large shifts in population—it has also brought many shifts in consumer buying. The shortage of labor and high wages have tended to mechanize the farm, the factory, the home and the kitchen on a scale hitherto unknown. Millions of city boys, serving in camps all over the country during their army days, have acquired a taste for travel, for outdoor sports. The recreation business (speaking in the broad sense) has a great future.

As an example of trends, take washing machines. Relatively few were sold in Southern cities prior to the war—the Southern woman, in both city and country, depended on colored women whose charges for laundry were very low. Since the War, this source of help has disappeared, the charges have sky-rocketed and there is a frantic demand for washing machines from householders in every city of the South.

Effect of Population Growth

In the various business analysis that I have read, I do not believe enough stress has been laid on the factor of population growth and its very great effect on business.

In the period, 1930 to 1940, the population of the United States increased at the slowest rate, percentagewise, in the entire history of the nation, and showed the slowest absolute increase in 50 years. In the six years, 1940 to 1946, the population growth was greater than in the whole period 1930 to 1940, and in the year 1946, we had the largest population growth in our history, an increase of 2,000,000 people. If our present birth rate continues at anything like the present rate, our population growth between 1940 and 1950 will amount to from 15,000,000 to 17,000,000 people. Picture what this means in terms of food, clothing and housing. Such an increase means that by 1950 our so-called farm problem will largely cease to exist, that instead of over-production, we will have to increase our factories, our machines and facilities of every kind.

To my mind, the greatest of the many fallacies enunciated in the 1930's by the New Deal was—that this country is a finished country, that there were no longer any frontiers—any new opportunities. This is still a young country, everywhere there are opportunities. To take care of this immense expanding population, to provide the tools for a high standard of living for our workers, will require immense amounts of capital for the next ten years, which must come from the savings of the people, and the reinvested profits of business. If our system of free enterprise is permitted to function, we shall have little unemployment, large production, large retail sales for a number of years. And all we need right now is a half-way efficent government, and some degree of co-operation between labor and capital—I believe both will come.

Importance of Reinvested Capital

If the masses of this country really understood the functioning of the free enterprise system, they would regard profits as desirable and not as immoral. The larger part of the tools and equipment needed to provide a better standard of living must come from reinvested capital. On the other hand, business men must learn that too large a part of profits must not go into dividends, but must be reinvested in the building up of their business and their country. English capital made this mistake and the results show in the general obsolescence of British industry. While profits are essential to the existence of a business, a corporation or an individual must look after the welfare of the employes and the welfare of the community in which his business is located. A corporation must make profits, but it must also be a good employer and a good citizen.

It was my privilege during the War to take five different foreign trips, two of them complete circuits of the globe, altogether 200,000 miles by air. I visited each one of the five continents, and every theatre of War.

On my return from each trip I was filled with renewed confidence in my own country. Nohere in the world is there anything like our Mississippi Valley and Great Lakes Region, with over 1,000,000 square miles of good soil, temperate climate and ample rainfall, with ample mineral resources, inhabited by an intelligent people, with standards of living and education far above that of any other people in the world.

Australia has almost exactly the same area as the continental United States, approximately 3,000,000 square miles. One-third of that area has less than 10 inches of rainfall, another third, has 10 to 20 inches of rainfall, about the same as our so-called dust bowl. The other third has the normal rainfall of the Temperate Zone but very little good soil. That country now has 7,000,000 to 8,000,000 people; the best authorities doubt whether it can ever support over 25,000,000 people.

I compared foreign factories with our own and saw how superior our machines, workmen and management, our know-how, were to theirs. The truth is, that no other nation in the world except Germany understood mass production and mass distribution, and Germany had a mere fraction of our resources. The productivity of American industry really won World War II.

God has given us the most wonderful country in the world. I have an abiding faith in the future of this country I cannot understand how any man of intelligence can fail to have this faith. We may have our ups and downs, we can see many uncertain times ahead of us, but if we renew our faith, do our part in the building of this great country, and in making it a better country, we will see it go to further heights, and we will be rewarded materially and spiritually.

Swedish Theory of Unused Resources

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put it very crudely, part of that investment will be financed not out of savings but out of new purchasing power. Thus, the total demand might increase if "investment exceeds savings." Wicksell stressed very emphatically what Keynes later on discovered, that decisions to save are made by quite different people from those who make the decisions to invest, and therefore there is no obvious reason why they should happen to decide to invest and save the same amounts.

It is true that we have a rate of interest, but it was easy to show that the rate of interest cannot be relied upon to equalize savings and investments. And so Wicksell came to concentrate on this question of what happens when savings differ from investments.

To explain that, one needs, of course, an account of a time-using process, and Wicksell therefore developed his now well-known "cumulative process of inflation." His pupil, Professor Lindahl, completed and revised Wicksell's work and directed attention to the changes in the demand for consumer goods which, to a certain extent, dropped out of the focus of attention in Wicksell's analysis. Lindahl analyzed already before the depression the effects of various kinds of economic policies on the aggregate demand and thereby on consumers' purchases, and indirectly on investment.

Then, in 1931, the Swedish Unemployment Commission asked a number of economists to write reports on what would happen if different kinds of economic policy were used against unemployment. These reports were published in the years from 1933 to 1935.

Method of Analysis

In dealing with these problems we soon found that there were certain theoretical problems that had to be cleared up. Obviously you can expand output and investment in a depression even though savings are very small. Well, how can you invest more if savings are small? Where do the savings come from? What is meant by saying that investment exceeds savings? After all, you cannot get capital goods out of nothing. You cannot make machines with banknotes. Where do the savings come from?

The solution of this problem was found through an analysis of the Wicksellian cumulative process where one used Professor Myrdal's convenient distinction between forward-looking and backward-looking, between an analysis *ex ante*—looking forward—and *ex-post*—looking backward—when you are looking towards a period that is going to begin in the future or is just beginning, and when you look back upon a period that is finished.

It was soon found that it was necessary to use a *period analysis*, because to explain a cumulative process you have first to *register* the events; you can date the events conveniently by saying this happened in that period and that happened in another period. So you have to have some kind of bookkeeping. You must keep track of *the sequence of events* if you are to explain them. You also have to consider the *time lags* between certain reactions. At the end of a certain period, you can see what has happened during that period; you can summarize it; you can close the accounts, so to speak; you can see what the incomes have been, what investments have been made, what the volume of saving has been.

Analyzing Expectations and Plans

But that, of course, is no explanation. An explanation must run in terms of factors that *govern actions;* and actions all refer to the future. Therefore, one must analyze expectations and plans for the future, which are the basis of action.

These expectations and plans are to some extent based on experience of what has happened during earlier periods, but as a rule, they do not seem to be related to experience in a mechanical way. There are, it is true, contracts, and there is the supply of productive resources — factories, machinery, etc.—that is brought over from the earlier periods. To that extent there are more formal connections, but there are also psychological connections of a different type. For instance, why do people plan to increase their purchases of consumer goods in one period over and above what they bought in the earlier period? Possibly because they expect larger incomes. Why do they plan to increase investment? Well, usually because they judge future profit chances more optimistically than formerly.

Evidently in this forward-looking analysis, we have the same total categories and concepts as in a backward-looking analysis. We have realized incomes and expected incomes. We have planned investment, planned savings and so on, just as we have realized income and realized savings in the backward-looking analysis.

It seems inevitable that a combination of the *ex post* and the *ex ante* analysis is necessary. We have to register the events during a certain period and then compare what has happened during that period with what people expected should happen during that period and then to study how the new expectations and plans are formed on the basis of this experience of the earlier discrepancies and on the basis of outside events.

Savings, Investment and Income

I shall not take time here to go into somewhat subtle questions of definitions of the basic concepts. Let me say only one thing, that when we look backward as to what has happened during a period, it seems most practical to define income in such a way that the volume of savings is equal to the volume of investment. I think this is a matter of convenience. Many people have preferred another definition, but to me one consideration always seems decisive. If I ask about a period that is finished, where did all the new real capital, the new buildings, machines, etc., come from that have been created, it seems to me natural to say: they have all been produced, and as they have been produced they have been part of income; they have not been consumed, because they are still there. So they correspond to a part of income which has been saved.

Therefore the most natural thing is to define these concepts so that when you look backwards, savings agree with investment. On the other hand, planned savings and planned investment need not, of course, be equal. If all people just together plan to buy more goods than people plan to sell, then *the plans cannot be realized.* For a purchase is also a sale. Behind this whole intricate discussion of planned savings and planned investment, and so on, seems to lie this simple thing. When the sum of all planned purchases differs from the sum of all planned sales, then you have this kind of discrepancy which has been more commonly expressed by saying that planned savings differ from planned investments.

After this brief indication of the character of the theoretical reasoning, let us return to the question: *Where does the capital come from when investment is increased in a period of recovery?*

Planned Savings and Investment

Let us assume that investment is stepped up but that nobody plans to increase savings—so far. What will happen? Well, the total sales will rise; more goods will be produced; wage earnings will rise also, even though wage rates may be assumed to be constant, to begin with. Wage earners will save more money or will consume less of their earlier savings. So long as they are unemployed they often live on credit or consume earlier savings; that is a negative item in the current savings account.

Evidently, the aggregate savings of wage earners will be increased. Furthermore, producers making unexpectedly large profits will save more than they had expected to save. At the end of a certain period, one will find that income has exceeded expected income and that savings have exceeded planned savings. But this is not the only force that — in a case where planned investment exceeds planned savings—makes for agreement between savings and investment, because one will often find that the total volume of new investment will have fallen short of what people planned. Commodity stocks will have been reduced, and this is an unintentional disinvestment, a negative investment through the reduction of commodity stocks. So even though people may have built the houses and the machinery and so on that they planned to build, yet the total addition to real capital will be found to have been smaller than people expected. The agreement between realized investment and realized savings has been brought about in that way too.

Many people may feel that all this talk—in quantitatively precise terms—of planned savings, and planned investment and so on is rather artificial. That may be so, but may I ask you to consider, for instance, the Marshallian supply and demand curves. I suppose all of us have been brought up on that analysis, and few of us could do without it in economic analysis. But have you stopped to think that the Marshallian demand curves assume that we know precisely how much butter we would buy if the price were so high or so high or so high. If we asked ourselves how much we would buy, we probably would not say it. But we have to assume a certain quantitative precision in these alternative consumers' reactions. I do not think that the violence towards reality that is done, neither in that case nor in the case I have mentioned before, is doing much harm.

Processes of Expansion and Contraction

What we are driving at in this analysis of processes of expansion and contraction is really rather simple. Let us put it this way: If total purchases are increased from one period to another, then an expansion is caused. The volume of goods sold goes up, or prices, or both. Now, purchases are either made for consumption or for investment. What makes consumers' demand rise? Either a decision to save less or an expectation of higher incomes. If people expect higher incomes they may buy more consumer goods, even though they do not decide to save less.

Obviously, if a fall in investment demand, which depends on profit expectations, does not offset the rise in the demand for consumption, then there will be an increase in the aggregate demand.

Similarly, if a decision to save less and consume more is not offset by a decision to invest less, then there is an increase in the aggregate demand. One can call it that planned investment exceeds planned savings, but one can also express it in the way I have just done, which is perhaps more straightforward.

When you talk about planned saving and planned investment, you are apt to leave out of account the possibility that people may expect higher incomes and therefore may buy more goods for consumption, even if they do not decide to save less. If so, there will be a process of expansion, even if planned saving equals planned investment—which is quite possible. You may ask: Why should people expect higher incomes in a certain period than they have during the earlier period. Many causes are possible. The most obvious is that wage rates may have been increased on Jan. 1, and therefore people expect higher incomes during the following months and may start buying more already in the first week of January. Or business men, who close their accounts, may have found that they made more money in December or in the last quarter of the year than they expected, and as business is rising they may also expect that they will make still larger profits in the coming year and may feel that they can afford to buy fur coats for their wives, or something of that sort, without any reduction of their savings.

So it is not at all an unrealistic assumption that people expect higher incomes and therefore buy more, even though they do not plan to save less. As I said, this is all rather simple, at least to minds that have not been misled by too much study of monetary theory.

I have had several discussions about these problems with workers' educational groups in Sweden, and I have found that all this seems relatively simple to them. To the students in the College of Business, it seems a much more complicated thing.

Variation of Consumption and Investment

The essence of the matter is this: how do consumption purchases and investment purchases vary from one period to another? In order to explain that, you must study plans and expectations and their relations to what has actually happened in the earlier period.

I mentioned that in order to be able to describe and explain an investment, it is necessary to take into account the speed of the reactions, because the reactions often go in different directions, and *the outcome depends on what happens first.* Let us assume, for instance, that the house rents will be increased 10%—something I am told might conceivably happen in this country. Now, how quickly will house owners increase their purchases if rents are increased? And how quickly will the people who pay the higher rents reduce their purchases of consumption goods? Secondly, to what extent will the latter people reduce their savings, and to what extent will the house owners increase their savings?

I think that the effect on the total price level will depend on this relative rise and speed of the reactions. If house owners are very quick to step up their demands while other people are reluctant to reduce their purchases, the outcome may be that other commodities may go up in price so that the average price level has been increased, not only because rents have become higher, but also because other goods have gone up. But if house owners are slow in their reactions while other consumers quickly reduce their demand, then the outcome will be a tendency towards a fall in the prices of other goods, which may, to some extent, offset the increase in the house rents.

Let us take another case. If the wheat crop promises to be large, the price of wheat may fall, even before the crop comes on the markets. Prices may fall so much that farmers expect lower incomes and reduce their purchases. It may be that the price of wheat flour and bread has not been reduced as yet. Sometimes the bakers are not so quick in reducing the prices of bread that the consumers get the benefit of that at once. So it may be that there will for some time be no increase in the purchases of consumers' goods at large, but there will be a reduction in demand of purchases by the farmers.

Strength of Reactions

It all comes to this: When do the different reactions come, and which is the strongest one?

If industries producing farm machinery feel a certain drop in the demand for farm machinery, they may reduce their demand for investment, and therefore investment demand may decline and cause some unemployment.

What will be the effect of an increase in savings in a balanced economic situation, for instance, of a decision to put more money in the banks? Well, the orthodox theory had it this way: The rate of interest will fall, and investment will grow. More recently, most economists have felt that if planned savings grow, which means that a decline takes place in the demand for consumers' goods, then — other things being equal—losses will be caused; business men will sell less consumers' goods and have more goods on their shelves; they will therefore need more credit to finance their business; and will go to the banks and get just as much new credit as corresponds to the money ordinary people have put into the banks. There will be no increase of cash in the banks; there will be little or no reason for changing the interest rates or the current policy on the part of the banks. So the net effect will be a tendency towards a depression or a recession and the volume of investment will fall.

Speed of Reactions

However, I do not think that either of these two explanations can be generally correct. As a matter of fact, I think everything depends on the speed of the reactions. If the rate of interest should fall at once, then investments may rise, and if people who save money put it in savings accounts, and if the businessmen who borrow from the banks draw on their cheque accounts, it is quite possible that the monetary authorities, watching the development in the banks, will draw such conclusion that the rates of interest are lowered. If that is so, then there may be a rise in investment, and that may compensate for the decline in consumers' demand. Or bankers, even without any change in the rate of interest, seeing that the deposits in savings accounts grow, may feel that they are in a position to lend more money for certain investment projects, where they earlier have been rather reluctant to do so. That will bring about an increase in investment.

If that is so, there need be no fall in the aggregate demand. I must add, however, that on the whole I think that the more recent explanation will in most cases be the most correct one. I do not think that as a rule there will be any sufficiently quick increase in the credit granted. But there might be, and therefore no general explanation here is quite correct.

In economic discussions one is often tempted to quote from a discussion of the Economic Club in London. Someone was making rather bold and brief and determined statements, and old Alfred Marshall got somewhat impatient with the speaker, who was so certain about everything. After a more than usually emphatic and annoying remark, Marshall called out from one of the benches, "All short statements are wrong." But then there was another man, also in the audience, who said, "Is that one?"

Effect of Interest Rates

What I just said about savings brings me into the question of *the rate of interest*. The basic assumption that we used for an analysis of unused resources in Sweden in the '30s was a simple one, namely, that the rate of interest can be arbitrarily fixed by the monetary authorities. I think that, given certain conditions with regard to the foreign exchange position, that is, on the whole, a correct assumption

Why can the monetary authorities fix the rate of interest at will? Because interest rates depend on the supply of and demand for credit, and the monetary authorities can increase or reduce the supply of credit. (They may also influence demand, but that is less certain.) A change in savings does not lead directly to a change in the supply of credit. Does this mean that the rate of interest has no relation to the volume of savings? Of course not, but the connection between the rate of interest and the willingness to save is an indirect one.

Let us assume a stable economic situation with certain income expectations and certain plans to consume and save. Then the existing rate of interest, given certain profit expectations, will determine the volume of planned investment. *If the rate of interest is considerably reduced*, then investment purchases will grow, production will expand or prices will rise or commodity stocks will be reduced, or two or three of these things will happen. Incomes will be increased above expected incomes, savings will exceed planned savings, and investments will differ from planned investments in such a way that realized savings and investments are made equal. Obviously, other things being equal, it is the height of the rate of interest that governs the economic development, because it influences the volume of investment and thereby the aggregate demand.

If a certain economic development is called "normal"—for instance, if we call a stable retail price level normal—then there is a certain rate of interest or level of interest rates or perhaps several combinations of interest rates —or possibly none — that correspond to this normal economic development. If we had higher interest levels, you would get less investment, and you would get a tendency towards recession. If you had a much lower interest level, you would get a tendency towards expansion.

But if people increased their willingness to save, then a greater volume of investment and a lower rate of interest is compatible with the normal economic development, for instance, a stable price level. On the other hand, if people reduced their willingness to save, a lower volume of investment would be compatible with this normal economic development.

Thus, the central idea in orthodox theory, that savings and investment govern interest rates, seems to me to be essentially true. But the connection between interest rates and savings and investment is not that of a market where you have two Marshallian curves of savings and investment. There is no market for savings; there is only a market for credit, or several markets for credit. The connection between savings and investment on the one hand and the rate of interest on the other hand is an indirect one and goes via the influence of the rate of interest on the volume of investment.

I shall come back to this question again at my next talk, because this is one point that I feel has been oversimplified by the Keynesian theory.

It is of course very arbitrary to call any special economic development normal, and therefore it is always arbitrary what rate of interest you call normal. You do not get any specific "equilibrium rate of interest." You get nothing more equilibrium-like than you have in the whole economic development!

If one looks upon this theoretical reasoning as an amplification of the business cycle theory in the 1920's, I cannot find that it is in any way revolutionary or startling. It puts in more precise terms, perhaps, a commonsense view about investment going up in a recovery, that the interest rates depend on savings and investment, and so on. That the volume of investment activity has a central role in business fluctuations has been stressed in practically every study of business cycles. That you can improve business conditions through public works, etc., has also long been common knowledge. The only thing that is done with this Swedish theory is to put it in more precise terms. Yet, I think, I have to say that it is the opinion among the Swedish economists that this theory — published in 1933-35 — covers about the same field as Keynes' general theory, which has been regarded in many quarters as being quite revolutionary. I shall come back to this discrepancy in my next lecture.

Supply of Money Factors

There is, however, a considerable difference between this Swedish approach—which, by the way, is in many ways similar to the one used already in the 1920's by Hawtry and D. H. Robertson—and orthodox "theory," i.e., the old quantity theory of money. I think one can distinguish between the two approaches to monetary theory. You can study the movements of the money units. How fast do the money units move? What is their velocity? What happens to the quantity of money? What is the construction of the banking system which affects the velocity of money, and so on? That is the one method where you "hang yourself onto the money units" and follow them and see what happens. That is the quantity theory approach.

The other method starts with the observation that everything depends on the actions of individuals, business men and consumers. Do their income and profit expectations change? Do they decide to vary their purchases for consumption and investment? What is the time lag between this and that event? The speed of the psychological reactions has very little connection with any speed in the movement of the money units. Changes in the quantity and velocity of money, therefore, are relatively uninteresting for a study of the processes of expansion or contraction, except in one respect, namely, with regard to their influence on the rate of interest and the willingness of the banks to lend.

I think one could concentrate most of what is important in the study of the banking mechanism on that very question—How is the rate of interest and credit policy affected? Otherwise, it plays only a small role in most situations, whether people have more or less money.

The economic history of the last two decades gives numerous examples of countries where the quantity of money has been much increased. It does not seem to have had any other influence than that it has gone together with a certain drop in the rate of interest—and that is important, of course, if that has happened. One can find other periods of, say, three to four years, when the quantity of money has been increased by 50% and you have not had even a fall in the long-term rate of interest. Whether people have a little more or less cash or more money in check accounts and less in savings accounts—or vice versa—does not as a rule much affect their decisions as to consumption and investment. For instance, if the State, to finance a certain expenditure, should borrow from the central bank instead of from the money market, this will influence the quantity of money in circulation. But unless it changes rates of interest and credit conditions, it will not, I think, as a rule affect the volume of purchases. These purchases depend chiefly on income expectations and profit expectations, and the public does not vary its opinion in these respects because there is a change in the quantity of money.

It is true that purchases depend on *the willingness to buy and the ability to buy*. Unless you can get credit, you have to have cash. Cash and credit conditions, therefore, set a limit for purchases for any one individual during a certain period; but inside those limits fixed by cash and credit conditions, how much you buy depends on your willingness to buy which is governed by your income expectations, etc. It will be found, I think, that in most cases it is the willingness to buy that is the decisive factor, because few people buy to the very limit of what they could buy. The important thing is how they vary their purchases within the limits of what they could buy, and that has nothing or very little to do with the quantity of money.

It is not, hence, the speed with which the money transfers are made from one person to another, increasing the cash of the latter, but rather the speed of the psychological reactions with regard to income and profit expectations that is the governing factor.

