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Struggle for Middle East Oil

By HENDRIK De LEEUW

Author of "Crossroads of the Java Sea," and "History of Colonies," etc.

Dutch economist reviews rivalry of Great Powers for Middle East oil fields. Sees end of rivalry and closer cooperation of British and American interests and demand of French for participation. Contends Russia regards Anglo-American co-operation as a conspiracy against her and is bent on obtaining Near East oil resources. Holds this will be a matter for consideration in the Moscow Treaty conferences.

Hendrik De Leeuw

The oil picture in the world today is greatly different from what it was 40 years ago. Today the British, Dutch and American oil interests smooth the gears of their intermeshed operations with the most select lubricants. The picture today is of those British, Dutch and American oil combines against Russian oil interests, a struggle in which no holds are barred.

Clashing in Iran, Saudi Arabia and other Near Eastern vital oil spots, the issue has been diverted

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Government Responsible for High Prices

By DR. JULES BACKMAN*

Associate Professor of Economics, New York University

Dr. Backman terms unwarranted the blame for price rises ascribed to businessmen, since they are not responsible for the contributing factors of food price increases, higher freight rates, credit inflation, or foreign relief policies. Concludes government policy, not industry's price administration, is responsible for current high price level. Expects lower prices later in year, whose extent will be determined by government action in supporting farm prices which are threatening production and employment.

Since the beginning of 1946, the wholesale price index has increased by more than one-third, while the consumers' price index has risen about 13%. These increases in prices have given rise to considerable concern. For some products it is reported that strong buyers' resistance is being met. The phrase "priced out of the market" is being encountered more frequently. Considerable concern is also expressed over the sharp changes which are taking place in price relationships and in price-income relationships.

Jules Backman

When prices rise at different rates and price relationships are significantly altered in short periods of time, the flow of resources must be affected. Similarly, large price increases cut the purchasing power of those groups

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*Address by Dr. Backman before the American Marketing Association, New York City, March 7, 1947.

"Demand Performance" and the Stock Market

By G. A. HAAS and J. J. QUINN

Market economists adduce detailed data supporting argument that large demand for goods, on which expectations ~~for resumed~~ bull market are based, is non-existant. Maintain 85% of individuals have insufficient savings or income to purchase durables at present prices; record production in face of decreasing effective demand portends inventory accumulation; and vacuum between real demand and present consumption level is being concealed. Concludes there will be general price collapse with unemployment and general deflationary spiral, with initial drop of DJ Ind. Stock Avg. to 120-130.

It is with the view of examining the "Bull Market Economist's" present position that this essay in empirical economics is attempted.

G. A. Haas

James J. Quinn

Once again, the old argument used as a chief prop by the latter for a bullish postwar stock market has been resurrected—the alleged broad domestic and world-wide "demand" for "everything the United States can produce," especially durable goods. The Bull Market Economists have constructed a formidable statistical base for this "demand." In so doing, in our view, their failure

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Britain's Economic Dilemma—Its Origin and Nature

By PERCY RIPLEY

British economist asserts current crisis originated in (1) historical change; (2) impact of two wars; and (3) most importantly, present Socialist administration. Accuses government of mortgaging nation's future, and of deluding public concerning economic shortages. Asserts Socialists' failures are prompting its falling back on very principles of individualism which they have been discrediting. Concludes fundamental cure can come only through political change, pending which there should be "austerilizing" of expenditures, cessation of speculation in capital values, and rise in interest rate.

LONDON—The economic crisis in which Britain now finds herself (it can hardly as yet be said through which she is passing) is of threefold origin. There is the factor of historical change (in evidence, more or less, since the turn of the century), the impact of two wars, chiefly the most recent one, and, finally, the Socialist policy of the present administration. Under each of these headings is to be found outstanding features, but in each, also, there is a shading away to a variety of minor but not unimportant matters having a bearing upon the national life. It is the existence of this condition of affairs which makes the crisis in Britain today at once simple and complex, capable of prophecy as to the broad and imminent out-

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[Mr. Ripley, who is the author of "A Short History of Investment," is well known to the City of London as a writer on finance and economics.—Editor.]

Pictures taken at 11th annual dinner of the Cleveland Security Traders Association appear on pages 30 and 31.