Wage Changes and Employment

I turn now to another subject. It would carry me too far if I were to attempt to present an analysis of the relation between *wage changes* and the volume of employment as developed in the Swedish studies in the early '30s. But the central idea is quite simple.

The volume of employment is equal to the sums paid out in wages divided by the average earnings per worker. That is a truism. If you want to increase employment you must either increase the demand for labor in terms of money or reduce wage rates, or both. Changes in these two factors are not independent of one another. An increase in the total demand for goods and services — and therefore, indirectly, for labor—will, as a rule, increase employment; for it is unlikely that it will cause a proportional or more than proportional rise in wage rates. Similarly with wage reductions. They will almost always affect the total sums spent for purchases of goods and services, which are indirectly demand for labor.

Wages in the Economic System

Wages enter both as costs and as incomes in the economic system. Through a wage reduction, say, by $100,000,000, you reduce costs by $100,000,000. But you reduce workers' demand perhaps by $100,000,000. (Let us, to begin with, disregard savings.) Then —if prices follow costs—people will be able to buy the same quantity of goods and there will be no change in employment.

Much depends, of course, on how wage changes affect savings on the one hand and profit expectations on the other hand. If a decline in wages should lead to a rise investment, that is not much smaller than the fall in consumers' demand, then employment will probably rise also. For prices will almost certainly fall somewhat. It is impossible, however, to generalize. The reaction of investment will depend on the special conditions which exist when the wage alteration is made. If people are made to expect that prices will fall and fall further, the wage reduction may lead to a fall in investment. But if people feel that now costs have gone down to the rock bottom and will not go further, then the cost reduction will probably lead to an increase in investment. If aggregate demand is maintained—perhaps with the aid of public policy—then a reduction in wage rates will lead to an increase in employment.

As investment demand is obviously important, one has to pay special attention to the relation between wage rates in the investment trades—for instance, in construction—and wages in the consumers' good industries. Other things being equal, a relative cheapening of labor or other cost reductions in the investment industries will tend to revive investment. If house rents go down, people can afford larger dwellings. So it is much more likely that a wage reduction in the investment trade will increase employment than wage reduction in the consumers' goods industries will increase employment. A relative change in these wage rates has an influence on investment similar to a change in the rate of interest.

Perhaps the most reliable way of increasing employment in a depression will seem to be to expand the aggregate demand without increasing the price of labor. For then more of it can find employment. Thus government expenditure, financed by borrowing, in a way which does not reduce private borrowing and investment, is an important part in any anti-depression policy.

Another way is to create conditions favorable for a revival in private investment. A feeling among employers that the general wage level will not fall can have this effect.

E. g., a relative decline in wage rates in construction industries—which rates may have risen during the boom period—down to a level where one can feel that a further reduction will not occur may be important. Tax exemptions for new investments that are made during the depression may be helpful. I shall return to such questions in my fourth lecture.

Influence of International Trade

So far I have said nothing about the influence of international trade. It is fairly obvious that an increase in the foreign demand for goods in a certain country influences the economy of that country in a similar way as an increase in the domestic investment. For the rise in gross incomes leads to larger domestic purchases. A tendency for expansion is caused which exhausts its effects, when a corresponding sum has been used to buy foreign goods or has been saved.

For the period of time before imports have been increased at all, the whole increase in exports is a new investment abroad. However, if bilateral trade agreements are made, where exports and imports are increased *at the same time* above a formerly restricted volume, then there is no new investment abroad. Then the effect on the domestic economy will be similar to what it is when consumption demand at home is increased and production rises at the same time, leaving savings and investment unchanged. Changes in wage rates and other cost items, as well as in efficiency, can of course, influence the volume of imports and exports and thereby the total development of output and employment in the way indicated.

* * *

So far I have discussed exclusively the first of the two questions, namely, the relation between changes in the volume of aggregate demand in terms of money, on the one hand, and the changes in the volume of employment at a certain wage level, on the other hand. But this is really only half the story. I have to be very brief about the second part. I think it is less controversial and therefore can be dealt with briefly.

The average number of unemployed persons in a certain period is governed by the number of workers dismissed or who end their jobs of their own will, plus the number of new persons entering the labor market—i. e., all those who look for jobs—multiplied by the average period of waiting before they find a new job. It is obvious, therefore, that, other things being equal, an improved organization of the labor market, for instance, through a more effective labor exchange system, as well as increased mobility of labor between places and occupations, can reduce unemployment. But this mobility of labor, which is useful, has to be distinguished from the erratic movements of workers who leave a job for the sake of change only.

If wages are not adapted to the quality of labor, but if a full wage is requested for laborers who represent a lower quality of work, then this kind of labor may be unemployed permanently, or it will only find jobs during very good business conditions.

I think all this is obvious. This could be said in the twenties also of another kind of employment which, however, in recent years has not so often been studied. I am thinking about the influence of a monopolistic wage and price policy under conditions of incomplete mobility of labor. If the size and direction of demand for goods and services is fixed in terms of money, then only a certain quantity of a certain productive factor—for instance, labor — will be demanded at a certain price. *The higher the price of that factor, the smaller the employment of it.* If the wages of a certain quality of labor are substantially raised, then its employment will fall, both because there will be a tendency to use relatively less of that labor and more of other factors, and because the fall in total output will tend to reduce demand for all productive factors.

However, if other conditions making for an expansion of demand are at work at the same time, it is possible that the volume of aggregate demand will not fall. Nevertheless, there remains the effect, that the relative increase in the price of that labor quality makes it less demanded. Should workers move easily from the high wage industries where wages have been raised, to other occupations, and the wage level there be somewhat reduced, then an increase in unemployment can be avoided or only a very brief increase in unemployment occur. But if the number of workers seeking employment in the high wage industries, where wages have gone up, does not fall sufficiently, and if the wage levels elsewhere are not flexible, then unemployment will be created by the original rise in wages.

It is true, of course, that an economic expansion caused by quite different conditions may at the same time prevent this from happening. But the above-mentioned tendency toward a fall in employment will nevertheless be there. Should a rise take place in the wage level in capital goods industries, it may have a detrimental influence on the volume of investment, as I have already mentioned.

In other cases, wage increases may make new investment profitable and may therefore lead to increased employment. But besides these tendencies, which cause changes in aggregate demand, there is always a tendency toward a smaller demand for a factor that has been made relatively expensive to use. So the monopolistic trade union policy will in

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itself have a tendency to reduce employment for those types and qualities of labor.

Effect of Monopolistic Price Policy

A similar effect on employment may of course be called forth by a monopolistic price policy in certain branches. It will reduce demand for the productive factors used on those lines and will set up the same need for an adaptation, as I mentioned, if unemployment is to be avoided. There is, however, one difference: As the labor in these occupations has not in this case become more expensive there will be no tendency to substitute other factors for the labor factor which was made more expensive in my former case. Besides, there may be less unwillingness on the part of workers to move to other occupations, as the wage level in the old one has not been increased.

On the other hand, a larger part of increased profits of the monopolistic firms is likely to be saved than the part saved from increased wages in the former case. This in itself tends to cause a tendency towards a depression and a fall in employment unless there is some other force making for increased investment. In that respect, the monopolistic price policy has a more damaging influence on employment than the monopolistic wage policy. Evidently those parts of the theory of unemployment that can be explained in a static theory, based, for instance, on the assumption of a constant aggregate demand, should be woven into an analysis of the processes of expansion and contraction of total demand. If this is done, it will be found that the process of expansion from a depression will usually meet bottlenecks of different sorts long before full employment is reached. A great many problems of adaptation and balancing will have to be met to create the status of full employment. This is not done by simply increasing the amount of investment and the aggregate of demand high enough.

Conclusion

I have, after some hesitation, put as the title of this lecture *"The Swedish Theory of Unused Resources."* In a way this is not a very appropriate name, for what I have indicated here very briefly is nothing but a combination of certain parts of the old static theory of unemployment, which used to be based on some kind of monetary stability assumption, with a theory of processes of monetary expansion and contraction which is simply an amplification of the Business Cycle Theory. Only in one or two important respects is there a striking difference between this theory, which was published in various Swedish books in the early thirties, and the general ideas which economists used to believe in during the 1920's. Thus, the theory developed in Sweden differs from the supposedly revolutionary Keynesian theory, as I have already mentioned, while it claims to cover about the same field. Hence, it may perhaps be illuminating if I try to make a comparison between these two theoretical structures and if some practical consequences of these theories are brought under consideration in my next lecture.

With Howard, Labouisse Co.

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Paul T. Westervelt has been added to the staff of Howard, Labouisse, Friedrichs & Co., Hibernia Building, members of the New Orleans Stock Exchange.

Trade and Taxes After the War

(Continued from first page)

except as the debt is reduced. Veterans' benefits are not likely to be reduced. Relief loans and grants to distressed countries cannot be discontinued abruptly. Bitter experience in two wars forbids curtailing defense expenditures any further than those responsible for our defense seem prudent; but it is reasonable to hope for some reduction.

It is necessary to collect taxes enough to cover expenditures and to reduce the debt by a substantial margin each year, so long as good business and high employment continue. It is necessary to do this to avoid inflation, and to defend the dollar and the public credit, for our present welfare and as a measure of national defense.

For generations to come we must look forward to carrying a heavy, heavy burden of taxes. That makes the relation of taxes to trade, to business, commerce, industry and agriculture, more than ever worth studying.

Our national tax policy should be to raise the greatest possible revenue; with the least possible pain to the taxpayer; with the least trouble and expense to the Treasury; and with the least social and economic disturbance to the whole community. Taxes should be levied for revenue; not to stop trade; nor to promote pet projects; not to effect social change; nor should they rob Peter to pay Paul.

Direct and Indirect Taxes

Direct taxes were abhorrent to Eighteenth Century opinion. They were regarded as inquisitorial and despotic. They are that indeed. Our own Eighteenth Century Constitution prohibited them in effect by requiring them to be apportioned between the states according to population instead of wealth; a prohibition which was only removed by the Sixteenth Amendment in 1913.

Modern theory, on the other hand, strongly favors direct taxes as against indirect taxes. However, in our practice we have carried the principle of graduation of the personal income tax, which is the direct tax *par excellence*, to such an extreme that it is no longer always a true direct tax, but rather a tax on energy, initiative and risk-taking.

The corporation income tax is of course not a direct tax at all but an indirect tax upon the privilege of doing business, and is reflected in the prices of goods and services so far as the traffic will bear it.

Similarly customs tariffs upon imports are indirect taxes on the consuming public, enabling our producers and manufacturers to charge more for their products.

It is a little odd then that political opposition, labor opposition, and opposition of some of the socially minded, to other indirect taxes, as for instance the retail sales tax, is so violent, while the same persons support high corporation taxes and high tariffs.

The truth is that there is no simple answer to the problem, which confronts the government as tax-gatherer, to be found in calling a tax direct or indirect. What we want to know is whether a given tax meets the test of raising the greatest possible revenue with the least possible pain to the taxpayer, with the least trouble and expense to the Treasury, and with the least social and economic disturbance to the whole community.

The Personal Income Tax

In war or peace the straight personal income tax, graduated according to ability to pay, has long been thought the best tax. It is our chief reliance. It should tax small incomes, but not too severely, and tax large incomes most severely, but not to kill the goose that lays the golden eggs of enterprise and of revenue. It should, so far as possible, treat everyone of like income alike.

Though it be the best tax, the personal income tax does not solve all fiscal problems when the total tax burden is as heavy as two world wars, and philanthropic spending between the wars, have made it.

High income taxes discourage enterprise in the individual; they prevent young men from saving money and accumulating capital; and they burden business, which has to pay higher salaries in order to command the services of men of energy and ability, because they can keep for their own use only a fraction of the salaries paid. They burden government, which finds itself unable often to command or retain the services of men of ability because the tax on their government salaries is so heavy.

On the other hand income tax cannot reach many small incomes, partly because it would be too unpopular if it did, and partly because it costs more than it comes to to tax them at low rates; except in those cases when withholding is possible.

The withholding tax soon becomes merely another method of taxing business and employment. Money held out of the pay envelope or the salary check is not pay that counts. The demand for more pay to cover the tax withheld soon becomes irresistible. Then the tax, though nominally an income tax, a direct tax, in fact becomes an indirect tax, a tax upon business.

Furthermore, much farm income and other income, collected in cash or in kind by persons who don't keep books, and those who work for themselves, may escape the income tax. The withholding provisions cannot of course reach such as incomes as these. So withholding exaggerates the inequality between such persons and those corporation employees and wage earners who are readily caught by the withholding device.

These defects of the personal income tax are among the reasons why it seems unwise to keep the rates war-high in peace time. Extreme high rates lead to evasion, avoidance, inequality, and are inconsistent with the prosperous and enterprising peace economy. They are self-defeating; for when taxes are too high, they impair the national income and the national revenue.

Corporation Income Taxes

The present 38% corporation income tax is too high to be borne long in peace time. Excessive corporation income taxes discourage enterprise and risk-taking. They discourage investors from providing equity capital. They prevent small business from accumulating capital from earnings. New enterprises can rarely grow and prosper if so much of their earnings (if they have any earnings) are taken by government. These taxes impose the heaviest sort of indirect tax upon the public, since they tend to reflect themselves in higher prices, when the traffic will bear it, or if higher prices are impossible, in less business, less employment, and less enterprise.

Under our strange and inequitable law, stockholders pay twice on the same income; once when the corporation pays, and again when the stockholders receive dividends, if they do. The bondholder or owner of any other investment pays only once, and the income of State and municipal bonds is taxed not at all. The country suffers because enterprise and risk-taking are thus discriminated against.

A high tax on corporation income also discriminates against the small investor in corporation shares by imposing on his company's income a rate of tax higher than on his income from other sources.

The normal tax rate on corporation income should not exceed the normal tax rate on individual incomes, and the individual shareholder should be free of normal tax (but not of surtax) on his dividends. This would conform to the principle of taxing everyone of like income alike, and avoid double taxation of that investment which is of the greatest value to the national economy, the investment that takes the risk of enterprise.

Income Taxes and Business

From the point of view of revenue, the income tax on persons and corporations is a highly speculative tax, very productive in good times, disappointing in bad. High tax rates on incomes produce nothing when the incomes are not there. Indeed, high tax rates in bad times may reduce the public revenue by adding to the burdens of an already enfeebled economy.

Budgeting is not an exact science. One can only *estimate* the revenue which a proposed tax rate will produce, on the basis of what last year's income was, and a guess about what next year's income will be. If the rate is too high, in relation to other costs and prices and the volume of business, it may reduce business income and the public revenue. It is prudent therefore, in guessing, to take a chance and to err on the side of moderation in income tax rates, and encourage business, not choke it. For tax rates are not tax receipts.

The Mellon policy of lowering tax rates after the First World War helped to make good business and good revenues, and reduced the debt 40% in ten years. If now we could look forward to eight or ten years of good business and debt reduction, how happy we should be!

If, on the other hand, Congress and the Treasury overload that poor old beast of burden, the taxpayer, the donkey may just lie down in his tracks, as he did in 1931-32, when Mellon and Mills, two great Secretaries of the Treasury, with the best intentions, sought and got higher tax rates, but collected less revenue and deepened the depression.

Even in times like the present, when business is good but the future is uncertain, some reduction in income tax rates, all along the line, would probably do more to balance the budget, by insuring good business and employment, than insistence on maintaining almost war rates after the war orders have disappeared and some recession of business is probable.

So, without waiting to revise the law, I suggest an immediate reduction of 10% in personal and corporate income tax rates, all along the line, to continue our present prosperity and protect the revenue.

Revise The Law

Later on, at leisure, Congress should embark on the great task of revising the internal revenue law.

Our income tax law is too complex. Too many provisions are written to fit special cases. If capital gains are taxed, then capital losses should be deductible equally and fairly from gains, whenever they arise, without limitation of time. Let the law be simplified so that an honest man may prepare his own return and understand it.

Thirty-four years after the income tax amendment was adopted, each revenue bill is still discussed as though the principles and methods of income taxation presented a new problem every time. Instead, the principles and methods of taxation should be worked out now once for all on a sound and orderly basis; and future changes should leave the principles and methods alone and concern themselves only with rates of tax under those principles and methods. Then changes in tax *rates*, to control inflation by raising them, or relieve or forestall a deflation by lowering them, could be made simply and promptly without debate about principles and methods.

Tax-Exempt Bonds

The issuance of tax-exempt bonds by States and municipalities should be discontinued as promptly as possible. The exemption confers special privileges upon individual investors and upon State and municipal borrowers. In 1917 the Treasury won the consent of Congress to tax the income of future issues of Federal bonds, with limited exemptions. Soon after the First World War, the Treasury proposed a Constitutional amendment to enable the United States to tax future issues of State and municipal bonds, and *vice versa*. It passed the House of Representatives by the requisite two-thirds vote in January, 1923, but died in the Senate. The proposal for a Constitutional amendment should be revived. That is the orderly way to effect a much needed Constitutional reform. It should of course be limited to future issues.

Taxes on Spending

When public expenditures reach the astronomical, as they have, it becomes necessary to resort to considerable diversification in the incidence of taxation. Though the personal income tax be the best tax, and the corporation income tax is a convenient tax, the practical application of them, when too great a burden is thrown upon them and the rates of tax are raised very high, becomes difficult in the extreme. They may do grave injustice, impair taxpayers' capital, and even dry up the revenue and so defeat the taxing purpose. An error in the structure of any tax may be negligible if the rate is low, but critical when the rate is high.

Resort to a considerable variety of taxes allows a margin of error for the strains and stresses which are certain to develop if we rely altogether on income taxes, however theoretically perfect they may be.

Hence we must turn to other taxes, tariffs for revenue, license taxes, excise taxes, luxury taxes and even retail sales taxes. They tax one's income as it is spent. They reach the spending of everybody, including those who avoid the income tax. Such taxes should be retained and extended in scope.

Social Security Taxes

Social security has come to stay. It is humane and may be a stabilizing influence in our economy. A civilized society cannot neglect the needs of its less fortunate members. Cold and hunger are not the remedy for depression and unemployment if these come again. They need not come again if we have wise and orderly fiscal and monetary policies.

Social security taxes, however, tax employment rather than income. They are therefore to be regarded as indirect taxes or privilege taxes or license taxes. Both as regards employer and employee, they can only be considered taxes upon the privilege of doing business.

Like income tax withholding, the social security tax, so far as it is charged to the employee's income, soner or later results in demands for higher pay; and the whole of it is added to the cost of doing business and is reflected in prices when the market will bear it.

It has sometimes been proposed that social security taxes be increased, not because of the need of a larger accumulation in the trust funds, but because of the need of collecting more revenue for the government for its general purposes. Social security receipts are spent by the government for other purposes as fast as they are collected. Social security disbursements when called for have to be provided by the government from new taxes and new borrowings. The social security taxes tax the privilege of employment without making any money really available for social security payments when they must be made. The only valid excuse for them is that they help balance the cash budget. Under present conditions that is a sufficient excuse. But these bad taxes should be at low rates. In the end the burden of social security should be borne by the whole community and not by a segment of it.

Death Taxes

Estate and inheritance taxes are indirect taxes, taxes on the privilege of not having the government take all your property when you die. So far as the Treasury revenue is concerned, they are windfall taxes and not dependable; for rich men don't always die when values are high or when revenues are most needed. They tax, not the owner or creator of wealth, but the privilege of transmitting it and the privilege of succeeding to it. They are capital taxes. They have to be paid out of past savings by sale of estate assets to other people whose power to buy or hold other investments is correspondingly diminished. These taxes change the ownership of existing wealth and promote social change. That is the chief argument for them. They are socialist taxes. They diminish the capital fund of the nation, for the nation thus spends and destroys the savings of the lifetime of the citizen. The most worthy of all motives of enterprise and thrift is to provide for one's family; and such taxes defeat this at the very moment when death takes away the breadwinner and makes his savings most necessary to his widow and children. Bad though they be, no one would suggest giving up death taxes now, when the need for revenue is so great; but the rates should be more moderate.

Gift Taxes

Since a gift in anticipation of death is taxed at estate tax rates anyway, it does not seem necessary or fair to have a gift tax at all. Why should a man who, in his lifetime and not in anticipation of death, makes gifts, pensions and allowances for the support and maintenance of his family and friends pay not only a severely graduated income tax but a cumulative gift tax superimposed upon it? Whereas a man of the same income who spends his income on yachts and country places and other forms of personal enjoyment pays only one tax, the income tax. The gift tax is a mean tax, an anti-social tax, and produces relatively little revenue. It should be moderated.

Incentive Taxes

Incentive taxation is bad. We don't know whether the new enterprises to be subsidized are good or wasteful. We do know that the old enterprises will have to bear the burden from which the new may be relieved. The old may stagger and choke under it.

If government attempts to depart from the rule of equality in taxation, it will no doubt find itself much disappointed in the result. Let taxes be fair and equal, and let the incentive to enterprise be the rational hope of profit from the undertaking on its merits, not the adventitious and perhaps temporary blessing of tax advantage. Our taxes must be very burdensome for generations to come. If they are fair and equal we can bear them. If they are unjust, unequal, tricky, and burden some more and others less, they will become intolerable, unendurable.

Sumptuary Legislation

All necessary and unproductive sumptuary legislation, that is legislation to limit private spending instead of taxing it, or to limit incomes instead of taxing them, should be avoided. If attention is diverted from the true objective of raising the greatest possible revenue out of current income, and is turned to using the tax law to effect social changes, then the government is certain to get less revenue, and greater economic disturbance, to the injury of the whole people.

The Tariff

The tariff was our chief source of revenue from the beginning of the Republic to 1913, during the long period of our country's prosperity and growth to greatness. Since the First World War, however, the tariff has been used not so much to produce revenue as to stop trade. The Hawley-Smoot tariff of 1930 did much to turn a stock-market panic into a major depression, and to convert a Treasury surplus into a deficit.

All tariffs should be reduced 10%, at once, by unilateral action of Congress. Such a moderate overall reduction could do much to stimulate trade both ways, in and out. It would avoid the interminable discussion, log-rolling and lobbying which are inevitable when Congress attempts to revise tariffs rate by rate, commodity by commodity. It would supplement the necessarily dilatory and timid method of executive negotiation of reciprocal trade treaties with foreign governments, though these are good as far as they go, and should be continued and extended.

Customs duties paid the Civil War debt; and in the process the country grew and prospered as no country ever did, and the general standard of living rose. We paid our debts and grew rich by trade; buying as well as selling. Now again we should have a tariff at lower rates which will produce more revenue and let our trade, both ways, in and out, grow and prosper.

International Payments

Balancing the budget is not more difficult, nor more important, than balancing our international payments. Last year our exports were $15.3 billions and our imports $7.1 billions a deficit of $8.2 billions. This deficit was financed chiefly by loans and gifts, and, to the extent of $1.4 billion, by drawing on foreign gold and dollar reserves. Of course that can't go on indefinitely. Our trade must be got in balance either by cutting our exports in half, with all that means for our farmers and manufacturers and their employees, or by increasing our imports of goods and services.

It is to our advantage to be paid for our exports in goods and services. We can't afford to give away our goods and services, or to make loans to finance our exports, except during the transition period from war to peace. Nor can the old world afford to go much further into our debt.

Foreign Investment

In the Nineteenth Century foreign investment followed from the old countries to the new. That was as it should be. The old capitalist countries had accumulated wealth abroad and had adverse balances of trade. The new countries were working and producing for the old, and the old were accepting the produce of the new in payment of interest on the investment, or reinvesting the interest in the new countries. That was a normal relation.

The First World War upset that. We became creditors of the old countries on capital account, and continued to be exporters to them and hence creditors on current account. Our foreign lending confronted thus an inherent difficulty. It has on the whole been aggravated by the Second World War, in spite of the temporary loss of our creditor position through lend-lease and overseas expenditure. Now, the old countries have spent much of their remaining foreign wealth, or lost it in the war, and the world is confronted by the difficult problem, how to establish equilibrium when the old countries need *both* our goods and our money. Can the exhausted old countries produce enough more and consume enough less to pay for their current purchases and pay also interest and sinking fund on their debts to the new countries?

Furthermore America is so good a risk, politically and economically, compared to the old world, as to *attract* capital imports, in hope of profit when business is good here, and to escape loss when matters look bad abroad. In the Nineteen Twenties money came here to make money in stocks. In the Thirties it came to escape loss, for fear of a breakdown and war in Eurpoe. Between the wars this reverse, and perverse, movement of capital *from* old countries to America, undid the work of our foreign lending and aggravated the adverse balance of payments of old countries.

In addition to the gifts, grants and loans by our government, which are so necessary, but should stop as soon as possible, and the loans and aid to be afforded by the World Bank and Fund, private foreign investment, in reason but not in excess, should be encouraged after the governments concerned have created stable and orderly political conditions; but foreign investment will not solve the problem.

Buying and Selling

We should always be capable of producing an exportable surplus of food and manufactures beyond our own needs, and the old world will want it. Can the old world pay for it? If we cannot sell our exportable surplus we shall have depression and unemployment, and the old world will be in want of the goods we want to sell. We must make it possible for the old world to get them.

The long-term answer must lie in our accepting more imports of goods, and of shipping, banking and insurance services, and in our travelers' expenditures abroad, and immigrants' remittances to foreign countries.

We do not wish to reduce our exports of goods below prewar levels, nor does the world wish us to. We need, not to decrease our production, but to increase our consumption and our imports of goods and services.

In General

The burden of government expenditure now imposed upon our people, one and all, is immense. The worst way to meet it is by inflation. The next worse way is by extortionate or deflationary taxation. The budget should be balanced and the debt reduced. The right way to do that is by cutting down civil expenditure and by taxing, justly and equally, all the people, without discrimination or preference, at high rates when business is booming, and at reduced rates when, as now, there is some danger that it may soon be lagging. We should ask Congress to reduce all income tax rates and tariffs 10% at once; and later, at leisure, to eliminate the quirks and quiddities from our tax laws; and, in future, to tax us all for revenue at such rates that trade and industry and agriculture may flourish.

I suggest a 10% cut all along the line, not because there is any magic in that figure, but because it is a moderate cut. Budgeting is guessing, not knowing, what government will spend and what revenue certain tax rates will produce. The best way, to continue prosperity and employment, and protect the revenue, is to reduce the tax rates moderately, all along the line, and to do it promptly.

Income taxes should not go to extremes. There is no virtue in a pedantic devotion to a direct tax if it is carried so high as to stifle enterprise. There is no vice in indirect taxes if they are so general and so moderate as not to hurt any essential trade or industry. There is no hope for us or for Europe unless we keep our economy prosperous; nor unless we reduce tariffs enough to permit trade to flourish. There can be no freedom of the individual, no democracy, without the capital system, the profit system, the private enterprise system. These are in the end inseparable. Those who would destroy freedom have only first to destroy the hope of gain, the profit of enterprise and risk-taking, the hope of accumulating capital, the hope to save something for one's old age and for one's children. For a community of men without property, and without the hope of getting it by honest effort, is a community of slaves of a despotic state.

Observations

(Continued from page 865)

with the implied approval of the State Department, was occasioned by the worthy, if wise, desire of these loyal leaders to prevent their party from becoming branded as isolationist in the electorate's mind. Contrary to the past showing of the public opinion polls on the British Loan, which indicated its majority opposition to internationalism in that phase; the polls on trade reciprocity are said to show popular support therefor with their past sanctification by Cordell Hull. The result is that most of the opposition shouting comes from the sectional representatives; with the party's overall leadership having the sagacity to take herculean steps to aviod possible blame for antagonizing at least a large segment of the electorate. Even Senator Taft, in spite of his declaration of disagreement with the Vandenberg-Millikin proposals and his intention to fight the issue next year when the law giving a free hand to the President comes up for renewal, can be considered as having swung materially from his 1945 position toward cooperation. He too is apparently seeking astutely to avoid the supposed isolationist stigma of the voters.

Escape Clauses and Other Necessary Compromises

In order to get likely adoption of the ITO Charter, as well as the integral trade agreements, serious compromises have been, and will continue to be, found necessary. In the first place, at the recent ITO conference in London, at the writing of the preliminary Charter it was found necessary to include a major "international escape clause." In recognizing that many countries will be battling for protection of infant industries toward the goal of industrialization, the compromise was made of permitting the use of subsidies and tariffs, and giving the ITO body the power discretionarily to grant subsidies and even import quotas. Import quotas specifically may be used to implement domestic production control programs of primary products that are to be protected.

Belly Politics Versus Ideology

Our own agricultural interests no doubt will fight to the bitter end to keep from being exposed to foreign competition. Our farm program guarantees to them higher prices than have the world level. With the attitude of "buck-passing statesmanship" the farm interests, even though represented by such "liberals" as Senator Wayne Morse, are volubly advocating large markets abroad, but simultaneously oppose any tariff lowering on American agricultural products. Perhaps this conforms to a current quip that "belly politics are more important than ideology."

Then too the heralded Vandenberg-Millikin compromise, which on the one hand goes too far for much of our local opposition, at the same time carries an important "escape" provision which will undermine true cooperative internationalist procedure. For it provides that the United States Tariff Commission is to review the contemplated tariff reductions in all future trade agreements, and to make direct recommendations to be followed by the President, as to the point at which reductions cannot be made without injury to the domestic economy. Furthermore it contemplates including an "escape clause" in every subsequent trade agreement whereby the United States, on the initiative of the President, can withdraw or modify any tariff reduction or concession, if in practice it develops that such reduction "has imperiled any affected domestic interest."

In other words, as in the political sphere, it here also appears that action for the international benefit will be suffered only when the shoe does not pinch on *sovereign* national interests.

In alleging the existence of *teeth* of enforcement it is pointed out, quite correctly, that punishment for infraction will consist in the stripping away of trade privileges from the offender, by joint international rather than unilateral action. Hence it is true that the joint character of the punitive action will take the sting out of the sanction, which in the absence of an organization might be considered as being in the nature of bilateral economic warfare. Nevertheless it is also true that there will be correspondingly greater opportunity for the injurious participation of conflicting political factors and motivations.

Majority Testimony Opposes Tariff Cuts, Says Senator Butler

WASHINGTON—Senator Hugh Butler, Republican from Nebraska, announced today that the United States Tariff Commission had informed him more than half of the briefs and statements filed with the Committee for Reciprocity Information were opposed to reductions in duties on the products in which they were interested.

Senator Butler said he had requested the information because of a report which had previously appeared in the press stating that the Department of State had reported that 80% of the briefs filed "were not opposed to the Reciprocal Trade Program."

Data supplied by the Tariff Commission, according to the Senator, were as follows:

1051 briefs filed—
- 545 opposed reductions in American tariffs
- 175 favored reductions
- 330 requested concessions from foreign countries

511 oral statements
- 370 opposed reductions in American tariffs
- 95 favored reductions
- 46 requested concessions from foreign countries

(**Editor's Note:** The Administration's view is that the tabulation of witnesses pro and con by number is misleading, since among the witnesses against the program were many individual companies, whereas witnesses in support of the program included numerous organizations, trade associations and the like, representing a far larger share of the country's foreign trade.)

Socialist John Bull Takes Stock

(Continued from page 864)

Geneva in April, carrying in their portfolios the American demand for an early end to Empire preference.

What the White Paper Says

A few paragraphs from the white paper will indicate the proposition that is now before the British public. Thus:

"The great need of this country, as indeed of practically every other country in the world at the present time, is for a considerable and sustained increase in the production of goods of all kinds—of consumer goods and of capital goods, of goods for domestic use and consumption and for export.

"The position of Great Britain is extremely serious. We have in the course of the last seven years deliberately distorted and unbalanced our economic system, suffered the loss and permitted the depreciation of our capital resources, sold at least half of our external capital assets and gone into debt abroad—all for the purpose of enabling the country to concentrate its fullest efforts upon the war and in an endeavor to maintain reasonable standards of living. This country is still running into debt abroad. Each month our balance of overseas payments is still unfavorable. Nevertheless, since the end of the war this country has proceeded rapidly to establish schemes of social improvements in the way of a housing program, an improved educational system, comprehensive old age, unemployment and health insurance systems and medical and other services.

Living Standard Must Be Raised

It is clear that we must—and, indeed, very quickly—begin to maintain and seek to improve our standards of living entirely by our own efforts. We cannot continue indefinitely to meet our deficits by external credits. We must soon begin to repay some of the external borrowings by means of which we are at present able to maintain existing standards. It is therefore highly imperative that we secure a speedy and substantial increase in the output of the products of British industry whilst maintaining their quality. That is the kernel of the economic and industrial policy of the British Government.

"The fulfillment of this policy requires improvements in the efficiency and the productivity of British industry, and these are not the responsibility of the Government alone but of industrial management and workers alike. It is for all concerned with industrial production to apply themselves to this task of improved efficiency and output in the realization that the common good of the country as a whole depends very considerably upon their efforts.

"During the war in a number of industries machinery was developed for joint consultation between management and workpeople on production problems. The extension and further development of this practice would be of advantage.

"Until the output of British industry is considerably increased there is bound to be some fear of our ability to maintain the stability of prices and the orderliness within our industrial system which have characterized Great Britain throughout all the difficulties of the war and the transition from war to peace. The nature of our industrial relations system entails responsibilities on both sides to work together not only for the common good of the industry on which both depend, but also for the common good of the country as a whole. These responsibilities are greater today than they have ever been.

The Manpower Shortage

"The biggest problem is the almost universal shortage of manpower. This affects everything. There is far more work to be done than there are men and women to do it. This is the legacy of six years of war."

Like A Political Platform

Proceeding, the white paper traces the effects of the war on the manpower situation, both overall and for various branches of industry. There was in November, 1946 only a disappointingly moderate increase in the number of persons employed in meeting home civilian and export needs, as compared with mid-1939. This increase is very much less than would be needed to enable the country to pay on its foreign loans and make its own way again. After discussing costs and prices, production requirements and the employment situation—there is actually unemployment in some areas in Britain today—the white paper offers its conclusions, which sound not unlike an American political platform. The final paragraphs are as follows:

"The object of all our economic policy and the prime purpose of all our industrial activity is to improve the standard of living of the people. This depends upon the output and efficiency of all our industries and essential services. The Government has maintained a substantial measure of control over the movement of prices. This has been achieved at a very heavy cost of subsidies and no guarantee can be given that some rise of prices may not be necessary to mitigate the burden on the Exchequer and the taxpayer. But the Government will maintain control and ensure that no unregulated increase in the prices of essential goods and services occurs.

"The keynote of all our industrial activities during the immediate period ahead must be to steady the costs of production, to man up the essential undermanned industries and above all to step up production, until we have struck a balance between total demand and total supply. A great responsibility rests on both sides of industry to play their full part in rousing the nation to an appreciation of the country's very serious economic position and in ensuring that there is such a large and sustained increase in production as will enable us to have sufficient goods to pay for our essential imports and to meet the urgent needs of the people at home."

Paper Criticized at Home

While recognizing that Britain is up against a tough proposition, British editorial comment on the white paper has been rather caustic. "Not a word of this, of course, is new," comments the "Economist." "What is new is that the Government has at last been brought to admit the fix that the country is in and that the trade unions have endorsed the statement. There will, no doubt, be many attempts blandly to ignore the painful implications of the clear statement of facts. Trade unions will, no doubt, still prefer claims for 40-hour weeks and other forms of endowed leisure. But they will not, after this, be able to pretend that their claims are in the public interest or that they are anything more than unpatriotic exploitation of a temporary bargaining advantage. Nor will the Government be able merely to wave aside the Opposition charge that they are fiddling with nationalism while Rome burns. Indeed the Government seems to be swinging over from Pollyanna practices to an almost exaggerated alarmism. The white paper with the week-end speeches of Mr. Bevan and Mr. Shinwell, and particularly with Sir Stafford Cripps' Cassandra utterance at Bradford on Wednesday, seems to be a concerted attempt to shock the country, and particularly the Labor movement, into an awareness of its position.

"Shock tactics are needed . . . but by themselves they will not accomplish much. The obvious criticism of the white paper is that, while it states the need for a sharp rise in productivity, it does not even hint at how it is to be achieved. . . . Capitalist economics has several remedies to suggest for this particular disease. Labor economics has none—except more socialism, and not even the fanatics would seriously claim that they would produce results as quickly as they are now needed."

Too Much at Once?

The editors of the "Financial Times" take a similar view of Britain's economic problem this drab winter. They, too, point to the Government's failure to give the lead on such vital matters as wage policy. The editors criticize the Government for asking the public to maintain stable conditions while the Treasury pursues an inflationary cheap-money policy. But the immediate need is solution of the coal problem. On this everything else turns. The wrong sequence for recovery is being pursued in Britain, the "Financial Times" suggests, saying.

"Once we have the coal, the next step, obviously, is re-equipment. That, in the economic sequence, comes before increased consumption, redistribution of wealth, or exports. We have an immense capital program to carry through, and at present our productive plant is well below prewar standard. With coal settled, we can see how much of a growing national output can be spared from consumption for a limited period, to ensure that our productivity is on a satisfactory basis by the end of the time. Probably, we shall need to import labor in that connection also. If so let the Government look at its manpower budget and say how much.

"Then, and then only, can we really begin to assess our true exporting power, and the standard of living at home that production minus essential exports plus imports will leave us. Does the time schedule permit of this sequence? The American loan looks like being exhausted well before 1950. But shall we be able to face our overseas obligations, anyhow, when that time comes, if we go on as we are now? As it is, we are striving for the maximum of everything and getting not enough of anything. We have obligations to honor, promises made to this or that section at home, and the inescapable necessity of buying materials and honoring engagements abroad. We cannot re-equip industry as we should, because production is not high enough. But productivity is too low because capital and plant need re-equipment. Reduced native manpower must be compensated for, by immigration or increased mechanization, or both. But the one meets 'political' obstacles because labor, with more jobs than workers, has a stronger tactical position than before and is loth to have it weakened. And mechanization—well, that is caught up in the vicious circle already described.

"In these terms, frankly, the national problem is insoluble. To try for all at once will be to achieve certain failure. Should we not recognize this, and start our thinking all over again, from the beginning? Perhaps it would be a wise approach if the two sides in the National Joint Advisory Council were to ask the Government how it proposed to buy the first essential in a plan for step-by-step rehabilitation—namely, time. There are projects at home, some of them controversial, which can be postponed. But overseas requirements may be more exigent. As in 1940, so in 1947, time is what we need most."

Report from Whitehall

Since the white paper, although published by the Government, was drafted not by government officials but rather by employers and labor leaders, interest focuses on what the Government is likely to do about lifting Britain by its bootstraps. From Whitehall, where are located the government offices most concerned, a correspondent of the above-quoted newspaper reports only perplexity. Which program should be relegated to second place, officials are reported as asking, the export drive or capital re-equipment? With general manpower, materials and fuel shortages what they are, prospects of increasing production are not bright. Some thought is being given to importing foreign labor, but this certainly will not solve the problem.

Thinking naturally then turns to reducing the quantity of goods available for home consumption—that is, lowering the standard of living and tightening the belt. The possibility of reducing the size of the armed forces and the civil service is also said to be under examination, since it is realized in the Government that mere exhortation cannot work very long in peacetime. The labor government seems to be in an unpleasant jam; and the conservatives know it.

More Hard Currencies Needed

Meanwhile another drive, involving perhaps more than exhortation, has had to be launched by the government: the drive for more hard currencies. Although the trade balance in the first of the five years of grace under the American loan has been on the whole much more favorable than foreshadowed by Lord Keynes to the American Government in 1945—the trade deficit for 1946 was £314,000,000 smaller than the £650,000,000 predicted by Keynes—this "better" picture is marred partly by the fact that it reflects a smaller import trade, owing to the unavailability of sufficient raw materials, and partly by the fact that a large part of Britain's exports in 1946 were paid for out of previously accumulated sterling balances and therefore represent no accretion of much-needed hard currencies. Therefore the belief persists in Britain that the American loan was not sufficient to tide Britain over the transition to self-support. An informed view of this aspect of the British problem is given by Lord Balfour of Burleigh, Chairman of Lloyd's Bank, Ltd., in his address at the bank's annual meeting on Jan. 31, 1947. Unfortunately space does not permit more than a limited quotation from Lord Balfour's address, to wit:

"That trade deficit involves a drain on our exchange reserves which would be serious enough, but unfortunately it is not the only source of strain. Far from receiving reparations from Germany, for example, this country has been compelled to send large quantities of foodstuffs into the British zone simply to avoid economic chaos there, and assistance must also be given to other ex-enemy countries, such as Austria and Italy. So grave would be the consequences of an economic breakdown in Europe that no responsible person can question the wisdom of this policy in our own interest, though perhaps one may be permitted to express regret that Germany could not have been made to be self-supporting from an earlier stage of the occupation. It is patently in our interest that the labor and industrial plant of Germany and of Italy should be brought into production and not be left standing idle at a time when the world is suffering from severe shortages of goods of all kinds. To rehabilitate the economies of these ex-enemy states will, it appears, make heavy drafts on our available dollars for at least a further three years, but fortunately after 1947 at a diminishing rate.

"This is one adverse factor which has appeared since the signing of the Washington loan agreement to intensify the doubts, expressed at the time by Lord Keynes and others, whether the loan would prove large enough to tide us over the difficult period before us. Another such factor is the sharp rise in United States prices which has substantially reduced the purchasing power of the loan—that being only another way of saying that the credit is in danger of running out more rapidly than had been hoped.

A Possible Crisis

"In July, 1947, there comes into effect the obligation we have accepted under the Washington loan agreement to make sterling earned in current transactions freely convertible into dollars or other currencies, and as things are running at present a critical situation seems likely to arise within two years from now. The severity of the crisis would depend on the extent to which we can succeed in stepping up our production and diminishing our adverse balance with the 'hard' currency area.

"At present, no other country is under a similar obligation to convert into 'hard' currency the proceeds of current trade, owing to the five years' transition period allowed by the Bretton Woods Agreement. That would be of little account if such countries were in a position, equally with the 'hard' currency group, to supply the essential foodstuffs and raw material that we need; but such is unfortunately not the case. It is because North America and the other 'hard' currency areas are alone able to export these vital supplies on a large scale that the problem of securing imports to maintain our standard of living has become almost entirely a problem of securing dollars. And this in turn is why it is so essential, as government spokesmen have emphasized, that our exports should be directed as far as possible to the 'hard' currency countries. This is, however, easier said than done. It takes two to make a bargain.

A Heavy Burden

"From what has been said already it will be apparent that this search for so-called 'hard' currencies is dictated by the economic realities of our situation . . .

"These facts illustrate the weight of the burden to be assumed by us on July 15, 1947. The restoration of free convertibility of sterling earned in current transactions was one of the obligations entailed by the acceptance of the American loan of $3,750 millions, and, as I have already mentioned, events subsequent to the signature of the agreement have combined to intensify our doubts as to the sufficiency of the amount of the loan. It must, however, always be remembered that if the risks are great the reward of success would be great indeed also. It would be nothing less than the reestablishment of sterling in its proud position of a universal international currency."

Will Sterling Become Convertible?

Some weeks ago Dr. Paul Einzig suggested the possibility that Britain may not be able to live up to its undertaking to make sterling freely convertible next July but may have to resort to an escape clause in the loan agreement. In the light of the white paper herein described such an eventuality does not appear entirely far-fetched.

The Imbalance Between Wages, Prices and Profits

(Continued from page 873)

OPA in June of last year. But the trouble goes further back than that. The truth is that before V-J Day wages were already badly out of balance with prices and profits. This is shown clearly by the fact that whereas the proportion of the gross value of private output going to wage earners remained practically the same—about 50%—over the period from 1939 to 1945, the fraction of the gross value of output going into corporate profits before taxes rose from 7½% in 1939 to between 15 and 16% in 1944 and 1945.