Maintaining Prosperity—Roles of Management and Government

By LEON H. KEYSERLING*

Vice-Chairman, Council of Economic Advisers to the President

Although assigning to management first responsibility for health and advancement of our economy, Mr. Keyserling stresses vital role of government. Holds proper proportion of private enterprise and public action will safeguard prosperity, and scores "fatalistic pessimism" of long-term economic outlook. Says another major depression in U. S. would bring end of free enterprise, and contends future of our prosperity rests on proper balanced price and wage policies. Explains Employment Act of 1946.

I have been asked to speak on the topic "Maintaining Prosperity—Management and Government Roles."

Whoever phrased this topic has my appreciation — and I say this in all sincerity —for referring to the role of management first and the role of government second. I join in your earnest hopes and aspirations that for as long as we can see into the future the first responsibility for the health and advancement of our economy will remain with our free system of business enterprise—and not shift to any combination of governmental programs. I know this to be the viewpoint of the overwhelming majority of the American people. This viewpoint I share.

Leon H. Keyserling

But with equal candor, I must express appreciation that the government's role in maintaining prosperity has been included in the topic for discussion. This inclusion does not rest upon any particular political viewpoint or economic dogma. It rests upon hard facts which all must see whose eyes are open. Every reflective businessman is profoundly aware that under modern conditions the composite actions of government do vitally condition the health of the whole economy. Any person who would say that the government's role is immaterial or inconsequential would

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*An address by Mr. Keyserling before National Conference of the Society for the Advancement of Management, Los Angeles, Calif., March 21, 1947.

Present Economic Problems and Prospects

By NEIL H. JACOBY*

Vice-President and Professor of Finance, University of Chicago

Characterizing present situation as a boom containing important elements of short-term instability, but with underlying factors of growth and expansion, Dr. Jacoby expresses belief a business depression within next year is not likely. Holds, however, labor situation is unsettled, and together with chaos and economic crises abroad, are factors making for short-term economic stability. Sees need for balanced Federal budget and readjustment of present distorted price structure. Questions advisability of excessive tax cuts and a too generous foreign loan policy.

I propose to discuss the economic outlook during the year ahead. I shall try to state the most probable prospects for business, direct attention to certain major alternatives of economic policy that confront the nation and attempt to weigh the consequences of adopting each alternative. In concentrating on short - term economic developments, I do not mean to imply that the longer-term situation is beyond analysis and prediction. In fact, with due regard to the large hazards in all business forecasting, the economic scene three or four years hence can probably be discerned with more assurance than can the nature and timing of more immediate changes. But business managers must be concerned with immediate as well as remote events, for the events of only one year can put a business on easy street or in the bankruptcy courts.

Neil H. Jacoby

The late Lord Keynes remarked: "In the long run, we are all dead."

How may we characterize the contemporary condition of the American economy? I believe we can properly describe it is a condition of boom, containing important elements of instability in the short-term (1-2 years) and underlying factors of growth and expansion in the long-term (3-6 years). The evidence of a business boom lies all about us. Aggregate physical volume of production is greater than that of 1941—the last record-breaking prewar year—by about 25%. Unemployment is less than 2,500,000 and most areas of the nation have an excess of vacant jobs over jobseekers. The prices of nearly all commodities continue to rise under the pressure of an excess of demands over available supplies. Income payments and business profits are running at unparalleled levels. Ten years ago the present economic situation would have been described as a close approximation to Utopia.

The contemporary boom is

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*An address by Dr. Jacoby before the Cleveland Security Traders Association, Cleveland, Ohio, March 28, 1947.

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Articles and News

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Business Prospects in 1947

By LAWRENCE F. WHITTEMORE*

President, Federal Reserve Bank, Boston

Commenting on "the most widely advertised recession," Federal Reserve executive refutes theory that falling prices entail decline in business activity. Holds prices of both agricultural and manufactured products are out of line, and looks for healthy readjustment. Sees no excessive inventory accumulation and concludes we are rapidly approaching balanced condition in which competition among both buyers and sellers exists. Says political trend favoring private enterprise is good omen.

In recent months we have seen the highest peacetime level of business on record, an amazingly low level of unemployment, and a volume of profits more than satisfactory for the majority of businesses. A good many people consider the high level of business we are now enjoying too good to be true and a good many others can see in any change downward only a change for the better because costs and prices have gotten so high. The newspapers inform us that if we do not have some kind of recession in 1947 probably the majority of the business observers in the country will have been proved wrong and if we do have a recession it will be the most widely advertised one that has occurred.