In absolute dollar terms in the year 1945 corporation profits before taxes amounted to $22 billions. The net income of non-agricultural proprietors was $13 billions. And the reserves for depreciation, depletion, etc., to about ten billion dollars. In other words, what might be called gross profits amounted to the fabulous total of $45 billions. The question naturally arises, how was our system able to function with so large a sum going to the business community rather than to consumers? The answer of course is that the government was taking almost 50% of the output for war purposes, was cutting deeply into gross profits through wartime taxes and was borrowing the difference to meet the government deficit. It was government demand that kept the economy going at full blast in spite of the maldistribution of purchasing power.

Situation After V-J Day

That was the situation just prior to V-E Day. With the approach of V-J Day the outlook was even more grim. For it was clear at that time that with the cessation of hostilities overtime would rapidly disappear, downgrading of workers would set in and a large fraction of workers in manufacturing would have to give up work in the high-paying war industries to find employment in the lower-paying civilian industries. In other words, the outlook was that average hourly as well as weekly earnings would fall sharply, increasing the already great imbalance between wages on the one hand and prices and profits on the other.

It was this situation and this prospect which led to the formulation of the Administration's new wage-price policy in the fall of 1945. The President, you will recall, said that an increase of wages within the framework of stable prices, that is, an increase of wages coming out of profits was "imperative" both to protect the standard of living of workers' families and more important to sustain purchasing power in the interest of continued full employment. I need hardly remind you that the Administration had hardly enunciated the policy before it began to run for cover. In February of last year the Administration surrendered to the steel industry. And it wasn't very long before that surrender developed into a general rout. By the time the Congress got around to emasculating the stabiliaztion statute a major part of the damage had already been done.

Now most of you know from your own and bitter experience that since the OPA was crippled last June prices have simply run away from wages. The actual facts are these: In the six months from June to December of last year wholesale prices spurted by 24%, and consumer prices jumped by 15%. Over the same period average hourly earnings in the manufacturing industries rose by only 4 to 5%. This has cut deeply into the standard of living of millions of families. But more important it is this development which lies behind the fear to which I have already referred, that a recession will strike sometime in 1947. This fear is apparent on all sides. It is shown in the behavior of the stock market, which has been crawling on its belly for many months now. It is shown in the behavior of the forward commodity markets where prices for forward delivery are quoted at substantial discounts from spot prices. It is shown in the price cuts for soft goods at the retail level and in the efforts which retailers everywhere are making to trim their inventories.

The fact is that it is generally recognized that the present market is being sustained by a number of abnormal factors which cannot be expected to last much longer. First, during 1946 business spent about seven billion dollars to replenish inventories and to fill the pipelines. That restocking is finished. Indeed, there is some reason to believe that the pipelines are overflowing so that we must expect in 1947 not only a decrease of seven billion dollars of business spending for inventory purposes but perhaps even a further cut as business seeks to liquidate some portion of its present inventory position.

Second, business investment in plant and equipment has been running at extremely high levels. Thirteen billion dollars in 1946 was spent for durable equipment and an additional four billion for construction.

These expenditures were substantially greater than were required in 1941 and 1942 to mobilize our economy for total war, that is, to bring our production from about 60% of capacity to total capacity operations and at the same time to tool up the economy for the production of the flood of tanks, planes, ships and guns that were required to win the war. There is reason to believe that the investment of 1946 has skimmed the cream off the postwar investment opportunities and that the present level of investment expenditures cannot continue for very much longer. In this connection it should be noted that the rapid rise of prices since the elimination of price control creates a strong probability that the volume of construction, both residential and non-residential, will be choked off just as it was in 1919-1920.

Third and finally, the volume of consumer expenditures in 1946 was also sustained by a number of abnormal factors which must be expected to disappear in the course of 1947. The veterans have already built up their basic wardrobes. The civilian population has made good a substantial proportion of its backlog requirements, particularly of the soft goods. With regard to the demand for hard goods it should be borne in mind that a substantial proportion of the potential reflation of consumer credit has already taken place and that the wartime savings—never very large—of the lower half of our population has already been used up.

Consumer Demand to Decline 10%

Putting these factors together, it would seem to me that a decrease of demand, both business and consumer, of about 10% must be expected sometime during this year. On the other hand, production is steadily increasing as bottlenecks are removed and output per man hour increases. After World War I output per man hour increased by 10% per annum for each of three years. I shall be very much surprised if we do not better that performance this time. I cannot see how our capacity to produce this year can increase by less than 10%.

A 10% decrease in demand plus a 10% increase of production spells a more than 20% decline in prices unless something is done to prevent it. Whether or not you fully accept my reasoning, however, it should be obvious that the business community generally is thinking along some such lines. How else explain the well-nigh universal expectation of recession?

What Remedy?

Turning back to the question of the imbalance between wages, prices and profits, it is an extraordinary and I think hopeful thing that both sides in the controversy over wages, management as represented by the National Association of Manufacturers, as well as labor are agreed that prices have run away from wages and that the present situation cannot last. But while the two sides agree in their diagnosis of the trouble, they disagree on the remedy. Management contends that the way to restore balance is to hold wages where they are now and permit prices to fall. Labor on the other hand is asking that wages be increased to permit workers to meet the present cost of living.

Before discussing which of these remedies would best serve the national interest let me point out that the proposition that prices have run away from wages can be put another way, namely, that profits have run away from wages. This is obvious, since profits account for the major part of the difference, the margin, between wages and selling price. When the NAM agrees that prices are too high compared to wages and have got to come down, it is also agreeing that profits are too high compared to wages and must come down. So there is no disagreement between management and labor on this point either. Management cannot continue to get as large a piece of the national pie as it has been getting in recent months. And management agrees that this is true.

Now which of the two remedies proposed—a rise of wages or a fall of prices—would be best for all of us? That is the heart of the debate. My own position is that a strong case can be made for a position down the middle—some fall of prices on the one hand and some rise of wages on the other. Let me explain why I think so.

It must be clear to any thoughtful person that many prices have skyrocketed out of all proportion not only to wages but to other prices as well. It would be neither wise nor feasible to get wages and other prices up to these fantastic levels. And we should not forget that wage increases large enough to prevent any fall of prices from present levels might easily touch off a new wave of speculation and hoarding such as that which we had last year. If this happened, prices would spurt upward once more, and when the crash came, as it is bound to come, it would be that much more serious and would hurt that much more.

Drop in Prices Bring Depression

On the other hand, it should be equally clear that a sharp and general decline in prices would result in serious losses to business on the inventories they hold, and might easily cause a dangerous decrease in production and employment. We have never had a sharp general decline in prices without these consequences, without bankruptcies, unemployment, in a word, a depression. Surely a general increase of wages which would increase buying power and so cushion the decline in prices and the resulting blow to business has much to be said for it.

It is my judgment, as I indicated above, that if wages are not increased, prices will fall by about 20% sometime this year. This would just about wash out the increase in prices which took place between June and December of last year. This is the decrease of prices which I believe is required to bring our ability to buy into balance with our ability to produce. So sharp a decline of prices could not fail but result in a recession of serious consequences to all of us.

This recession can be avoided, or if not avoided altogether, its force can be reduced by a general increase of wages. The question is how much. I do not want to be dogmatic, but I would like to suggest that a 15% increase of wages on the average—more in some cases and less in others—would hold the decline in prices to between 5 and 10% and take the sting out of the recession that just about everybody expects. Perhaps another combination of wage increase and price decrease would be better. I leave that to you. In making up your own prescription remember that wages amount to about 50% of the gross value of output, so that the sum of the wage increase and the price decrease necessary to restore balance between purchasing power and output must be greater than the decrease in prices, if that is the only factor employed. Whatever combination you prefer, it does seem to me that it makes no sense to sit on our hands and not lift a finger to prevent, or at least reduce, the force of the recession which almost everybody expects.

Wants Wage Increases

It would be statesmanship of high order, statesmanship that would benefit business no less than the rest of us, if management would grant wage increases to increase buying power at the same time as it is compelled to reduce prices to push sales. Why does not the NAM see this? Well, there are two reasons which they advance. First, they say that even if business generally is making record-breaking profits, which it is, not all firms or industries are in such favored position so that a wage increase will put some firms into the red.

This argument, I must say, doesn't make much sense. You will remember that the NAM has agreed that prices are too high and must come down. Since profits, as I pointed out, account for the major part of the difference between wages and selling price, the NAM has already agreed that profits are too high and must come down. Surely business profits are squeezed just as much by a fall of prices with wages remaining the same as they are by a rise of wages with prices remaining the same. The truth is that the inefficient firm cannot be protected from the effects of its own inefficiency. Such firms lose money until they go out of business, and they always will. The difference between the two remedies for our present trouble which we are discussing is this: If prices are allowed to collapse and a recession results, not only inefficient firms but hundreds and indeed thousands of efficient firms as well will be forced to the wall. That is what always happens in a recession. A general wage increase which prevents a recession means fewer business bankruptcies and not more.

The second argument advanced by the NAM is that an increase of wages will help only the organized workers and will not help the unorganized workers and the fixed income groups, the government workers, the school teachers, the policemen, the postmen, etc. A fall of prices on the other hand, it is urged, will reduce everybody's cost of living. This argument is plausible, but I do not believe it will stand up under examination. One of the outstanding facts of recent years is that wages of low-paid workers, unorganized and organized both, have increased more since the outbreak of the war than have the wages of high-paid workers. This always happens in periods of prosperity, and it is always reversed in periods of depression. The wages of low-paid workers are the first to go down when jobs are scarce, and they go down faster and further.

And with regard to the school teacher, the policeman, the fireman, and so on, surely it doesn't make sense to try to redress the injury which the rising cost of living has done these groups by putting the rest of the country through a depression. There is a more sensible way to right the wrong done these people, namely, for the Federal Government, State governments and municipal governments across the country to increase their wages.

NAM's Objections

Now the spokesmen for the NAM are smart enough to know these things. Why, then, do they oppose wage increases at this time? The answer, I regret to say, is that some of them at least do not want to prevent a recession. Indeed, they prefer one. They are tired of labor that is "independent" because there are plenty of jobs. They wish, as they put it, to restore "discipline." They wish to see lines of men before the factory gates waiting hat in hand for jobs that aren't there.

To these men I should like to say that it is easier to unleash the forces of depression than to bring them back under control. And I should like to remind them that as our whole history shows, a depression which would bring labor to its knees would bring farmers and businessmen and the economy generally to its knees at the same time. That way lies disaster for all of us.

We can only hope that the forces of reason, of moderation and goodwill will prevail. We can only hope that management will sit down with labor to work out this problem amicably, raising wages to increase buying power and at the same time reducing prices to push sales. Recession can be avoided. Prosperity can be maintained. The way is clear and the method simple. All it takes is good sense and goodwill. I know you will join me in hoping that these qualities prevail.

Warren Wood With Baker, Simonds Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Warren A. Wood has become associated with Baker, Simonds & Co., Buhl Bldg., members of the Detroit Stock Exchange. Mr. Wood was formerly with Alison & Co.

With Southeastern Secs.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA.—Frank C. Pelot has been added to the staff of Southeastern Securities Corporation, 304 West Adams St.

With A. B. Morrison Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—George E. Patterson, Jr., is now with A. B. Morrison & Co., Congress Building.

With Robt. F. McMaster Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Frederick R. Kelley has become associated with Robert F. McMaster & Co., 135 South LaSalle Street.

Joins Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Barley Ellsworth Arrington has been added to the staff of Shearson, Hammill & Co., 208 South LaSalle Street.

With Paul H. Davis & Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—George W. Dyer, Jr., has become affiliated with Paul H. Davis & Co., Merchants Bank Building.

Defects and Remedies of Banking

(Continued from page 876)

between such agencies and the supervisors of . . . States."

There is plenty of evidence to the effect that it was not easy for the rival authorities to realize even such progress as has been achieved in devising harmonious courses of action. But, it is more worrisome still that the regulatory authorities themselves have been unwilling to predict that this cooperation can be guaranteed to endure. Thus, in its "Annual Report for 1938",[2] the Board of Governors argued that the interpretation of the recently achieved voluntary agreement regarding uniform policies of bank examination between the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Board of Governors, "may vary from time to time in accordance with the points of view of those responsible for the policies of the three agencies." Nor was it so long ago that the Federal Deposit Insurance Corporation entered the lists against the Board of Governors of the Reserve System as the champion of the exchange-charging, and, therefore, non-member banks, on the issue of whether the absorption of an exchange charge by a balance-holding city correspondent constitutes an indirect payment of interest on a demand deposit.[3]

All this is part of the official record and must be shocking indeed to those who believed with Superintendent Broderick of New York in 1944 that:[4]

"Such disparity as still exists in banking practices due to differences in laws will tend to disappear as the national program is carried out and all banks having deposit insurance become members of the Federal Reserve System."

Problems of Bank Organization and Control

For a variety of reasons economists ought to be more concerned than they have been with the problems of bank organization and control. At the present time the fashion is to interpret changes in the national income in terms of the ratio that has prevailed between savings and investment. Certainly, in realistic studies of this problem, adequate attention should be given to any failure to tailor the powers of our thrift-gathering institutions to investment outlets in particular localities. Not nearly enough thought has been given to the proper integration of our auxiliary credit institutions, i. e., those which for the most part merely distribute deposit currency which the commercial banks initially bring into being.

It would not be expected that the Board of Governors would go deeply into the question of the relationships of commercial banks to other types of financial institutions. This would be to pass beyond the field of the Board's principal responsibility. But one broad issue the Board did inject into the discussion—the question whether examination procedure applicable to individual banks meshes properly with the general credit operations of the Federal Reserve banks. Examiners deal with local situations on the basis of precedents established over the long period of time and the Board argued that the combined influence of examiners' opinions during critical periods may not be at all in conformity with national credit policies. This is a matter we heard a lot about in 1933 and may hear much more of again; and it may perhaps be regarded as the basic complaint of the Board; and the conclusions of this paper are predicated on the assumption that this complaint is legitimate.

The Board of Governors did not by any means, however, exhaust the subject of the inadequate adaptability of our existing banking structure to the requirements of general credit policy and there are many respects in which economists would want to supplement it. Take, for instance, the problem of the effects of the Treasury's drawing in funds from particular parties at given times by—say—taxes and thereby diminishing the reserve balances of certain member banks; and, then, later, to disburse these funds to those who may keep their deposits more largely in non-member banks. There is a wide dissimilarity between the reserve requirements of some States applicable to deposits of non-member banks and those which Federal Reserve member banks must meet. Not only do percentage requirements vary, but some States include securities and cash in vault in legal reserve funds and it is customary to permit varying amounts of deposits with city correspondents to be counted as reserves. When this latter procedure is permitted the pyramiding of reserve credit into the vast overstructure of deposits held by the public may proceed to a much greater degree than if all banks were members of the federal reserve system. In the case of Iowa, for instance, a deposit credit at a member bank may comprise 85% of the required reserve against demand deposits of a commercial non-member bank. Shifting of deposits back and forth among the 6,400 non-member insured commercial banks and the 6,900 member banks, affecting as it does the reserves required of particular classes of banks, may thus exert profound effects upon credit conditions. Such differences in reserve requirements complicate the task of the reserve administration, not only in estimating the needs of the country for more or less reserve credit, but, also, of avoiding, through their operations, effects that are not desired. I wonder if one of the reasons why it is now so fashionable to disparage the importance of monetary factors in business cycle theory is not the general clumsiness of the system with which our general credit authorities have to deal. Uniformity of reserve requirements against similar types of deposits would seem to be desirable.

Problem of Modernization of Banking Structure

Why has it proved impossible to effect any substantial modernization of our banking structure? In answer to this question anyone can recite a plenitude of doleful facts. But the basic answer is that there always appears to be a good reason, when a new credit agency is created, for giving it some of the powers of an existing agency without relieving the older agency of responsibility for the exercise of these same powers. Then, again, it seems not to be politic for any authority to make suggestions for reform which would trespass upon the prerogatives of other authorities. The Board of Governor's indictment of 1939[5] is thus to be regarded merely as a bill of complaint. It is part of the Board's apology for its inability to employ credit powers more effectively to help stabilize the economy. One cannot even be certain that the Board would welcome that concentration of authority which would make its responsibility ers, themselves, no one would clearer. On the part of the bank-seriously contend, I suppose, that the American Bankers Association is so constituted that it can act daringly in the direction of advocating a redefinition of the powers of some types of banks in favor of other types, or of prosposing limitations on the powers of any of the supervisory agencies with which the bankers deal.

If any thoroughgoing reform plan is to receive serious attention from the lawmakers, initiative will have to be taken by economists or by some other non-banking group.

Proposals for Banking Reforms

This is my apology for offering a few blunt suggestions of my own, primarily for the purpose of stimulating discussions, and without confidence that all opinions can be sustained before the experts. But we have had enough of compromise and concession in the discussion of principles and the burden of doubt would seem to be against the zealous respecters of unplanned development. I am firmly convinced, moreover, that failure to systematize the banking structure will encourage a far more complete regulation by the state of the affairs of all business than we have yet experienced. Monetary planning operates primarily through general forces and, if successful, lessens the necessity for the application of specific controls to particular enterprises.[6]

Proposals which follow ignore the question of relationships of the commercial banking system to the Treasury. As demonstrated by the preceding speaker this problem alone would require the time allotted for an entire paper.

My initial proposal isn't novel in any sense. It has been made many times. It is merely that all demand deposit banks be required to belong to the Federal Reserve system, and that also the law should be clear that other types of banking institutions shall not be members of the reserve system.[7] It is the demand deposit banks that manufacture the country's principal exchange media, a part of which other institutions distribute in their loan and investment operations. While it is not true that time deposits are never originated through loans and investments, it is generally agreed that it is to the demand deposit banks that we must look if we wish to explain the main fluctuations in the outstanding volume of bank credit. Since this is so it would seem to follow that the reserve authorities cannot adequately discharge their responsibilities if they do not have supreme supervisory, as well as operational, connections with the demand deposit banks.

Two means of bringing all the demand deposit banks into the Reserve System have been suggested. In the first place, Federal Reserve membership might be made a mandate of Congress under the general authority of the legislative branch to regulate the country's currency. Secondly, law might provide, in the manner of the original conception, that the only commercial banks which may be insured by the FDIC must be members of the Federal Reserve system.

The requirement that all insured banks must be members of the reserve system might not be adequate to accomplish the purpose in hand. I, therefore, favor the employment of both of the above measures. It certainly is a matter of concern that at the present time there are almost as many insured non-member banks classified by the Board of Governors as "commercial" as there are member banks.

The problem of distinguishing between commercial and non-commercial banks presents certain technical difficulties and it will be argued later that it would be impracticable to deny demand deposit banks the right to deal in time deposits. It will be necessary, therefore, to set up some arbitrary test in distinguishing between commercial and non-commercial banks, such as the fixing of the percentage of the bank's total deposits—say, at 30%—that must be of the demand character. Further reliance upon the discretion of authority might be necessary in cases like some trust companies whose non-deposit operations reach large proportions.

Proper Methods of Examinations

If we assume, however, that the technical difficulties of distinguishing between commercial and non-commercial banks can be surmounted with sufficient precision for legislative purposes the next problem would be that of the proper method of examination and supervision of the commercial banking system. Guiding principles in my opinion, should be the following:

1. The overlapping authorities and powers of federal agencies should be minimized by statutory law; and,
2. Any such legislation should concentrate supervisory authority in the system that is charged with the principal responsibility for the determination of general credit policy; and,
3. Every feasible administrative device should be employed to coordinate the supervisory activities of state and federal agencies.

In discussions of the problem of reducing the area of overlapping supervisory powers possessed by federal agencies opinions have differed as to whether it would be wise to increase the authority of the Federal Reserve system, that of the Comptroller of the Currency, or of the Federal Deposit Insurance Corporation. To me it does not seem logical to provide that unification should proceed by giving the insurance authority the general credit responsibilities of our central banking system. Equally indefensible would it seem to be to try to develop the federal chartering system, the National Banking system, into an agency for the determination of general credit policies. There would thus seem to be no alternative, if we sincerely want unification and modernization, to concentrating supervisory power over demand deposit banks in the Federal Reserve system. In undertaking such a course, however, we should not lose the benefits of the National Banking system's most important asset, its developed examination facilities. It is thus here urged that:

1. There be legislation to have the office of the Comptroller of the Currency absorbed into the Federal Reserve System and that the Federal Reserve examination system be reorganized in a way appropriate to this fact; and,
2. Congress provide that, as soon as any state government undertakes to promise reasonably similar state charters to national banks operating in its territory, the Federal government shall cease therein to hold the charters of banks of demand deposits. Eventually it would be hoped, the national banking system could be liquidated.
3. Law should also provide that the certification of demand posit banks for insurance status in the FDIC is a responsibility of the Board of Governors of the Federal Reserve system and that the FDIC should be relieved of all supervisory authority over the country's commercial banks. Under this arrangement any losses to the FDIC resulting from the certification of commercial banks that fail would be regarded, of course, as a responsibility of the Federal Reserve system. If the technical objections to this arrangement are deemed valid it at least could be provided that an insurance department be set up in the reserve system. But this is advocated only as a last resort.

The general objective is thus to provide for compulsory membership in a reserve system composed solely of state-chartered commercial bank members.

Comptroller of Currency

The proposal to have the Federal Reserve System absorb the office of the Comptroller of the Currency is an old suggestion and is made for several reasons. In the course of its honorable career the office of Comptroller has developed prestige; and precedent, as well as statutory provisions, supports it standing before courts of law. It has assembled, moreover, a superb staff of bank examiners. The most spirited attack on the proposal to merge this office into the reserve banking system was made by Comptroller Dawes in 1923.[8] At this time, however, there was little duplication of supervisory authority, at least in comparison with recent standards of confusion, and the Federal Reserve System was then young and relatively untested. Experience, moreover, had not then indicated so clearly the intimate connection between supervision and credit management.

The abandonment of Federal chartering implies that such uniformity in commercial banking procedures as is henceforth to be regarded as essential would have to be obtained under the authority of a revised section of the statute having to do with membership requirements in the Federal Reserve system. Presumably, under the general power of Congress to regulate the nation's currency, membership requirements could be made as specific and detailed as necessary for the purpose of keeping sound those institutions which provide the country with its principal medium of exchange. In matters, however, that are primarily procedural in character, or which embody merely local ideas of equity and do not affect the solvency or adaptability of commercial bank operations to national credit policies, such, for instance, as methods of exacting interest on loans, it wouldn't seem to be a primary concern to the reserve authorities what state law provides.

For those who think it is a reckless proposal to advocate the eventual abolition of the national chartering of commercial banks, all of which must be members of the reserve system, I would point out:

1. If the Federal Reserve system had existed in 1863 we probably would never have heard of the National Banking system; and
2. The national government, simply as a matter of diplomacy, must make some concession to state governments if no state commercial bank is to be allowed to exist without meeting the eligibility requirements of the Federal Reserve system; and,
3. Even now there are over 1,800 state-chartered members of the Federal Reserve system with deposits amounting to more than a half those of national banks.

The rival suggestion to try to achieve unification in our com-

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2 Page 4.

3 The position of the Board of Governors on this matter was made known to Senator Wagner on Jan. 24, 1944. See Federal Reserve Bulletin, Feb., 1944, pp. 126-131.

4 See *Annual Report of the Superintendent of Banks for the State of New York for the year 1934*, p. 8. The act of Congress of June 20, 1939, repealed the provision of the Federal Reserve Act which would have required state banks with average deposits of $1,000,000 or more to be members of the Federal Reserve System in order to have their deposits insured.

5 Covering operations for the year 1938.

6 *Cf.* Harold L. Reed, "Federal Reserve Policy and Economic Planning," *American Economic Review*, Proceedings, March, 1933, pp. 108-118.

7 The nearest the Federal Reserve Act comes to confining membership in the reserve system to commercial banks is the provision of section 9 that, in acting upon applications for membership, the Board of Governors shall consider whether or not the corporate powers are consistent with the purposes of the act.

8 See the Report of the Comptroller of the Currency for 1923, pp. 17-24.

mercial banking system by requiring the Federal Chartering of all commercial banks goes too far to be practicable and its frequent reiteration has retarded prospects of modernizing the system.

Dual Supervision

It is true that what is here advocated would leave commercial banks subject in some degree, at least, to dual supervision. There is no way by which a state government can be prevented from examining banks it itself has chartered. But the danger that sometime in the future the FDIC may develop into a supervisory system rivaling the Federal Reserve system, at least, would be averted. With the abandonment of the national banking system, moreover, we would no longer have to witness the spectacle wherein more liberal powers are sometimes conveyed to state bank members of the reserve system, in such matters as mortgage loans,[9] than are granted to national banks. The FDIC, moreover, as it will appear later, would still continue as an insurance system for commercial banks, and, even as a supervisory agency for certain non-commercial institutions.

There is current in discussions of banking reform another proposal that, so far as demand deposits are concerned, would remove any necessity of continuing the FDIC as a supervisory agency for commercial banks. This is the scheme to require banks to maintain 100% reserves against all their demand deposits. But while this plan embodies a logical philosophy and offers the incidental advantage of making the insurance of demand deposits unnecessary, I think it would be a mistake to freeze reserve ratios at the present time at any particular level, even though that level be 100%. As indicated above, future credit problems will require the most expert administrative treatment and I doubt if the time is ripe to have the Federal Reserve banks give up any of their existing weapons. The power to change reserve ratios may be needed in the future because this weapon possesses certain properties not inherent in discount and open market operations.[10]

Savings and Time Deposits

How to straighten out the relationships of commercial banks to the Federal supervisory agencies constitutes, however, only a small part of the problem of reforming the banking structure. A very important aspect of the problem and one that too often is neglected is that the proper integration of commercial banks with those institutions which mobilize thrift and whose advances should be especially adjusted to the necessities of the local community.[11] Aspects of this problem that are of special importance are the following:

1. The extent to which the small saver should be serviced by time deposit departments of commercial banks instead of by specialized thrift institutions like the mutual savings banks; and,
2. Whether these specialized thrift institutions should be organized as independent corporations under separate sections of the banking law of the state instead of as departments of a general savings institution; and
3. If departmentalization, instead of separate corporate existence, is to be preferred, the proper means to bring about a change in the existing situation.

If all localities were large enough to support a fully equipped set of thrift-gathering institutions it might be feasible to consider plans to effect a complete separation between commercial and non-commercial banking. But, in the smaller communities, particularly, the necessities of realizing economies in overhead expenses, of conveniencing bank customers, and of encouraging a reasonable degree of competition seem to make it necessary to permit commercial banks to continue time deposit departments.

Since it thus seems impracticable to effect a complete separation between commercial and non-commercial banking it is pertinent to ask if the time is not ripe to revive the old proposal to require the segregation of assets, as between demand deposit and time deposit departments of commercial banks. This proposal, of which little has been heard since the creation of the present system of Federal deposit insurance, is here put forward, not only for the classical reason that it would lead banks to adjust their earning assets more scientifically to the character of their deposits, but, also, for a special reason that arises out of the position accepted in this paper of how best to minimize the degree of overlapping authority possessed by the different supervisory agencies. Under the plan of segregating assets arrangements would tend to be facilitated between Federal reserve and state examination authorities whereby the Federal agency could give especial attention to the commercial department and the state authority to the savings department of a commercial bank. In this way, the evils of overlapping supervisory authority in the commercial banking field might be greatly minimized.

But, even though commercial banks retain, as they will, their time deposit departments, special state-authorized institutions will continue to flourish in the field of thrift-gathering and I do not regret this is so. The theoretical basis for this deference to specialized savings institutions is the preference for a banking system that, so far as is possible, meets the requirements of borrowers by methods that utilize already existing credit before new credit is originated. When a saver transfers funds from the demand to the time-deposit department of a commercial bank, he does not directly increase the lending power of the bank as a whole. What happens from this transfer is merely that the character of the bank's liabilities has been changed. Any resulting increase in the bank's loans or investments will have to be the consequence of the reduction in the bank's reserve requirements. But the amount of reserves that are thus released depends on the arbitrary fixation of reserve requirements for the two classes of deposits; and, furthermore, when a bank makes use of its freed reserves it manufactures new deposit credit.

A transfer of a demand deposit in a commercial bank to a savings deposit in a thrift institution on the other hand, either directly or via transactions in common currency, has different consequences. What then results is in most cases that the savings bank becomes the depositor in come commercial bank. The savings bank is thus put in a position to swap its demand deposit to a borrower. No new bank credit is created by this type of a transaction.[12]

On general *priori* grounds it seems preferable that the existing mass of bank credit be employed before new credit is manufactured. Sluggishly used credit does not thereby come into existence which at some later date may burst forth with inflationary consequences. Limiting the volume of credit closely to current needs increases, furthermore, the contact between the central banking system and the member institutions and makes the latter more dependent on the policies of the former. Back in 1928 all this was discussed under the heading of the difficulties of curbing the stock market use of credit which initially resulted from the operations of the reserve banks themselves. In the future this same problem may manifest itself in different guise. But, no matter what its special manifestations, the essential nature of the problem will be the same.

But there are other reasons for welcoming the existence of specialized thrift institutions. In the first place, their procedures may be especially adapted to the encouragement of particular classes of savers. Herein, I think few will deny the unique advantages to some savers possessed by the installment share of Savings and Loan associations, as against simple time-deposit pass book accounts which do not require continued payments at seried intervals. Secondly, the type of authorized loans may be especially adapted to the investment needs of the locality or the general territory wherein the bank is situated. Thirdly, these institutions are operated and managed by those whose minds are not absorbed in the quite different problems of commercial banking.

But reasons for dissatisfaction with the existing structure of state-created thrift-mobilizing institutions are also numerous and varied. For one matter, too many types of institutions provide essentially the same service so that unnecessary overhead expense is imposed upon the borrower and so that it is often impossible to secure as able executive talent as otherwise would be available. Then, again, each of various institutions constantly approaches the state legislature with demands for special privileges as against institutions organized under other sections of the banking law. In this way the problem of legislation and supervision is complicated by institutional jealousies and rivalries. Finally, each type of institution insistently demands protection against other institutions which have invaded its especial domain. An illustration, herein, would be the Industrial Banks of New York which finally got the right to accept demand deposits and which incidentally may be members of the Federal Reserve system. While all this may be right and proper, it has always seemed to me that, if the state desires more commercial banks, it should see that they are created by direct processes instead of by listening to the argument that equity requires other types of institutions to be protected against commercial bank competition.

The existing system, moreover, is replete with inconsistencies and impartialities in the treatment of particular institutions. Why New York Savings and Loan associations, for instance, should be permitted to pay a higher rate on savings shares than mutual savings banks are permitted to pay on savings accounts is a matter that has often been explained to me but without leaving any enduring understanding. Finally, and probably of more interest to economists is the fact that the different institutions do not constitute a system as a whole that tailors as well as it should the flow of savings to the needs of borrowers in the community wherein the savings arise.

Time does not permit comprehensive consideration of the means of implementing needed reforms in the structure of state-sponsored thrift-mobilization institutions. For those, however, who sometime may have the assignment of making recommendations to state legislatures on this question I would suggest that consideration be given to the encouragement of mergers among the varied types of thrift institutions so that, thereafter, they would operate as separate departments of a consolidated organization, each with its assets segregated, instead of as individual corporate entities. If such department stores of thrift could once blossom, plans of banking integration could then be promulgated without encountering as much opposition from special interest as now would originate from the necessity that each type of institution be protected against other types.

Efforts to systemize the organization of non-commercial banks will be complicated by the fact that there will be 48 state legislatures with which to deal. But it should be remembered that a comprehensive reform plan adopted by a single state would tend to be studied carefully in other states. Without being oppressive, moreover, the activities of the Federal insurance agencies might be so directed as to lend encouragement to the wise integration of local banking institutions.

Conclusion

In conclusion it may be reiterated that what is here advocated would tend to unify credit and supervisory authority over commercial banks in the country's central banking system; would preserve the office of Comptroller of the Currency; would maintain a position of reasonable influence for the FDIC[13] and would respect state authority with the fullest extent compatible with the necessities of structural simplification of our commercial banking system.

Although it now seems impossible ever to lessen the authority of an existing credit agency, or the powers of particular classes of banks, future economic necessities may well be such as to create an overwhelming demand for genuine reform. Economists should at least be prepared for such an eventuality.

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9 In New York State, for instance, state member banks may loan an amount equal to 66⅔% the appraised value of the property that is mortgaged. National banks, may not loan an amount in excess of 60% of the appraised value of the property.

10 It may take a long time, for instance, for Federal Reserve open market operations conducted in the country's money market centers to affect the reserves of interior banks.

11 Savings that otherwise would find an investment outlet may remain as inactive hoards if there is no local use for the funds and if their external employment is prohibited by market frictions, ignorance of outside conditions and other such factors.

12 This point might be applied to the problem of the fixation of relative reserve requirements for demand and time deposits of commercial banks. Differences might be determined on the basis of trying to get the same effects on the loan volume from a transfer of a demand to a time deposit in a commercial bank as from a transfer of a demand deposit to a savings account in a specialized thrift-gathering institution. In this way the effects of thrift could be more easily analyzed and predicted and, moreover, it would no longer have to be admitted that differences in reserve requirements have been determined in a purely arbitrary manner.

13 The FDIC and the FS and LIC would continue as supervisory agencies for those state-created institutions that desire broader insurance coverage than could be provided by a state insurance system. Perhaps the appropriate time to combine the FDIC and the FS and LIC would be after significant progress has been achieved in merging state thrift institutions.

Expect New York State Banks to Inaugurate Saturday Closings April 5, Day Before Easter

Stephen's permissive closing bill passes both Houses in Albany and now goes to Governor for his signature. Action of New York Clearing House Association on Saturday closings expected to determine policy of other banks in State.

From all indications, it appears practically certain now that New York State banks will be able to inaugurate Saturday closings as early as April 5, the day before Easter. The Stephen's permissive Saturday closing bill, sponsored by the New York State Bankers Association, has already passed both houses in Albany and the Governor is expected to affix his signature to the measure within a week or ten days.

Though, once the bill becomes law, any bank could theoretically commence closing on Saturday whenever it desired, it is understood in banking circles that it will be the New York Clearing House Association that will set the exact date for the first Saturday closing. All banks in the state that want to close Saturdays are expected to follow the lead of the Association in this matter. The large New York banks affiliated with the Association must notify their foreign correspondents of the change in the number of days in which business is to be transacted and this notification operation is expected to require some little time. The banks in Massachusetts are closing Saturdays commencing March 8, it is understood, and a preliminary survey of what has to be done to achieve Saturday closings in this state leads to the conclusion that the New York banks may reasonably expect to start shutting down Saturdays a month later, that is, on April 5.

Opinion among banks is not exactly unanimous on the question of Saturday closings, but the permissive feature of the Stephen's measure is believed to have been largely responsible for successfully allaying the opposition of some upstate banks which do not want to close Saturdays. Efforts of the CIO to make the Saturday closings mandatory and to incorporate in the law a provision prohibiting banks from reducing the salaries of bank employees in going from a five-and-a-half to a five-day week were also thwarted. It is likely anyhow that CIO fears of a reduction in earnings from a shorter work week are entirely groundless.

It is unlikely, too, that banks will lengthen the work-day to take up the slack in working hours occasioned by the fewer days of work each week as this move could under certain conditions involve complicated issues of overtime pay. Experience of the first few months under the new system of fewer days and fewer hours of work will indicate to the banks any need that may exist for extra hours of work.

As soon as it is definitely determined that the banks will close Saturdays, the question of Saturday closing will then become important to the various exchanges—the New York Stock Exchange, the New York Curb Exchange and the New York Cotton Exchange—and the other institutions of New York's financial community. The New York Stock Exchange is known to be considering what to do itself in the event the banks closed on Saturdays. In fact, as reported in our columns before, Emil Schram, President of the NYSE, is discussing with members of the Exchange all over country on whether to add a half-hour or more to trading hours each day in the event of a five-day week in the industry.

Railroad Passenger Prospects

(Continued from page 876)

unless the endeavor is genuinely wholehearted.

Such an effort is inescapable for several reasons, among which may be noted:

(1) Some minimum volume of passenger service must be provided anyhow and it is worth the effort to find out whether it can be made to pay its way.

(2) Railroad passenger service, under favorable conditions, has shown its ability to gross over two billion dollars, and no such volume of potential business should be lightly discarded without a struggle both to hold onto the volume and to find means of making it yield a satisfactory net.

(3) Interstate Commerce Commission figures produced by a formula devised by the Commission, showing high operating ratios for passenger service are considered by many railroad men to be misleading, on the ground that most railroad passenger operations are a by-product of freight service . . . and anything they yield above direct costs is actually a contribution to net income.

(4) An unfavorable public relations reaction would be inevitable if the railroads should arbitrarily minimize their passenger operations without first giving a conclusive demonstration of the revenue results of a thoroughly modern and up-to-date service.

As the railroads, or at least most of them, are committed to this experiment, it is not only desirable but essential that the whole industry and its responsible officers. should acquaint themselves as thoroughly as possible with the characteristics of the passenger service, with the problems which it presents to the principal railway departments, and with the present plans and accomplishments of the railroads and the manufacturers who are the leaders in this effort.

Fluctuations in Passenger Traffic

That there have been enormous and violent fluctuations in the railroad passenger business is a well-known historical fact. From 1920 to the low point in 1933 the business declined two-thirds in volume and 70% in revenue, and then recovered 80% in volume and 43% in revenue by 1941, before the war had any effect upon it. During the war the revenue exceeded that of 1933 low point by 335% and volume (passenger-miles) rose five-fold. In 1946, with the war rapidly fading into history, passenger traffic and revenues declined, but in September of that year while passenger revenues were down more than one-third from September in the peak war year of 1944, they were still more than double those of September, 1941, just before Pearl Harbor.

There are some observers of the business who think that the service was improperly priced during the latter half of the 1920s, since during that period the operating ratio constantly mounted while the passengers per train declined. While it is true that the average fare was steadily reduced during those years—the "basic" rate, which was the one which the public bore in mind, was rigidly retained at 3.6 cents per mile. The rapid improvement in volume which came when rates were reduced and service began to be modernized in the mid-thirties suggests an answer to those who are unduly frightened at the prospects of competition.

Rails Have Demonstrated Ability to Compete

The railroads with relatively slight improvements in equipment, that is in the number of passenger carrying units as related to total passenger equipment and in service in the late thirties, demonstrated an ability almost to double their volume of traffic in the face of rapidly growing competition from both highway and air; and there are 7½ million more Americans in 1946 than there were in 1941.

Past history also indicates that the passenger service cannot be very profitable under the low rates now required to attract a high volume of business, unless a relatively heavy average train load can be secured. This was easy to achieve in wartime when lack of other transportation facilities drove passengers to trains, even under conditions where railroad service was less convenient than alternative means of travel.

Equipment Improvements

The cars and locomotives which will make up the new passenger trains will be like those in the trains installed since the middle 1930s. The characteristic features of the cars in these trains are reduced weight, improved riding comfort, increased interior cleanliness, seats designed for passenger comfort and convenience, more lounging space and distinctive and attractive exteriors.

One of the significant results of the instalation of air conditioning systems has been much more cleanliness in the cars. This has also expanded the opportunity for interior decorative treatment which has also materially affected the color, character and style of personal apparel for traveling.

Further efforts are being made to affect further weight reductions. The possibilities of reducing the weight of the car body have been pretty well exhausted, so attention is now being given to all the exterior and interior items of equipment which are an essential part of the finished car . . . the running gear of the car, couplers, draft gears, air brake equipment and trucks have all been subjected to intensive study.

Passenger locomotive power for the foreseeable future is also pretty well established. Diesel electric locomotives and steam-turbine locomotives have already demonstrated their adaptability for passenger service.

Months before the war was over railway executives and passenger traffic officers had made plans for improved service that was intended to be so extensive as to constitute a veritable revolution in railway passenger business. But with the advent of peace many handicaps, primarily material shortages brought about by strikes and work stoppages, have prevented the prompt and complete accomplishments of these plans . . . at least has delayed for months the instalation of a large number of streamlined trains which were ordered prior to the end of the war.

While these improvements are definitely in progress, the rehabilitation and further development of railroad property to enable the railroads to remain in the forefront of passenger transportation presents railway management with many important decisions. One of the most important of these has to do with the fixed properties that must carry or service these modern streamlined trains.

Many railway managements realize that the improvement and maintenance of their fixed properties affecting passenger train operations, including road beds, track, bridges, passenger stations, locomotive and train servicing facilities, must be undertaken and provided to the standards that will be required by the new passenger train equipment and reduced passenger train scedules.

Somehow, someway the railroads managed to feed multitudes during the war, with particular attention being given to feeding troops. Civilian travelers frequently had long waits at mealtimes; the quality of the meals often was neither inviting nor palatable and the service at times was exceedingly poor. It should be remembered, however, that the railways on this continent were the only ones of the nations engaged in the war that attempted to provide dining car service at all.

The handicaps faced by the dining car departments were numerous and difficult; no dining cars were permitted to be built during the war and the dining cars available were called upon to handle up to ten and twenty times as many customers as had ever been served previously. Many dining cars frequently had to be manned with makeshift crews and inexperienced stewards, inasmuch as there was no draft deferment for railway dining car employes.

Now, there are a large number of new dining cars on order and when these start coming out of the car shops one of the difficulties of the railway feeding problem will be measurably solved. But, a number of progressive railroads are not going to be satisfied merely with new dining cars; they realize that supervision and experienced and skilled help to man the cars and conduct the service is essential. Several railroads have established schools where dining car employes will learn the refinements that formerly made eating on trains such a pleasurable experience.

Training for Friendly Service

A number of railroads have also adopted extensive programs for training employes in friendly service. The endeavor of the railroads to arouse employe interest and understanding are following a number of different patterns, among which may be enumerated the following:

(1) Circulars and messages in employee publications, giving the arguments for courtesy in hortatory form, without detailed instruction in the handling of typical difficult situations;

(2) Printed matter which publicizes outstanding acts of consideration and courtesy by individual employees, leaving the reader to draw his own conclusions as to the application of such a narrative to his own situation;

(3) Booklets, many of them illustrated with highly entertaining cartoons, which not only preach courtesy but show concrete instances of its application;

(4) Educational slide-films and movies, usually showing practical means of handling concrete difficult situations;

(5) Class-room instruction (usually by the "conference method") in dealing with the public or in some specific passenger department task (such as dining car service or selling tickets);

(6) Educational work carried out by spervisors and "traveling" employes.

It may also be expected that the railroads will adopt and carry on extensive programs for getting passengers on the trains through attractive and appealing advertising and modern merchandising methods.

This will take many different forms but will have to do with improved procedures in reservation bureaus and ticket offices. One of the important new developments in speeding up ticket sales is the automatic ticket machine.

During the war, railway ticket clerks were under such constant pressure that many of them gave way to the perfectly human inclination to be inconsiderate. This attitude was a war-time phenomenon of sales people in every industry and was not by any means confined to railway ticket offices—but the attitude, "don't you know there's a war on," is gradually being eliminated.

Reducing Train Delays

One of the major problems faced by any railroad seeking to operate dependable, high-speed passenger train service is to minimize delays en route, but as the railroads push average passenger train speeds toward 60 m.p.h. station and servicing delays are demanding and receiving increased attention.