L. F. Whittemore

In view of the misgivings about the future expressed by so many businessmen and the widespread predictions of troubled times ahead, I have had assembled some basic facts which we should all have before us before we undertake to determine what lies ahead. Let us first consider where we stand at the moment.

Where We Stand Now

We have just completed a year in which the value of total production of goods and services exceeded by far the production of any other peacetime year on record. In 1946, we produced one-fifth more than the previous peacetime record made in 1941. Since the production of our fac-

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*An address by Mr. Whittemore before the Bankers' Study Conference, Poland Spring, Maine, March 25, 1947.

SEC Abandons Idea of Promulgating Bid-and-Asked Disclosure Rule

"Chronicle" fought against enactment of proposal since 1942. Would have compelled every dealer to disclose to customers best independent bid-and-asked price ascertainable before consummating a transaction. Commission also admits it had no power to subject municipal transactions to such a disclosure rule.

The Securities and Exchange Commission has decided not to adopt the so-called bid-and-asked "disclosure" rule which would have compelled every dealer making a purchase or sale in the over-the-counter market to disclose to his customers the best independent bid-and-asked price ascertainable (in other words what would be construed as the wholesale price in other lines of business) before consummating a transaction.

Simultaneously, the SEC ruled "it has no authority under either Section 15C1, or any other Section of the Securities Exchange Act of 1934, to adopt a rule requiring general

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Growing Importance of Durable Consumer Goods in Our Economy

By S. MORRIS LIVINGSTON*

Chief, National Economics Division, U. S. Department of Commerce

Commerce Department official expects enormous deferred demand boom, and nation's sharply growing productive capacity to reach $250 billion by 1950. Predicts national output double the 1920's average, in which consumers could correspondingly increase durable goods purchases. Foresees ultimate problem of maintaining high consumption level after more obvious needs have been satisfied, at which time consumer credit use will be important element.

Any appraisal of the size and importance of the postwar market for consumers' durable goods should start with the fact that this country is still growing. That growth is compounded of the gradual increase in working population plus the American genius for continually improving production methods.


S. Morris Livingston

Converted to 1947 prices, the gross national product in 1929 was less than $140 billion. By 1941, in spite of five million unemployed, it was $180 billion. Today, with relatively full employment, but when productive efficiency has not yet caught up with the pre-war trend, the national output is approaching $220 billion.

The growth in population is still adding almost half a million workers per year. Further postwar readjustments—including the elimination of production bottlenecks, the modernization of productive facilities and the improvement of management-labor relations—should accelerate the normal tendency toward increased output per man-hour. By 1950 the nation's productive capacity will be nearer $250 billion. In succeeding years the potential output will be even larger.

That productive capacity is significant not only because of the goods which need to be sold but also because of the incomes to be earned at a high level of production. The task of visualizing the problems and potentialities of that capacity is made more difficult because the decade before the war was profoundly affected by the worst depression this country has experienced. In the last period of sustained prosperity—from 1923 to 1929—the national output and income were roughly half of what is possible over the next several years.

Professor Cox estimates that at the end of 1941 the inventory of durable goods in the hands of consumers had a depreciated value of $40 billion in then-current prices. One way of evaluating the importance of consumers' durable goods would be to calculate how much consumers could afford to own if incomes over the next several years are commensurate with a high level of production. Such a calculation would serve to indicate the source, the magnitude and the significance of the accumulated demand. It would also highlight ultimate problems of maintaining a high national output when that backlog of demand is exhausted.

Automobiles as an Example

Unfortunately, and in spite of the excellent work of Professor Cox and others, the data necessary for such a calculation in many instances are lacking. It is possible, however, to use the automobile industry as an example of the problems and possibilities. Automobiles and equipment are the largest single category, accounting for almost a third of the total.

Total registrations of passenger cars during any year admittedly over-state the average number of cars in use during the year. They are, nevertheless, a convenient index of cars in use going back over a period of several decades. They include, of course, cars for business use as well as pleasure.