The principal causes for delays in passenger train service fall into four general classifications:

(1) Those caused by the track and roadway, including both permanent and temporary speed restrictions;

(2) Those caused by interference by other trains;

(3) Those caused by necessary work in stations, such as the loading and unloading of passenger, mail, baggage and express;

(4) Those required for servicing the equipment in the trains including stops for fuel and water for locomotives, watering and icing cars, mechanical inspection and stocking dining cars.

Superior Convenience of Sleeping Cars

In the sleeping car the railroads have at their disposal a travel conveyance which provides a standard of comfort, convenience, dependability and safety not available to other forms of transportation. Although the competition of airlines and improved railroad coach will continue, the railroads are taking practical steps to retain a fair share of travel for their sleeping car services. Speed is an inherent advantage possessed by the airplane but cannot be off-set completely. However, speed of flight is not reflected always in a comparable saving of time. Many airports are relatively inaccessible, which often prevents the realization of time-saving advantages on short trips. Moreover, the cancellation of flights, failures to keep scheduled flights particularly in winter months, frequently creates delays and inconveniences in air travel.

While the speed of the air plane cannot be met by any form of ground transportation, it is the only travel factor which gives a seeming advantage to this form of travel. With respect to other factors, such as comfort, convenience, dependability and safety, Rail-Pullman services have unquestioned advantages over air travel. While apologists for the Commercial Airlines are frequently quite misleading with respect to the safety performance of commercial air transports, the inescapable statistical fact is that in 1946 Rail-Pullman travel was more than 80 times safer than domestic airline commercial service.

The domestic commercial airlines operating on regular schedules sustained 78 passenger fatalities in the year 1946, which was 2 more than the number incurred in 1945 and exceeded by a very wide margin the number of fatalities reported in any year prior to 1945.

In Rail-Pullman service in 1946 there were 3 passenger fatalities (all Military, no civilian) which compares with an average of less than one passenger fatality per year in the 10-year prewar period, 1930-1939.

Relating the 1946 passenger fatalities to the service performed, total number of passenger miles operated, (which is the only sound basis of comparison), the domestic commercial airline operated only 82.5 million passenger miles per passenger fatality, as compared with 6.8 billion passenger miles per passenger fatality for Rail-Pullman in the year 1946.

Attacks Airline Subsidies

But, it is primarily on railroad transportation that we all depend for fuel, foodstuffs and the other necessities of life. It is the railroads which provide us with economical, dependable transportation no matter what the weather. It is the railroads which are, more often than not, the largest taxpayers in any community. The present policy of subsidizing airlines tends through government aid, both federal, state and municipal, to weaken the railroads and is harmful to our country's economic structure.

Over a billion dollars of taxpayers money has already been spent on civil airports and in the next seven years it is planned to spend another billion dollars for these airports.

Meanwhile the railroads continue to maintain their own terminals, stations and tracks; provide and pay for their own traffic control, signal systems, and in addition pay heavy taxes in every state or community through or in which they operate. As against this, the commercial airlines make only token payments for use of these tax-free airports built and maintained by taxpayers. The government also provides their traffic controls and country-wide signal systems; they also have and continue to receive airline subsidies and preferential tax treatment.

The railroads, like all other forward groups in our country, want the country to be progressive. The airplane is an established and growing factor in our transportation future. But, frankly, the railroads are a bit weary of seeing hundreds of millions of taxpayers' dollars being used to support commercial airlines and to pay a goodly part of their operating expenses, while the railroads are compelled to pay all their own way and for all of the safe-operation devices including those ordered installed by the government.

The railroads are not seeking, nor do they want, any handout from the taxpayers. And, don't let anyone sell you that old red-herring about "land grants the railroads received in their infancy." Many of the important railroads in this country never received any land grants from the government, while the land grants given the Western railroads were in the form of a business arrangement. And, those railroads have more than repaid the government by craying governmental shipments for almost 100 years at approximately one-half the rate charged private industry. In fact, the 79th Congress recognized that the railroads have repaid their debt over and over again and finally repealed this arrangement effective Oct. 1, 1946. The airlines do not give any reduced rates to the government.

The railroads welcome fair competition and equality of opportunity but some of them are getting tired of airline operators boasting of reducing their fares and providing free meals and other frills for their passengers but not bothering to explain to the public why they can do this. Some of the railroads think it is about time that the public should know that they can do this only because they receive financial help from federal, state and city treasuries—all tax money— which lowers their costs of operation.

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● **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., New Bedford, Mass.**
Feb. 7 filed 20,000 shares ($25 par) 6% cumulative convertible preferred. **Underwriters**—Granbery, Marache & Lord, New York; and Ames, Emerich & Co., Inc., Chicago. **Price**—By amendment. **Proceeds**—For additional working capital. **Business**—Manufacture of fixed electrical condensers.

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 Publications Inc., Los Angeles, Calif.**
Feb. 6 (letter of notification) 1,000 shares (no par) common to be sold to officers and directors and a limited group at $10 a share and 3,000 shares to be issued to Howard S. Vandeman, George E. Parker and Richard B. Thurber, as consideration for transfer of business to company and for promotional services. No underwriting. For expansion purposes and for other expenses.

● **Alluvial Gold Plateau Mines Co., Seattle, Wash.**
Feb. 6 (letter of notification) 60,000 shares (1 cent par) common. **Price**—50 cents a share. Company and its President will act as underwriters. For mining operations.

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 Business Shares Inc., New York**
Feb. 11 filed 2,000,000 shares ($1 par) capital stock. **Underwriter**—Lord, Abbett & Co. Inc., New York, is selling agent. **Price**—Based on market. **Proceeds**—For investment.

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.

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.

● **Armstrong Supply Co., Philadelphia**
Feb. 7 (letter of notification) $20,000 of promissory notes. **Underwriters**—None. **Price**—Par. For operating and expansion.

Artcraft Hosiery Co., Philadelphia
Sept. 27 filed 53,648 shares ($25 par) 4½% cumulative convertible preferred and 150,000 shares ($1 par) common. It also covers shares of common reserved for issuance upon conversion of preferred. **Underwriter**—Newburger & Hano, Philadelphia. **Price**—$25.50 a preferred share and $12 a common share. **Proceeds**—Company will receive proceeds from the sale of all of the preferred and 100,00 shares of common. The remaining 50,000 shares of common are being sold by three stockholders. Estimated net proceeds of $2,300,000 will be used by the company to pay off bank notes of about $1,100,000 and to purchase additional machinery and equipment in the amount of $1,200,000. Offering date indefinite.

● **Associates Investment Co., South Bend, Ind.**
Feb. 3 (letter of notification) 1,081 shares of stock to be sold at $3 below market price to officers or employees of company or subsidiaries. Portion may be sold to the Albert McGann Securities Co., Inc., South Bend, Ind. For working capital.

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. Issue may be withdrawn.

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 3⅜% 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%.

● **Bach Industries Co., Inc., Far Rockaway, N. Y. (2/15)**
Feb. 10 (letter of notification) 100 shares of capital stock (no par). **Underwriters**—None. **Price**—$1,000 per share. Proceeds for working capital.

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.

● **Barcalo Manufacturing Co., Buffalo (2/20)**
Feb. 10 (letter of notification) 33,333 shares of common stock (par $833). **Underwriter** — Schoellkopf, Hutton & Pomeroy, Inc. Stockholders have prior right to subscribe for the stock. Rights expire March 10. **Price**—$8.75 per share. Proceeds for general corporate purposes.

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.

● **Beacon Mail Service, Los Angeles**
Feb. 6 (letter of notification) 600 shares (no par) common, of which 300 shares will be sold to Cloyes D. Burke, Howard S. Vandeman and George E. Parker, all officers, at $10 a share. The remaining 300 shares will be distributed to the same three officers, in amounts of 100 shares each, in consideration of transfer of business to the company. No underwriting. To increase facilities and for operating expenses.

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.

(Continued on page 910)

NEW ISSUE CALENDAR

(Showing probable date of offering)

February 12, 1947

Miller & Rhoads, Inc.------------------Preferred

February 13, 1947

Wheeling & Lake Erie Ry.
Noon (EST)------------------Equip. Trust Ctfs.

February 14, 1947

National Shirt Shops of Delaware--------Common
Upson Co. ------------------------------Common

February 15, 1947

Bach Industries Co., Inc.-----------Capital Stock
Gennert (G.) Inc.--------------Preference and Com.
International Roll Forming Co. Inc.----Pref. & Com.
Scenicaire Park, Inc.--------------------Preferred

February 17, 1947

Gordon Foods, Inc.-----------------------Common
H Products Corp.--------------------------Common
Morton Oil Co.---------------------------Common

February 18, 1947

Christina Mines, Inc.--------------------Common

February 19, 1947

Australia, Commonwealth of----------------Bonds
Deerfield Packing Corp.-------Debs. and Preferred
York Corp. ------------------------------Preferred

February 20, 1947

Barcalo Manufacturing Co.-----------------Common
Continental-United Industries Inc.---------Common
Hercules Steel Corp.----------------------Common

February 24, 1947

Montreal, City of-------------------------Bonds
Southwestern Public Service Co.----Pref. and Com.

February 27, 1947

United Air Lines, Inc.--------------------Preferred

March 3, 1947

Book-of-the-Month Club Inc.---------Capital Stock

(Continued from page 909)

Kans. To pay outstanding indebtedness and expenses and to open five additional stores in Kansas City, Mo. Offering postponed indefinitely.

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 registration is required if any of the remaining 733,575 shares are to be sold. **Price**—At market. **Proceeds**—Go to selling stockholders.

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.

Carscor Porcupine Gold Mines, Ltd., of Toronto, Ontario

June 24 filed 400,000 shares of common stock. **Underwriter**—No underwriters. **Offering**—To the public at $1 a share in Canadian funds. **Proceeds**—For a variety of purposes in connection with exploration, sinking of shafts, diamond drilling and working capital.

Central Soya Co., Inc., Fort Wayne, Ind.

Aug. 21 filed 90,000 shares (no par) common. **Underwriter**—None. **Offering**—Common shares initially will be offered for subscription to common stockholders at rate of one share for each 7⅓ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. **Proceeds**—Working capital, etc. Offering indefinitely postponed.

● **Champay Co. of St. Louis, Mo.**

Feb. 5 (letter of notification) 25,000 shares of 27-cent dividend participating cumulative preferred ($1 par) and 25,000 shares (50¢ par) common. **Price**—$5.50 per unit, consisting of one share of preferred and one share of common. **Underwriter**—White & Co., St. Louis. **Proceeds**—For purchase of assets of Shamrock Bottling Company.

● **Cincinnati Economy Drug Co., Cincinnati, Ohio**

Feb. 3 (letter of notification) 24,000 shares ($10 par) common. **Price**—$12.50 a share. No underwriting. For reduction or retirement of bank loans and for additional working capital.

● **Clarke-Black Mines & Metals, Inc., Idaho Falls, Idaho**

Feb. 3 (letter of notification) 250,000 shares ($1 par) capital stock. **Price**—$1 a share. No underwriting. For development and operation purposes.

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.

Columbia Aircraft Products Inc.

June 26 filed 150,000 shares ($4 par) 30c cumulative convertible preferred stock, convertible into common stock in the ratio initially of 1½ shares of common for each share of preferred. **Underwriter**—Floyd D. Cerf Co., Inc., Chicago. **Offering**—Company offered 59,585⅓ shares for subscription to present common stockholders of record Aug. 6 at $4.50 a share in the ratio of one share of preferred for each share of common held. Rights expired Aug. 20. Stockholders subscribed for 735 shares. The offering to common stockholders excluded the two principal stockholders who waived their rights to subscribe. The remaining 90,414⅔ shares and 58,850⅓ shares not subscribed to by common stockholders will be offered to the public through underwriters. **Price**—$5 a share. **Proceeds**—Approximately $50,000 for payment of Federal taxes; $250,000 for payment of Lincoln-RFC loan; $50,000 as a loan to Palmer Brothers Engines, Inc., a subsidiary; balance for purchase of machinery and equipment and working capital.

Commonwealth Telephone Co., Madison, Wis.

Sept. 23 filed 16,071 shares ($100 par) $4 cumulative preferred. **Underwriters** — Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. **Offering**—Shares will be offered for exchange for $5 cumulative preferred, on a share for share basis, plus cash adjustment. Shares not exchanged will be sold to underwriters. Price by amendment. **Proceeds**—To redeem at $110 a share, plus divs., all unexchanged old shares.

Continental Car-na-var Corp.

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. (2/20-21)

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.)

● **Cooperative P & C Family Foods Inc., Ithaca, N. Y.**

Feb. 6 (letter of notification) 1,000 shares of preferred stock (par $100). **Underwriters**—None. **Price**—$100. Construction and acquisition of new facilities, etc.

● **Copper Canyon Mining Co., New York**

Feb. 6 (letter of notification) 500,000 shares (10c. par) common. **Price**—50 cents a share. Of the total, 395,000 shares will be sold directly to the public and 105,000 shares will be sold to L. D. Sherman & Co.; Birnbaum & Co., and George A. Rogers, all of New York; and Jackson & Smith, Gastonia, N. C., who will reoffer them to the public at prices to be supplied by a supplemental letter. For mining development.

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 (2/18)

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.

Crown Capital Corp., Wilmington, Del.

Jan. 22 filed 250,000 shares ($1 par) class A common. **Underwriter**—Hodson & Co. Inc., New York, will act as selling agent. **Price**—By amendment. **Proceeds**—Net proceeds will be used as capital for company's subsidiaries engaged in the small loan or personal finance business.

Cyprus Mines, Ltd., Montreal, Canada

May 31 filed 500,000 shares of common stock (par $1). **Underwriters**—Sabiston-Hughes, Ltd., Toronto. **Offering**—Shares will be offered to the public at 75 cents a share. **Proceeds**—Net proceeds, estimated at $300,000, will be used for mining operations.

Deerfield Packing Corp., Bridgeton, N. J. (2/19)

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.

● **Diamonds & Metals Exploration Co., Inc., Seattle, Wash.**

Feb. 3 (letter of notification) 42,100 shares (20¢ par) common and 210,500 shares ($1 par) preferred. **Price**—$5.20 per unit consisting of five shares of preferred and one share of common. No underwriting. For development of mining properties.

● **East Coast Realty, Inc., New York**

Feb. 4 (letter of notification) 500 shares ($100 par) 7% cumulative preferred and 2,000 shares (no par) common. **Price**—$100 per unit. No underwriting. To purchase and operate real estate.

Edelbrew Brewery, Inc., Brooklyn, N. Y.
Dec. 31 filed 5,000 shares ($100 par) 5% non-cumulative preferred. **Underwriters**—None. **Offering**—To be offered at par to customers, officers and employees of the company. **Proceeds** — For corporated purposes including modernization and improvement of the manufacturing plant and machinery and equipment.

Edwards Brothers, Inc., Ann Arbor, Mich.
Jan. 21 (letter of notification) 20,000 shares of 5½% cumulative convertible preferred. **Price**—$10 a share. Stock not underwritten but to be sold through Watling, Lerchen & Co., Detroit. Of the total the company will receive proceeds from 12,739 shares and J. W. Edwards, an officer of the company, and family will receive proceeds from 7,261 shares. The company will use its proceeds for additional working capital.

Empire Millwork Corp., New York
Aug. 28 filed 50,000 shares of $1.25 cumulative convertible preferred stock, (par $25) and 150,000 shares of common stock (par $1). **Underwriters**—Van Alstyne, Noel & Co. **Proceeds**—Corporation will receive the proceeds from the issuance of 50,000 shares of the common stock which will be used to increase productive capacity, add new lines of products and expand the business. The remaining 100,000 shares of common stock and the preferred shares will be sold by present stockholders.

Falk Mercantile Co., Ltd., Boise, Ida.
Oct. 21 (letter of notification) 3,000 shares of 4½% preferred ($100 par). **Price**—$100 a share. **Underwriter**—Richard Meade Dunlevy Childs, Boise, Idaho. **Proceeds** to retire debentures and for expansion purposes.

Farquhar (A. B.) Co., York, Pa.
Sept. 26 filed 30,000 shares ($25 par) cumulative convertible preferred; 45,000 shares ($5 par) common; and an unspecified number of common shares to permit conversion of the preferred. **Underwriter**—Stroud & Co., Inc., Philadelphia. **Price**—By amendment. **Proceeds** — Proceeds will be used to redeem $355,350 4½% sinking fund mortgage bonds, due Aug. 1, 1957, to pay off certain contracts and chattel mortgages of $72,000 and $800,000 to reduce principal on outstanding bank loans.

Films Inc., New York
June 25, filed 100,000 shares ($5 par) class A stock and 300,000 shares (10 cent par) common stock, of which 200,000 shares reserved for conversion of class A. Each share of class A stock is initially convertible into 2 shares of common stock. **Underwriters**—Herrick, Waddell & Co., Inc., New York. **Offering**—To be offered publicly at $8.10 a unit consisting of one share of class A stock and one share of common stock. **Proceeds**—$201,000 for retirement of 2,010 shares ($100 par) preferred stock at $100 a share; remaining proceeds, together with other funds, will be used for production of educational

Food Fair Stores, Inc., Philadelphia
Aug. 5 filed 60,000 shares ($15 par) cumulative preferred stock. **Underwriters**—Eastman, Dillon & Co. **Price** by amendment. **Proceeds**—To be used to redeem 15-year 3½% sinking fund debentures, due 1959; and $2.50 cumulative preferred at $53 a share. Balance will be added to working capital. Temporarily postponed.

Foreman Fabrics Corp., New York
July 29 filed 110,000 shares ($1 par) common stock, all outstanding. **Underwriters**—Cohu & Torrey. **Price** by amendment.

Fresh Dry Foods, Inc., Columbia, S. C.
Aug. 30 filed 450,000 shares (10¢ par) common. **Underwriter**—Newkirk & Banks, Inc. **Offering**—Of the total company is selling 350,000 shares and two stockholders, Roland E. Fulmer and Louis H. Newkirk, Jr., are selling the remaining 100,000 shares. **Price**—$6 a share. **Proceeds**—For purchase of sweet potatoes, plant expansion, additional storage facilities, research and development work and working capital. Offering date indefinite.

● **Front Range Oil & Drilling Co., Denver, Colo.**
Feb. 5 (letter of notification) 100,000 shares (5c. par) capital stock, to be sold at 5 cents a share and 100,000 shares as bonus donated by Harry J. Newton, President. A bonus of one share will be made with each share sold. No underwriting. For expenses and requirements of company's property interests.

● **Geauga Industries Co., Middlefield, Ohio**
Feb. 6 (letter of notification) 750 shares ($50 par) 5% cumulative preferred and 400 shares ($10 par) common. Price, $50 a share each. No underwriters. For expansion program.

● **Gennert (G.) Inc., New York (2/15)**
Feb. 5 (letter of notification) 2,500 shares ($100 par) preferred and 1,250 shares ($1 par) class A common. **Price**—$100 a preferred share and $1 a common share. No underwriting. For expension of operations.

Glencair Mining Co. Ltd., Toronto, Can.
Oct. 2 filed 300,000 shares ($1 par) stock. **Underwriter**—Mark Daniels & Co., Toronto. **Price**—40 cents a share (Canadian Funds). **Proceeds**—For mine development.

Glensder Textile Corp., New York
Aug. 28 filed 355,000 shares ($1 par) common, of which 55,000 shares are reserved for issuance upon the exercise of stock purchase warrants. **Underwriter** — Van Alstyne, Noel & Co. **Offering**—The 300,000 shares are issued and outstanding and being sold for the account of certain stockholders. Company has also issued 55,000 stock purchase warrants to the selling stockholders at 10 cents a share entitling them to purchase up to Aug. 1, 1949, common stock of the company at $11 a share. Price by amendment. Offering temporarily postponed.

Glen Industries Inc., Milwaukee, Wis.
July 31 filed 50,000 shares of $1.25 cumulative convertible preferred stock series A ($20 par) and 150,000 shares (10c par) common, all issued and outstanding and being sold by eight selling stockholders. **Underwriters**—Van Alstyne Noel & Co. Price by amendment. **Proceeds**—To selling stockholders. Offering temporarily postponed.

Gordon Foods, Inc., Atlanta, Ga. (2/17-21)
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, 19,000 shares to Johnston Lemon & Co. and 6,000 shares to Allen & Co., 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.

● **Great Western Oil Co., Denver, Colo.**
Feb. 4 (letter of notification) 10,000 shares of common. **Price**—$10 a share. **Underwriters**—James Thomas Chiles, Denver. For development of oil and gas wells and other expenses.

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.

● **H Products Corp., New York (2/17)**
Feb. 10 (letter of notification) 490,000 shares of common stock (no par). **Underwriters**—None. **Price**—$25 per share. To expand present business.

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.

● **Haskins (R. G.) Co., Chicago, Ill.**
Feb. 3 (letter of negotiation) 1,500 shares ($100 par) common. **Price**—$100 a share. No underwriting. For working capital.

Hathaway Bakeries, Inc., Cambridge, Mass.
Jan. 15 filed 120,020 shares ($1 par) common. **Underwriters**—James S. Borck, Bridgeport, Conn.; George E. Drake, Pittsburgh, Pa.; William E. Stanwood, Boston; and Seaboard Allied Milling Corp., also of Boston. **Offering**—Of the total, the company will offer 45,020 shares to officers and employees of the company for subscription at $8.50 a share. The balance of 75,000 shares will be offered for subscription at $8.50 a share to common stockholders on the basis of one-fourth of a new common share for each share held and to holders of certificates for preferred, Class A and Class B stocks on the basis of one-fourth of a new common share for each common share into which their shares has been changed. The subscription offer will expire Feb. 28. Unsubscribed shares will be sold to underwriters at $8 a share. The company said the underwriters do not presently intend to make a public offering of the shares at this time but that when they are so offered they will be sold at the market price. The underwriting discount is 50 cents a share. **Proceeds**—Proceeds will be used to pay a portion of the costs of constructing new bakeries in Boston, Worcester, Mass.; Cohoes, N. Y.; and Providence, R. I.

Health Institute, Inc., Hot Springs, N. Mex.
Dec. 16 filed 50,000 shares ($10 par) 5½% cumulative prior preferred and 40,000 shares ($10 par) common. **Underwriting**—None. **Offering**—All preferred and common will be offered publicly. **Price**—$10.15 a preferred share and $10 a common share. **Proceeds**—Proceeds will be used to build and equip hotel and health facilities and to acquire a mineral water supply.

Hercules Steel Products Corp., N. Y. (2/20)
Jan. 16 filed 180,000 shares (10c par) common. **Underwriter**—Dempsey & Co., Chicago. Price by amendment. **Proceeds**—Net proceeds together with a $650,000 bank loan will be used to repay indebtedness to the Marine Midland Trust Co., New York.

Hy-Grade Supply Co., Oklahoma City
Dec. 3 (leter of notification) 54,350 shares of cum. conv. preferred and 50,000 common stock purchase warrants. **Price**—$5.50 a preferred share and 2 cents a warrant. **Underwriter**—Amos Treat & Co., New York. It is expected that a full registration will be filed later with the SEC.

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.

● **International Roll Forming Co., Inc. (2/15)**
Feb. 7 (letter of notification) 10,000 shares of 4½% cumulative preferred (non-voting) stock (par $10) and 80,000 shares of common stock (no par). Gordon Securities, Inc., New York (although not technically an underwriter) will assist in distribution of securities. **Price**—Preferred, $10; common, 5 cents. Each purchaser of one preferred share shall have right to purchase two common shares. Proceeds for purpose of purchasing materials, renting factory and office space, etc.

● **Johnson (Walter H.) Candy Co., Chicago**
Feb. 6 (letter of notification) 70,000 shares ($1 par) common, to be offered to present shareholders at $4.25 a share. Unsubscribed shares will be offered to a limited group. No underwriting. To reimburse company for cost of plant construction.

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.

● **Livingston Mines, Inc., Seattle, Wash.**
Feb. 3 (letter of notification) 294,675 shares (5c par) common. Price, 20 cents a share. **Underwriters**—Lobe, Inc., and Alfred Lind, both of Seattle. For mine acquisition and development.

● **Louis Allis Co., Milwaukee, Wis.**
Feb. 10 filed 25,000 shares ($10 par) common being sold by the company and an unspecified number of shares of the same stock to be sold by stockholders. **Underwriter**—The Wisconsin Co., Milwaukee. **Offering**—Company will offer its shares for subscription to common stockholders. The shares being sold by stockholders as well as unsubscribed shares of the company will be purchased by underwriter. **Price**—By amendment. **Proceeds**—Net proceeds to company will be added to working capital, some of which may be used to finance its program for expansion of manufacturing facilities. **Business**—Manufacturing electric motors and generators of the industrial type.

● **Macco Corp., Clearwater, Calif.**
Feb. 3 (letter of notification) 750 shares ($1 par) capital stock. To be sold on behalf of Thomas W. Selser, a director, to Dean Witter & Co. at $18 a share to cover short account for sales previously made to public. **Proceeds**—Go to the selling stockholder.

Mada Yellowknife Gold Mines, Ltd., Toronto
June 7 filed 250,000 shares of capital stock (par 40c). **Undewriters**—Mark Daniels & Co. **Offering**—Stock will be offered publicly in the U. S. at 40c a share (Canadian money). **Proceeds**—Proceeds, estimated at $75,000, will be used in operation of the company.

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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.

• **McQuay Inc., Minneapolis, Minn.**
Feb. 6 (letter of notification) 1,770 shares ($1 par) common and an option covering 500 shares of the same stock. Roy J. Resch, President of the company, and George Kelting, Vice-President, desire to sell 770 shares and 1,000 shares, respectively, of the common stock to Loewi & Co., Milwaukee, at $6.25 a share. E. H. Seelert, Secretary-Treasurer, desires to grant an option to Kelting for $1 whereby seller will agree to sell to Kelting at any time within a year all or any part of 500 shares of the common at $6.25 a share. No underwriting. Proceeds go to the selling stockholders.

Michigan Gas & Elec. Co., Ashland, Wis.
June 24 filed $3,500,000 of series A first mortgage bonds, due 1976; 14,000 shares ($100 par) cumulative preferred stock and 120,000 shares ($10 par) common stock. Underwriters—To be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; Kidder, Peabody & Co.; The First Boston Corp.; Harris, Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane, and Ira Haupt & Co. Offering—New preferred will be offered on a share for share exchange basis to holders of its outstanding 7% prior lien, $6 no-par prior lien, 6% preferred and $6 (no par) preferred. Of the common stock being registered, company is selling 40,000 shares, Middle West is selling 57,226 shares and Halsey, Stuart & Co. Inc., New York, is selling 22,774 shares. Proceeds—Michigan will use net proceeds from bonds to redeem $3,500,000 3¾% series A first mortgage bonds, due 1972, at 106.75 and interest. Net proceeds from sale of common and from shares of new preferred not issued in exchange will be used to redeem $375,000 3½% serial debentures, due 1951, at 101.2 and interest. It also will redeem at 105 and accrued dividends all unexchanged shares of prior lien and preferred stocks.

Miller & Rhoads, Inc., Richmond (2/12-13)
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.

• **Montreal, City of, Canada (2/24)**
Feb. 5 filed $77,811,000 (U.S. currency) refunding issue debentures, due serially on Oct. 15 of each year from 1947 to 1967. Underwriter—The First Boston Corp., New York. Offering—At the same time the debentures are offered for sale in the United States, the city will sell internally in Canada $31,948,000 of principal amount of new debentures payable in Canadian currency. These debentures will mature at various times from 1955 to 1973, inclusive, and will bear interest at rates from 2½ to 3%. Price by amendment. Proceeds — Proceeds from the sale of both issues, together with additional funds to be supplied by the City, will be applied to the redemption on May 1, 1947, of $78,036,213 of outstanding debentures, payable in U.S. currency, and of $26,805,500 of debentures payable in Canadian currency. Including accrued interest, the redemption prices will amount to $84,573,250 and $27,399,710, respectively. Business—Operation of city government.

Morton Oil Co., Casper, Wyo. (2/17)
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 4¾% preferred stock at $109 a share plus dividends. Indefinitely postponed.

National Aluminate Corp., Chicago
Sept. 27 filed an unspecified number ($2.50 par) common shares. Underwriters—First Boston Corp., New York, and Lee Higginson Corp., Chicago. Price—By amendment. Proceeds—The stock is issued and outstanding and is being sold by shareholders. Names of the selling stockholders and the number of shares to be sold by each will be supplied by amendment.

• **National Shirt Shops of Delaware, Ind. (2/14)**
Feb. 7 (letter of notification) 4,000 shares of common stock. Underwriters—Blair F. Claybaugh & Co., New York; Faroll & Co., Chicago; Buckley Brothers, Philadelphia, and Kitchen & Co., Chicago. Price—$10.50 per share. Proceeds to selling stockholders.

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.

Newburgh Steel Co., Inc., Detroit
Aug. 2 filed 30,000 shares of 6% cumulative convertible preferred stock (par $10), and 30,000 common shares ($1 par). Underwriter—Charles E. Bailey & Co., Detroit. Shares are issued and outstanding and are being sold by Maurice Cohen and Samuel Friedman, President and Secretary-Treasurer, respectively, each selling 15,000 shares of preferred and 15,000 shares of common. Price—$10 a share for the preferred and $6 a share for the common. $204,047 of the proceeds shall be paid to the company to discharge their indebtedness to it.

New England Gas and Electric Association
July 11 filed $22,500,000 20-year collateral trust sinking fund Series A bonds, and a maximum of 1,568,980 common shares ($5 par). Underwriters—By amendment. Bidders may include Halsey, Stuart & Co. Inc. (bonds only), Bear, Stearns & Co. (stock only), First Boston Corp., White, Weld & Co.-Kidder, Peabody & Co. (jointly). Offering—Bonds and common stock are being offered in connection with a compromise recapitalization plan approved by the SEC, on June 24, 1946, which among other things provides for the elimination of all outstanding debentures and preferred and common stocks, and for the issuance of $22,500,000 of bonds and 2,300,000 of new common shares. Bids for the purchase of the bonds and the common stock which were to be received by the company Aug. 13 were withdrawn Aug. 12. An altemate plan filed Nov. 25 with the SEC provides for the issue of 77,625 convertible preferred shares (par $100) and 1,246,011 common shares (par $8). Under the proposed plan consolidated funded debt would be practically unchanged from that provided in original plan, the Association to issue $22,425,000 coll. trust bonds. These bonds and preferred stock may be sold, subject to an exchange offer, to the holders of present debentures on a par for par basis. Present preferred would receive for each share held 8 shares of new common with rights to subscribe to 5 new common shares at $9 per share. The present plan does not affect the status of original plan, but determination as to which will be used will be left to the SEC and the court. On Feb. 5 the Association amended its alternate plan. The changes limit the issuance of common stock to 1,850,000 shares, provide for the interest rate on the new bonds to be set by competitive bidding, clarify the terms under which the disposition of claims is to be carried out and make other alterations concerning the interest payments thereon.

Northern Engraving & Mfg. Co., La Crosse, Wis.
Aug. 29 filed 70,000 shares ($2 par) common stock. Underwriter—Cruttenden & Co. Offering—All shares are issued and outstanding and being sold for the account of present holders. Price—$16 a share. Proceeds—To selling stockholders. Offering temporarily delayed.

Northern Indiana Public Service Co.
Aug. 28 filed maximum of 384,016 shares of common stock. Underwriters by amendment as shares will be offered under competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Stone & Webster Securities Corp., and Harriman Ripley & Co., Inc. (jointly). Of the shares registered, 182,667 are being sold by Midland Realization Co.; 54,426 by Midland Utilities Co., and 146,923 by Middle West Corp.

Nugent's National Stores, Inc., New York
June 21 filed 85,000 shares ($1 par) common stock Underwriters—Newburger & Hano, and Kobbe, Gearhart & Co., Inc. Price, $6.75 a share. Proceeds—Net proceeds to the company from 62,000 shares, estimated at $350,200, will be applied as follows: About $111,300 for retirement of outstanding preferred stock; $41,649 to purchase 100% of the stock of two affiliates, and balance $197,000 for other corporate purposes. The proceeds from the other 3,000 shares will go to selling stockholders. Offering temporarily postponed.

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.

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 Coast Vineyard Development Corp., San Francisco**
Feb. 6 (letter of notification) 25,000 shares ($10 par) capital stock, to be offered publicly at $10 a share and 25,000 shares to be issued to Henri B. Lanson, President, in partial consideration for promotional services. No underwriting. For purchases of winery and other expenses.

Pacific Power & Light Co., Portland, Ore.
July 10 filed 100,000 shares ($100 par) preferred stock. Underwriters—By amendment. Probable bidders include Blyth & Co., Inc., White, Weld & Co. and Smith, Barney & Co. (jointly); The First Boston Corp., W. C. Langley & Co.; Harriman Ripley & Co. Offering—Company proposes to issue the 100,000 shares of new preferred for the purpose of refinancing at a lower dividend rate the 67,009 outstanding preferred shares of Pacific and the 47,806 preferred shares of Northern Electric Co., in connection with the proposed merger of Northwestern into Pacific. In connection with the merger, the outstanding preferred stocks of Pacific and Northwestern will be exchanged share for share, with cash adjustments, for the new preferred stock of Pacific, the surviving corporation. Offering price—To be supplied by amendment.

Pal Blade Co., Inc., New York
June 28, 1946 filed 227,500 shares ($1 par) capital stock. Underwriters — F. Eberstadt & Co., Inc. Offering — 225,000 shares are outstanding and are being sold by 10 stockholders, and 2,500 shares are being sold by A. L. Marlman to all salaried employees. Issue may be withdrawn.

Palmetto Fibre Corp., Washington, D. C.
August 16 filed 4,000,000 shares (10¢ par) preference stock. Price—50 cents a share. Proceeds—The company will use estimated net proceeds of $1,473,000 for purchase of a new factory near Punta Gorda, Fla., at a cost of about $951,928. It will set aside $150,000 for research and development purposes and the balance will be used as operating capital. Underwriter—Tellier & Co. withdrew as underwriters.

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.

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.

• **Plasticbilt Corp., Paris Station, S. C.**
Feb. 4 (letter of notification) 63,500 shares (no par) common. Price—$2 a share. Underwriters—McAlister, Smith & Pate, Inc., and W. F. Coley & Co., Inc., both of Greenville, S. C. Proceeds—For payment of outstanding bank loans and real estate mortgage; erection of new plant, purchase of machinery and for increased working capital.

• **Puritan Fund, Inc., Boston, Mass.**
Feb. 3 filed 300,000 shares of capital stock (par $1). Underwriters—Paul H. Davis & Co. and The Crosby Corp. Price at market. The fund is registered under the Investment Company Act of 1940 as an open-end diversified investment company of the management type. Proceeds—For investment.

Quebec Gold Rocks Exploration Ltd., Montreal
Nov. 13 filed 100,000 shares (50¢ par) capital stock. Underwriter—Robert B. Soden, Montreal, director of company. Price—50¢ a share. Proceeds—For exploration and development of mining property.

Realmont Red Lake Gold Mines, Ltd., Toronto, Canada
Nov. 20 filed 800,000 shares of common stock ($1 par). Offering Price—$0.60 a share to public. Company has not entered into any underwriting contract. Proceeds—Development of mining properties and exploration work.

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.

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.

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.

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.

● **Scenicaire Park, Inc., Geneva, N. Y. (2/15)**
Feb. 7 (letter of notification) 506 shares of preferred stock (par $100). **Underwriters**—None. **Price**—$100. For development and expansion of present facilities, etc.

● **Silver Consolidated Mines, Inc., St. Anthony, Idaho**
Jan. 31 (letter of notification) 100,000 shares of capital stock (10¢ par). **Price**—25 cents a share. No underwriting. For development of mining property.

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 Freight Lines, Phoenix, Ariz.**
Jan. 28 (letter of notification) 4,509 shares ($10 par) 6% cumulative preferred. **Price**—$10 a share. No underwriting. To reimburse treasury for capital expenditures and for additional working capital.

Southwestern Public Service Co., Dallas, Texas (2/24-28)
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.

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.

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.

● **Tung-Glow Mining Corp., Reno, Nev.**
Feb. 6 (letter of notification) 60,000 shares of common. **Price**—$1 per share. To be sold through President of company. For mine development.

United Air Lines, Inc. (Chicago) (2/27)
Jan. 20 filed 94,773 shares ($100 par) 4½% 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**—$100 per share. **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. Oil & Development Corp., Denver**
Feb. 6 (letter of notification) 3,000,000 shares (10¢ par) 6% preferred. **Price**—10 cents a share. No underwriting. For acquisition and development of oil and gas leases or mining properties.

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 Winding Co., Cranston, R. I.**
Feb. 10 filed 100,000 shares ($15 par) convertible preferred. **Underwriter**—Reynolds & Co., New York. **Price**—Supplied by amendment. **Proceeds**—To pay cost of converting company's former foundry building to manufacturing purposes and to pay short-term bank loans. Any balance will be used as working capital. **Business** — Production of winding machines.

● **Upson Co., Lockport, N. Y. (2/14)**
Feb. 6 (letter of notification) 2,000 shares of common stock (par $10). **Underwriter**—Hamlin & Lunt, Buffalo. Shares will be sold to underwriter at $15 per share for resale to public at market (about $16). Proceeds to selling stockholder.

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**—Debentures 98; common $3.75 per share. **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.

● **Wohl Shoe Co., St. Louis, Mo.**
Feb. 4 (letter of notification) 1,190 shares ($20 par) common. **Price**—$95.51 a share. No underwriting. To be sold only to certain executives and junior executives of company. **Proceeds**—Will be added to general funds.

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.

(Continued on page 914)

Prospective Security Offerings

(NOT YET IN REGISTRATION)
● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

(Only "prospectives" reported during the past week are given herewith. Items previously noted are not repeated)

(Continued from page 913)

● American Buslines, Inc.

Feb. 10, stockholders are being notified of the company's intention to offer 41,655 additional shares of common at $30 and 10,413 shares of preferred at $100. The offering will be made to stockholders and any shares not taken up will be bought by Chicago Corp. Part of the proceeds will be used to purchase the 49% of the stock of Burlington Transportation Co. now held by the C. B. & Q. American Buslines already holds 51% of the Burlington line's equities.

● American Telephone & Telegraph Co.

Feb. 7, it is rumored in financial circles, that the company in April probably will float an issue of about $200,000,000 of debentures and that later in 1947 another issue—around $550,000,000—will be placed on the market to finance the system's expansion program. Probable bidders include Morgan Stanley & Co.; Halsey, Stuart & Co. Inc., and The First Boston Corp. (jointly).

● American Tobacco Co.

Feb. 7 reported company planning issuance of some 600,000 to 900,000 additional common B shares or convertible preferred stock, 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.

● Atlantic Refining Co.

March 20, stockholders will vote on a proposed recapitalization designed to facilitate the financing of present and future capital requirements and reduce the cost of such operations. Under the plan, present outstanding 4% series A preferred and 3.60% series B preferred, totaling 200,000 shares, and authorized preference stock in the amount of 650,000 shares, will be changed to an authorized 900,000 shares of preferred. New shares, if issued, therefore, would be on a parity with the old.

To compensate for the change, the company said, it would waive any right to call the 4% issue before Aug. 1, 1948, and would increase the dividend rate on the series B to 3.75%. The common will lose preemptive rights to subscribe to any new issues of preferred and common. While definite plans have not been made, the company said it is giving consideration to the possible issuance at some future date of new preferred stock to provide funds for capital expenditure. Probable underwriter, Smith, Barney & Co.

● "Big" and "Little" Inch Pipe Lines

Feb. 10, among the bids received by the War Assets Administration for the "Big" and "Little" inch pipelines, built by the government during the war at a cost of $145,800,000, were the following: (a) $143,127,000 cash by Texas Eastern Transmission Co., Houston, the securities to be underwritten by Dillon Read & Co., Inc.; (b) $123,700,000 by Tennessee Gas & Transmission Co. (presently operating the lines); (c) $108,031,660 by Big Inch Gas & Oil Corp.; (d) $121,000,000 by Big Inch Natural Gas Transmission Co.

● Chicago Rock Island & Pacific Ry.

Feb 11 company plans the issuance of $5,850,000 equipment trust certificates to finance the purchase of rolling stock valued at $7,803,000. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Brothers & Hutzler.

● Chicago Transit Authority

Feb. 6, following two-day conference, a group headed by Harris, Hall & Co. (Inc.); Blyth & Co., Inc., and The First Boston Corp. indicated it would underwrite a proposed $90,000,000 to $100,000,000 bond issue to finance purchase of Chicago transit lines.

● Florida Power Corp.

Feb. 7 General Public Utilities Corp. notified the SEC that it intends to sell for cash its holdings of 2,900 shares of common stock of Florida Power Corp.

● Foremost Dairies, Inc.

Feb. 11 recent improvement in the market has revived negotiations for refunding of company's preferred. Company has 28,000 shares of 6% cumulative preferred, ($50 par). Allen & Co. are traditional underwriters.

● Gilmer Oil Co.

A block of 10,000 shares of capital stock will be offered at public auction on Feb. 13 by Adrian H. Muller & Son, New York auctioneers. The company is a closely held corporation with 60,000 shares outstanding. The shares will be offered first in parcels of 500 shares and thereafter as a single block. A minimum bid of $27.50 a share will be required. The shares offered are part of a block of 24,000 owned by the estate of the late Sidney J. Hernstadt, former President of the company.

● Howard Industries, Inc.

Feb. 7 company contemplates the sale of $300,000 convertible debentures, to provide funds for expansion and working capital.

● Lehigh Valley Transit Co.

Feb. 10 company, in connection with National Power & Light Co.'s dissolution plan, proposes to sell for the best price obtainable 13,769 shares of 4½% preferred stock of Pennsylvania Power & Light Co., which it now owns.

● Mathieson Alkali Works (Inc.)

Feb. 10, some expansion and development work contemplated will require some new financing by the company. Traditional underwriter, Hayden, Stone & Co.

● Michigan Consolidated Gas Co.

Feb. 11 company contemplates to spend more than $12,000,000 on expansion and improvement of facilities in 1947. It is presently contemplated to meet the costs of the program by sale of both new bonds and additional preferred stock. No definite financing plans have been formulated as yet. Probable bidders for securities include Dillon, Read & Co. Inc.; Halsey, Stuart & Co. Inc.

● Michigan-Wisconsin Pipe Line Co.

Feb. 7 the Federal Power Commision approved company's application to build a $52,600,000 natural gas pipeline from Texas to the Detroit-Ann Arbor area as well as to sections of Wisconsin, Missouri and Iowa. The company will shortly apply to the SEC for approval on the initial issuance of $52,700,000 in securities. These include $5,700,000 of 2% 5-year serial notes, $30,000,000 3¼% 20-year first mortgage bonds and $17,000,000 of common stock. During the fourth year of operation the company, it is stated, will issue $14,000,000 of 5% preferred and an additional $12,000,000 of 3¼% 20-year bonds. The common stock is to be sold to Michigan Consolidated Gas Co. Probable underwriters of the bonds include White, Weld & Co.; Dillon, Read & Co. Inc.; Halsey, Stuart & Co. Inc.

● Netherlands, Kingdom of

Feb. 11 it was reported the proposed sale of dollar bonds in the American market has been reduced to $25,000,000 as against the $50,000,000 originally discussed. Kuhn, Loeb & Co. probably will head the underwriting group for the issue which it is said, will have a 10-year maturity.

● New York Telephone Co.