Two influences determined this user inventory in the years be-

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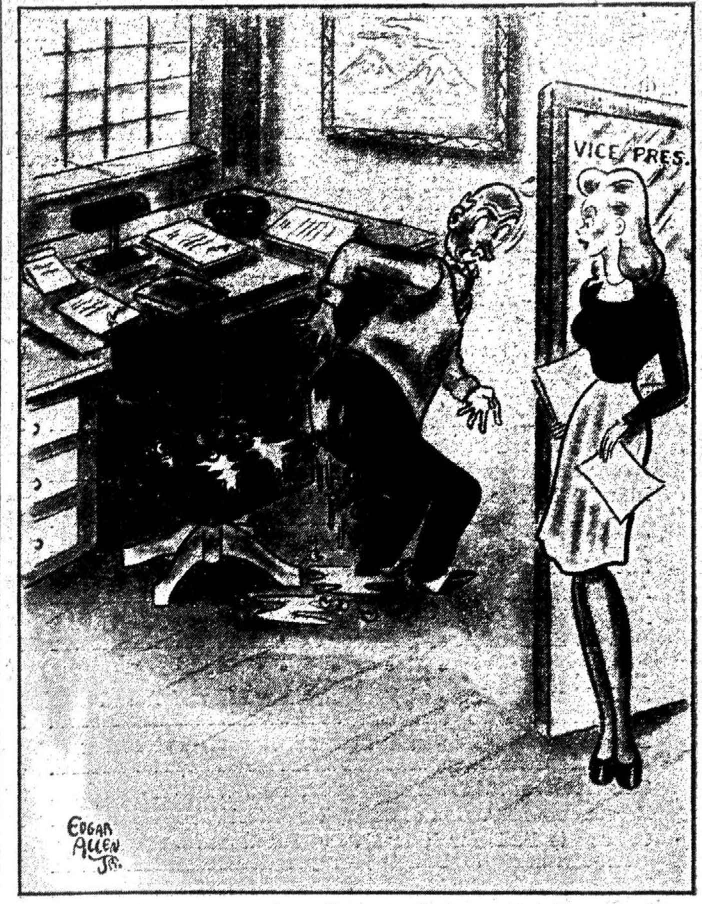
*An address by Mr. Livingston before "Control of Consumer Credit" Conference, Wharton School, University of Pennsylvania, March 26, 1947.

BUSINESS BUZZ



"Oh, I see you found the Easter eggs I got for you, Mr. Weegee!"

Buyers on "Hand-to-Mouth" Basis

Committee of Purchasing Agents, headed by Robert G. Swanton, report short-term commitments by buyers now order of the day, and extreme caution followed in management of inventories.

A composite opinion of purchasing agents who comprise the Business Survey Committee of the National Association of Purchasing Agents, the chairman of which is Robert G. Swanton, Director of Purchases, Winchester Repeating Arms Corp., reports at the end of March. Says the Association's report: "Purchasing agents find a continued high volume of industrial business is being maintained through March, with fewer reporting declines and a slight increase in those reporting increased operations.


Robert G. Swanton

"Increased production and short-term buying policies have reduced the backlog of unscheduled orders in a number of lines. Indications favor top production over the next three months unless the international situation and labor conditions cause interruptions and maladjustments. Of the two, the new international problems are causing most concern. Buyers are watching these developments closely for they may affect the price and availability of many commodities.

Commodity Prices

"The general trend of prices has been ending up but commodities in critically short supply, such as copper and lead, advanced sharply this month. Foodstuffs advanced with the news of heavy European requirements from American production.

"In other lines, prices are leveling off with signs of breakdown under buyers' resistance. Upward flurries of some prices are considered to be the final stage of inflationary increases.

Inventories

"Extreme caution in management of inventories is noticeable in the reports. Many are maintaining supplies only to the extent of definitely scheduled production. With commercial loans at a high mark, banks are reported insisting on liquidation of excess inventories held by some borrowers. Some new unbalancing of stocks

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Washington . . . And You

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

Biggest news out of Washington in imminent weeks won't feature tax reduction or budget curtailment but is to deal rather with prices. Taxes and the budget are good for political bushwhacking. There'll be no agreement between White House and Congress on how far to depress tax rates or how much to shrink the budget. But you can look for an ascending effort by the Executive and Legislative ends of government together to press down prices in general.

* * *

Congressional leaders of both major parties are in accord with the President that prices paid by consumers for most kinds of goods must be lowered. That means that (1) Congress and the White House will cooperate purposefully on this issue, and (2) business interests bucking the current will look in vain for the political refuge usually available to dissenters.

* * *

Washington believes the effectiveness of price shrinking endeavors must be measured in the long run in terms of voluntary price-whittling by big business. The government won't use force. Instead, (1) President Truman will continue to use press and radio as sounding boards for price reduction pleas, and (2) Congress will stress through committee investigations and speeches that big business must charge the public less if the American standard of living is to survive. Nobody appears very sure what this strategy may sprout.

* * *

House Republicans who laid the golden tax reduction egg aren't cackling much in their legislative hencoop. They know that (1) Senate Republicans won't support their bill, (2) the Senate will almost certainly restrict the reduction date to next July 1 rather than last January 1 and may also revise rates to give lower income earners a bigger break, and (3) the House will ultimately eat humble pie and accept the Senate revisions. Insiders know the legislation in present form couldn't possibly survive a Presidential veto.

* * *

Export-Import Bank may become the unwilling parent of a (Continued on page 19)

Observations . . . .

By A. WILFRED MAY

WAGE-PRICE-PROFIT MISCONCEPTIONS STILL RAMPANT

Mr. Lewis' renewed demonstration of power, the wage disagreements in the telephone and steel industries, and the General Motors dispute, are reincarnating to an even more extreme degree previous fallacies and fantasies on the issue of wages. And this is particularly unfortunate at this start of the "second and last round" of the wage battle—probably marking labor's last chance to get what it can before our current production boom and abnormally full-employment condition are ended. For the outcome of the present negotiations and the extent of the pay increases that are agreed on, will go far toward determining whether we are, on the one hand, to find ourselves merely in the last gasp of a dying boom, or instead, at the beginning of a fresh inflationary spiral. And it is no exaggeration to point out that a further inflation, "pricing this country out" of the international market, would even constitute a real threat to peace, and accelerate the advent of World War III.

A. Wilfred May

Perhaps the foremost fallacy is to persist, as Robert Nathan still does, in tying-in the question of wages with industry's profit and price policies; and to shift the issue to an ideological brawl arguing whether industry is profit-drunkenly gouging the public or sacrificing its earnings opportunities on the altar of business statesmanship. In a blast at his critics, delivered at the New School Tuesday evening, Mr. Nathan once more elaborated on his contention that businessmen have not forsaken the profit motive. This writer believes Mr. Nathan goes wrong in failing to recognize it as axiomatic that in a free society and in a free market businessmen will ordinarily try for the profits which supply and demand allow. Instead of demonstrating that they do so, the pro-Laborite should adopt this instinct as the major premise for appraising the effect of wage adjustments. As a matter of actual fact, this persistence of the profit motive and the permanent habit of maintaining profit margins, warrants the expectation that further wage increases will lead to price rises, and hence be inflationary. Whether particular margins of earnings are justified constitutes an entirely different argument of an ethical nature.

In order for Mr. Nathan's thesis to be valid, an indispensable accompaniment of increased wages is an OPA or a change in human nature of businessmen, or both!

Also there is the widespread practice of evaluating profits, prices, (Continued on page 22)

SEC Reverses NASD Ruling in Herrick, Waddell Case

Sets aside action holding investment firm had violated Fair Practice Rules by charging prices not reasonably related to market. SEC decision reaffirms its former ruling that mark-ups above 5% do not necessarily constitute violation of NASD Fair Practice Rules. Holds charges can be made for special services for customers. Herrick, Waddell & Co., Inc. issues statement commenting on ruling.

The Securities and Exchange Commission on March 28 announced its long awaited decision in the application of Herrick, Waddell & Co., Inc., for review of disciplinary action which had been taken against the firm's branch in Washington by District No. 11 of the National Association of Securities Dealers, Inc.

The Washington office of Herrick, Waddell & Co., was censured by NASD after a finding by the Business Conduct Committee of Dist. No. 11 in the District of Columbia that the concern had violated rules of fair practice by charging excessive mark-ups in 39 reported transactions with customers in 1945.

The SEC, in its ruling on the appeal, held that the association failed to give consideration to evidence relating to the firm's dealings, including evidence that the company had in all transactions disclosed to customers the amount of mark-up taken, and had rendered certain special advisory services to them. It therefore ordered that the action of the NASD be set aside and remanded the record to the association for such reconsideration of the case and such further steps consistent with the opinion as it deems appropriate.

It is noteworthy that the SEC disagreed expressly with the NASD's view that disclosure to customers of the amount of the mark-up (a practice which Herrick, Waddell claimed to have pioneered) was not "material" to the proceedings. The SEC, moreover, restated its former ruling that a "mark-up" is only one factor in judging fairness of prices and that the so-called "5% maximum" as promulgated by the NASD is not to be considered a rule.