Feb. 7 it was reported that company may shortly seek the issuance of between $75,000,000 and $100,000,000 in debentures to finance its vast construction program. Probable bidder includes Halsey, Stuart & Co. Inc.

● Northern Indiana Public Service Co.

Feb. 10 Middle West Corp., Midland Realization Co. and Midland Utilities Co. announced that they had arranged for a joint public offering of approximately 380,000 shares of common stock. The shares will, it is said, be registered and an invitation for bids issued later.

● Norwich & Worcester RR.

Nov. 7 company received no bids for its offering of $1,800,000 first mortgage bonds, series B. The company extended the time for receipt of bids from noon Feb. 5 to noon Feb. 6. Company now is negotiating the sale of the bonds on a non-competitive basis.

● Public Service Co. of New Hampshire

Feb. 11 reported New England Public Service Co. has plans under way to dispose of its holdings of 565,000 shares of the New Hampshire company through competitive bidding. Probable bidders include The First Boston Corp.; Kidder, Peabody & Co.; Blyth & Co., Inc.; Harriman Ripley & Co.

● Weber Showcase & Fixture Co., Inc.

Feb. 8 company states that if market conditions are favorable it will proceed with plans for sale of additional stock in order to increase working capital and reduce short-term bank loans.

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.

Our Reporter's Report

With the new issue market finding itself wallowing in the doldrums for another week, bankers were beginning to look about for signs of a stirring breeze that would get them underway again.

A number of large equity transactions, growing out of public utility holding company compliance with the Holding Company Act, are in the wind, but it now looks as though the prospective issuers are determined to await more propitious market conditions before undertaking these distributions.

Two such large marketings are known to be simmering away on the back of the range, namely those involving Oklahoma Gas & Electric Co. common stock to be sold by Standard Gas & Electric Corp., and Public Service Co. of New Hampshire common to be marketed by New England Public Service Co.

The first-mentioned proposal, covering a total of 890,000 shares of common stock of the Oklahoma operating property, recently postponed for a fortnight, has now gone over indefinitely.

Nepsco's projected sale of the New Hampshire Utility's common, 565,000 shares, likewise has slipped back into uncertainty, so far as prospective date for bidding is concerned.

Both potential sellers are reported anxious to get done with the task called for under the law, but at the same time they would like more substantial market conditions than now prevail to assure a maximum of return on their sales.

Ray of Light

Though it will be several weeks before the business definitely develops, bankers are reported preparing to enter bids for the next big piece of American Telephone & Telegraph Co. financing now regarded as in the offing.

Two huge syndicates are known to have been set up to go after whatever new securities come out of the next phase of the big communications company in the direction of raising funds to finance its long-deferred construction program.

This business is counted on to run to at least $200,000,000 and in such circumstances it is doubted that more than the aforementioned groups will be in the running. Quite to the contrary, such an operation probably will find the country's underwriters and distributors in either one or the other of those aggregations.

Treasury Securities

Little change in yields on long-term bonds is likely to develop according to Bankers Trust Co., which says in a review of the government market, that if short-term rates are kept pegged and the Treasury continues to refinance maturing issues with certificates there may be slight softening of yields.

But it holds that if short-term rates are freed there may be slight stiffening of intermediate and long-term yields though it is unlikely that the 2½% figure will be exceeded.

The point is made, however, that if the Treasury persists in converting into certificates of indebtedness all maturing or callable issues, it will undo in a short time the reduction of short-term debt which was accomplished in 1946.

Two Offerings Well Received

The new issue market was reported as quite receptive to two new offerings which came on the market on Tuesday.

Offering of Northwestern Public Service Co. securities, 26,000 shares of 4½% cumulative preferred, $100 par, and 410,000 shares of common $3 par, attracted considerable interest.

The preferred offering is subject to an exchange offer, expiring Feb. 17, to holders of the outstanding 7 and 6% preferreds.

In the case of the common 110,000 shares are for the account of the company and the balance for a selling group.

The second issue, $10,000,000 of serial bonds of the Central Nebraska Public Power & Irrigation District, maturing 1953 to 1977, naturally appealed to municipal investors. These were priced to yield from 1.30 to 2.40% according to maturity.

Sees No Upward Trend in Profits

Industrial Conference Board study by Jules Backman and Martin R. Gainsbrugh show profits for 1946, estimated at 7.3% of national income, are not out of line. Hold manufacturing's slice of total corporate profits has steadily narrowed.

Profits in 1946 were normal in relation to the national income and in line with long-term ratios for active years, says Jules Backman and Martin R. Gainsbrugh in their chart survey of profits in the national economy which has just been released by the National Industrial Conference Board.

During previous years of high level employment and production, the two economists declare, profits have averaged between 7½% and 8½% of the national income. As a result of the heavy income taxes levied against corporations, profits failed to reach this normal relationship during the war years. In 1946, after the excess-profits tax was repealed, total corporate profits were estimated at 7.3% of the total national income, or about in line with long-term ratios for active years.

Profits for 1946 Not Out of Line—All corporations had profits of 4.4% on sales in 1939 as compared with Nathan's ratios of 5.7% for the last quarter of 1946 and an average of 5.5% for the entire year, say Dr. Backman and Mr. Gainsbrugh. "When allowance is made for the fact that about a fifth of the sales were made by deficit corporations in 1939," they continue, "the relationship between 1946 and the prewar years is significantly altered. Thus, average profits on sales earned by profitable companies in 1939 was 7.6%. In light of the generally depressed conditions of the economy during these years, it is not probable that this return represented an excessive ratio.

"According to Nathan's estimates for manufacturing corporations, profits in the last quarter of 1946 were 5.6% of sales, and for the entire year, 4.8%. This, compares with an average of 5.1% for all manufacturing in 1939, 6.8% for the profitable manufacturing corporations in that year, and 6.3% for all manufacturing in 1929. Thus, while the dollar profits in 1946 were large, returns on sales were in line with past relationships. These figures belie the frequent charges that the elimination of price control has led to excessive price increases by industry."

Dividend Distribution vs. Wages Paid—Over the years 1909-1946, the economists show, corporations distributed to their stockholders $137 billion; wages and salaries paid to their employees amounted to $1,511 billion, or 11 times as much.

Small Portion of Sales Dollar Retained by Companies—No bit of economic folklore has gained wider circulation than the idea that corporations retain 20% to 25% or an even greater share of the funds received from their customers, say Dr. Backman and Mr. Gainsbrugh.

Almost every public opinion poll, say the two economits, reveals that the public believes high proportions of profit are retained by corporations. But, they point out, "official data, taken from tax returns, show that over the years 1919-1943, the average profit per dollar of sales has been only 4.3%. In fact, the highest rate of profit on sales ever recorded was not greater than 7.3%."

Half of All Corporations Operated at a Loss During 1916-1943—Normally, the economists declare, a high proportion of all corporations operate at a loss. For the entire period 1916-1943, for which income tax statistics are available, approximately half of the companies have reported losses. Even in a boom year like 1929 there were 186,600 companies with deficits as compared with 269,400 with net income. Losses of the deficit corporations in that year aggregated $2.9 billion, as compared with the profits of $10.5 billion for the profitable corporations.

In the years 1936-1939, frequently cited as the last normal period for tax and other purposes, the number of companies with deficits outnumbered the profitable companies by more than 90,000. One-quarter of all sales in this so-called base period were made by companies which had deficits, and the aggregate of these deficits was $2.3 billion, as compared with the profits of $7.5 billion for the money-making companies. Even at the height of war production in 1943, 136,800 companies reported deficits, but their aggregate losses were only $900,000,000.

Manufacturing's Slice of the Total Corporate Profit Steadily Narrowed—Manufacturing has received a declining share of the larger wartime and postwar profit pie, the two economists hold, while the distribution and service industries have taken larger slices.

Since 1939, manufacturing has accounted for a larger share of total civilian employment and has produced a greater proportion of the nation's income. Although total profits in manufacturing increased substantially above the prewar depressed levels, its slice of the total corporate profit pie has been steadily narrowed. In 1946, profits in manufacturing comprised about 50% of all corporate profits, as compared with 62.1% in 1939 and 53.2% in 1929.

The major manufacturing groups in which the relative profit position slumped from 1939 to 1945 included: food, tobacco, chemicals, furniture, nonferrous metals, automobiles, and machinery. An improved profit position was reported for printing and publishing, textiles, apparel, petroleum and coal, lumber, leather, rubber, and transportation equipment.

Dividends Increased Very Little During War and Transition Periods—During the war years, the two economists point out, total dividend payments showed only minor changes as compared with 1939. As a result, the ratio of dividends to the total of dividend and wage payments fell to the lowest point on record. From 1909 through 1939 this ratio was never lower than 6.9%, and in 1929 reached 11.5%. I contrast, this ratio dropped sharply from the outset of the war to a low of 5.1% in 1944. In 1946 it was estimated at 5.7%.

The amounts distributed as dividends usually do not coincide with corporate profits. During the war years approximately half of the profits were distributed as dividends, while corporations built up reserves to meet costs of reconversion, reestablishment of inventory position, installation of new plant and equipment, etc. Preliminary estimates indicate that less than half of corporate profits were distributed as dividends in 1946.

Wartime Business Savings Barely Restored Predepression Accumulation—Corporate profits go two ways, say Dr. Backman and Mr. Gainsbrugh. Part is distributed to stockholders, and part is retained either to finance expansion without borrowing, or to continue basic operations in times of depression. These "undistributed" profits represent corporate savings.

From 1930 through 1938, the corporate economy paid out each year more than it received from its customers. The cumulative amount of such corporate dissavings after payment of the modest dividends was $25.5 billion.

From 1939 through 1945, profitable operations were restored and corporate savings aggregated $26 billion, or approximately the amount dissaved from 1930 to 1938. Dividends paid out were not significantly different from those of 1939. For 1946, corporate savings are estimated at about $7 billion. Over the entire span of 1919-1946, corporate savings averaged less than $700,000,000 annually.

Many Strikes in Sweden in Protest Against Slowness of Contract Negotiations

Economic Outlook Obscure

STOCKHOLM, Feb. 5—The workers at Gotaverken, Sweden's biggest shipyard, went on strike Feb. 3 in protest against the slowness with which negotiations in the metal working industries are proceeding. The following day work also stopped in a number of other firms in the same industry all over the country. In Trollhattan 3,600 men went on strike, at the ASEA General Electric Co. in Vasteras 3,000, at the Volvo automobile works in Gothenburg 800, and at the Eriksberg Shipyard in the same city 2,800. Other strikes occurred in Stockholm, Landskrona, Sodertalje and Sundbyberg.

Since no agreements exist at present for the metal working industries, there is no question of breach of contracts. Governor Olle Ekblom, Chairman of the Mediation Commission, states that the strikes have made the negotiations more complicated so far as the employers are concerned. The Commission sees itself blocked in its mediation work while the current upset situation exists, and has been forced to interrupt its deliberations. It will, however, closely follow the development and resume attempts at mediation as soon as feasible. The board of the Metal Industry Workers Federation will meet Feb. 7 to discuss what action it can take. It has firmly urged the workers to terminate their strikes.

Present Economic Outlook Difficult to Judge

Despite the fact that the collective agreements were terminated in good time before the end of the year, negotiations for new ones have been slow in getting started. The attitude of the employers is one of watchful waiting. The Government's hesitation in starting parliamentary deliberations about the inflation problem, *Dagens Nyheter* recently pointed out, is one of the main reasons why the agreement negotiations have been delayed. "What industry demands to know is whether there is any seriousness in the talk that the value of the krona must not decline further and if the Government and the Riksdag are ready to accept the consequences of such a statement."

The only large strike in Sweden in the last few years was in 1945 in the metal working industry, the same one which is now affected. That was the most expensive strike ever staged in Sweden. The main responsibility for its outbreak was placed on the Communists, who have greater influence among the workers in this industry than in any other.

McCain & Cromwell Directors of C. I. T.

Election of Charles S. McCain, President of Dillon, Read & Co., Inc., and Jarvis Cromwell, President of William Iselin & Co., Inc., to the Board of Directors of C. I. T. Financial Corporation was announced by Henry Ittleson, Chairman.

Mr. McCain succeeds Ralph H. Bollard, who retired from Dillon, Read & Co., Inc., on Dec. 31, 1946, and Mr. Cromwell succeeds Lincoln Cromwell, of William Iselin & Co., Inc., both vacancies being created by resignations. William Iselin & Co., Inc. is a wholly-owned subsidiary of C. I. T. Financial Corporation, engaged in the general factoring business.

DIVIDEND NOTICES

J. I. Case Company
(Incorporated)

Racine, Wis., February 7, 1947.

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable April 1, 1947, and a dividend of 40c per share upon the outstanding $25 par value Common Stock of this Company has been declared payable April 1, 1947, to holders of record at the close of business March 12, 1947.

WM. B. PETERS, Secretary.

ALLIS-CHALMERS MFG. CO.
PREFERRED DIVIDEND NO. 2

A quarterly dividend of eighty-one and one-quarter cents ($.81¼) per share on the 3¼% Cumulative Convertible Preferred Stock, $100 par value of this Company, has been declared, payable March 5, 1947, to stockholders of record at the close of business February 17, 1947. Transfer books will not be closed. Checks will be mailed.

W. E. HAWKINSON, Secretary-Treasurer.

February 7, 1947.

ALLIS-CHALMERS MFG. CO.
COMMON DIVIDEND NO. 91

A regular quarterly dividend of forty cents ($0.40) per share upon the issued and outstanding Common Stock, without par value of this company, has been declared, payable April 2, 1947, to stockholders of record at the close of business March 3, 1947. Transfer books will not be closed. Checks will be mailed.

W. E. HAWKINSON, Secretary-Treasurer.

February 7, 1947.

THE BUCKEYE PIPE LINE COMPANY
30 Broad Street

New York, N. Y., January 29, 1947.

The Board of Directors of this Company has this day declared a dividend of Twenty (20) Cents per share on the outstanding capital stock, payable March 15, 1947 to shareholders of record at the close of business February 18, 1947.

C. O. BELL, Secretary.

DIVIDEND NOTICES

KANSAS CITY POWER & LIGHT COMPANY
Dividend No. 1 on 3.80% Cumulative Preferred Stock

The regular quarterly dividend of 95c per share on the 3.80% Cumulative Preferred Stock of Kansas City Power & Light Company, Kansas City, Missouri, has been declared payable March 1, 1947, to stockholders of record at the close of business February 14, 1947.

All persons holding shares of such Preferred Stock of the Company are requested to transfer such stock, on or before February 14, 1947, to the persons who are entitled to receive the dividends.

ROBERT A. OLSON, *Secretary.*

January 27, 1947.

Magma Copper Company
Dividend No. 98

On February 10, 1947, a dividend of Twenty-five Cents (25c) per share was declared on the capital stock of MAGMA COPPER COMPANY, payable March 15, 1947, to stockholders of record at the close of business February 27, 1947.

H. E. DODGE, *Treasurer.*

RADIO CORPORATION OF AMERICA
Dividend on First Preferred Stock

At the meeting of the Board of Directors held today, a dividend of 87½ cents per share, for the period January 1, 1947 to March 31, 1947, was declared on the $3.50 Cumulative First Preferred Stock, payable April 1, 1947, to holders of record at the close of business March 7, 1947.

A. B. TUTTLE, *Treasurer*

New York, N. Y., February 7, 1947

Dividend Notice BUR-MIL QUALITY February 7, 1947

BURLINGTON MILLS CORPORATION

The Board of Directors of this Corporation has declared the following regular dividends on the preferred stock and also the 40th consecutive regular dividend on the common:

4% CUMULATIVE PREFERRED STOCK
$1 per share

3½% CUMULATIVE PREFERRED STOCK
87½ cents per share

3½% CONVERTIBLE SECOND PREFERRED STOCK
87½ cents per share

COMMON STOCK ($1 par value)
25 cents per share

Each dividend is payable March 1, 1947, to Stockholders of record at the close of business February 14, 1947.

STEPHEN L. UPSON, Secretary

SITUATIONS WANTED

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New York Cotton Exchange Refuses to Negotiate Until Employees Exercise Right to Leave Union

Exchange insists upon carrying out an "escape clause" in a maintenance of membership provision in its present contract to make sure United Financial Employees, AFL, really does represent its employees before entering into actual negotiations for a new contract.

The New York Cotton Exchange is refusing to commit itself on the question of whether it will enter into negotiations with the United Financial Employees, AFL, for a new contract to replace the present one which expires on March 3 until, as it says, it has the chance to see whether that union really does represent its employees.

The Exchange, that is, proposes, first of all, to carry out an "escape clause" in a maintenance of membership provision of its present contract which gives present members of the union 15 days following the expiration of the contract in which to resign from the union if they so desire. Usually, maintenance of membership sections of a labor contract give union members a 15-day period in which to resign from the union at the beginning—not at the termination—of the contract. Dating back to the War Labor Board era of industrial relations, maintenance of membership clauses compel union members or persons who join the union to maintain their membership in the union for the duration of the contract.

If the Exchange finds that its employees now covered by contract no longer wish to remain in the union, it intends to seek a vote, in the form of an election, among the employees denying the union the right to act as bargaining agent for them. (New York State labor law gives employers of industries that could come under its jurisdiction the right to petition for a State Labor Board vote.) If the Exchange finds that any particular department or any special classification of employees wishes to withdraw from the union, it will seek a vote among the employees of this department or group denying the union the right to represent them in collective bargaining.

The Cotton Exchange's newly-appointed Labor Committee will probably enter without delay into what must of necessity, under the circumstances, be informal discussions regarding a possible new contract. The union wanted to meet with representatives of the Exchange Monday afternoon, for instance. Though the Exchange does not propose to be very definite or specific about any new contract until March 18, the last day of the period cited in the "escape clause" when employees may leave the union if they wish, or later, it has already agreed to make the provisions of any new contract retroactive back to March 4.

The UFE itself, disturbed a little over the Cotton Exchange's refusal to be very definite about a new contract until March 18 or later, called a special meeting last Saturday of those of its members who are employed at the Cotton Exchange for a general discussion of the situation. The union reports that the meeting voted unanimously for a strike at the New York Cotton Exchange in the event the Exchange refuses to open negotiations looking to a new contract before March 3. The meeting also went on record as being desirous of incorporating in the new contract provisions for a 30% increase in pay, job classification, pensions for everybody, bonuses geared to volume of business, three weeks' vacation after ten years of service and four weeks' vacation after 15 years of service, effective grievance machinery, and union security, including seniority rights and check-off. The union claims to have a membership of 70 among the 100 employees of the particular classifications it covers at the Exchange.

The unions on Wall Street—both AFL and CIO—are quick enough at times to make strike threats though it is known that they are not at all anxious for a strike of any kind anywhere now. A showdown of some description is undoubtedly in the making between the unions and management, particularly the management of the banks and brokerage houses, in the financial district. It would be probably safe to say, however, in the light of recent events stripped of all the high-powered words and other dramatic paraphernalia of union propaganda (the unions are prolific in the number of handbills they hand out to all passers-by in the streets and they don't hesitate to put on shows of strength whenever they think it strategic to do so), that the recent strike threats on Wall Street don't quite mean what they seem to say. The unions have given more than one sign that they have seen the political signs on the wall and are governing their actions accordingly. If it can be said the unions may have lost some of their former spontaneous enthusiasm and even strength—though we are not sure at all such is exactly the case—it is probably equally true that in certain very definite but isolated spots they are still extremely active and, to all outward appearances, solidly entrenched. In viewing the Wall Street labor scene, it is misleading to look at the general picture only because, though generally speaking, the unions have far to go yet, in certain limited—very limited—areas, however, they have undoubtedly made significant beginnings. The UFE is strongest in the Exchanges and the CIO is strongest in the banks. As yet, neither union has concluded a contract with a brokerage house.

There has been a very significant change in union tactics. The UFE, for instance, says now that it intends no longer to fight for the traders and others in the brokerage houses who are close enough to management to be in a position to advise it on important matters of policy or close enough to be able to commit a firm financially. The various specialists in the higher categories of the industry are believed to be strong enough to bargain with their employers for themselves as individuals. As the union puts it, if these employees believe they can do better bargaining for themselves, they can do their own bargaining, but the union will continue to protect the rights of what it calls the "back office" staff.

The Financial Employees Guild, CIO, too, though it talks a lot about striking—as in the case of its dispute with the Irving Trust Company—is perfectly willing to seek the help of the legal labor-relations agencies to try to avoid a strike. This may be considered as an encouraging sign. The assistance of the New York State Mediation Board has already been obtained in the Irving Trust case though without results. At the moment, the union is looking to the State Labor Board for help. The union is accusing the bank of unfair labor practice and has filed a charge to that effect with the board. The union claims the bank through the employment of private detectives and in other ways is "intimidating" its members. The union must be aware in bringing this complaint to the board that months even may be required for the rendering of a decision in the case. A charge of unfair labor practice brought against Harris, Upham & Co. before the board early last fall must still be judged finally by the board. The CIO union is also trying to get the bank to agree to arbitration.

A State Labor Board election to determine collective bargaining agency will be conducted at the request of the UFE Monday from 3:30 to 5:30 p.m. in Room 904 of the New York Stock Exchange among the employees of Asiel & Co., brokers of 11 Main Street.

The Financial Employees Guild has obtained a new contract from the Royal Industrial Bank at 1134 Broadway providing for weekly pay increases of $9, hospitalization and group insurance up to $1,000 to be paid by the employers, and other benefits, including a 35-hour week, that is, a work week of five days of seven hours each, if the banking industry goes on a five-day week. The contract also establishes the following minimums for the various salary classifications $33 for the least skilled positions in the bank (floor girls, clerks, rack clerk, grade 1); $38, rack machine operator; $41, stenographer grade II; $44, secretary - stenographer; $47, teller grade I with promotion to teller grade II and a minimum of $57 after one year; $60, head teller, note teller, head book-keeper.

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