The SEC concluded that "When a securities firm rendering more than the customary service discloses to its customer the mark-up it will make on the transaction, the customer is enabled better to (Continued on page 38)

World Bank in the Spotlight

By HERBERT M. BRATTER

Mr. Bratter reports Washington's curiosity as to Bank's policies regarding political lending, loaning terms, possible limitation of activities to hard-currency capital, and merger of Fund and Bank. Notes some public dissatisfaction over alleged increase in "Wall Street influence."

The day before Mr. John J. McCloy was elected by the Executive Directors of the World Bank to be President of that institution he was introduced to financial writers and editors in New York in the presence of a considerable number of bankers and of the World Bank's publicity director, Mr. Drew Dudley. One point about this unusual introduction to the public was that the executive directors of the Bank—with the exception of one or two who came upon it privately—had no advance information about this "background press conference."

Herbert M. Bratter

Following Mr. Eugene Meyer's resignation from the Bank, there was in that institution's higher circles an acceptance of the fact that the institution could not be successfully organized without the active participation of Wall Street; and when Mr. McCloy's name first appeared upon the scene, the reaction in Bank circles was favorable and hopeful. Now, this reporter finds, optimism is here and there, being qualified with caution. It is an attitude, in Washington, of watchful waiting. Waiting, among other things, to see whether under the new management certain ideas which have been quietly spoken gather momentum with the passage of time.

Friends of the original Bretton Woods program are watching the McCloy administration's loan decisions. The first loan is expected (Continued on page 49)

Inflation Control By Moral Suasion

WASHINGTON (Special to the "Chronicle")—The Administration appears to be trying to persuade business to lower prices. While this method may appear to be successful at times, it seems a bit like King Canute commanding the tide to recede.

This week, for the second time, the President has publicly attempted to "talk" prices down. And the cabinet is supporting him in the effort. A few days ago the Commerce Department let it be known that the Secretary had asked members of the Business Advisory Council to do some price introspection, and lower prices wherever possible, as "good business." And recently the Secretary of the Treasury advised his press conference that he had heard privately from businessmen that prices of certain basic goods would be lowered.

Recommends Revision of Securities Act

Committee on Security Regulation of Commerce and Industry Association of New York, through Edward B. Twombly and William B. Putney, 3rd, of Counsel, Suggests six major changes and other adjustments. Wants power of SEC to give publicity to unproven allegations of wrong-doing severely restricted.

Revision of laws affecting six major features of the Securities Act of 1933 and the Securities Exchange Act of 1934 are recommended in a report of the Committee on Security Regulation of the Commerce and Industry Association of New York, Inc., released March 28, which has been transmitted to Chairman James J. Caffrey, of the Securities and Exchange Commission, by Association Secretary, Thomas Jefferson Miley.

Edward B. Twombly

Wm. B. Putney, 3rd

The recommendations which were prepared under the guidance of Counsel, Edward B. Twombly and William B. Putney, 3rd, were submitted as a basis for discussion at a conference on the subject which is to be called later by Chairman Caffrey. Messrs. Twombly and Putney are members of the law firm of Putney Twombly Hall & Skidmore, New York City.

The full text of the report follows:

Recently, under the guidance of Chairman James J. Caffrey, there has been a healthy reorientation of the philosophy and attitude of the Securities and Exchange Commission. An intelligent effort is now being made to administer the various securities laws as Congress intended them to be administered for the protection of investors and in the public interest with the least possible interference with honest business. Considerable progress in this direction has already been achieved by the Commission. Awkward, complex forms prescribed in the past have been cast aside and simpler, better ones have been adopted. Rules have been adopted to cure the effect of a previous regulation and to make possible once again some dissemination of information to investors prior to the completion of registration of an offering of securities. In addition, there has been a frank recognition on the part of the Commission that changes are required in various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934 to fully carry out the intent of Congress.

This committee believes that there are six major subjects with respect to which changes should be made in these laws. These are:

(1.) The dissemination of information to investors.

(2.) Simplification of the registration process.

(3.) Integration of the information and registration requirements under the two Acts.

(4.) An increase in the size of small issues exempted from registration, but with broader supervisory powers on the part of the SEC.

(5.) Clarification of the anti-manipuation provisions of the Securities Exchange Act.

(6.) Restriction of publicity on unproven charges of wrongdoing.

These are the major points on which change is required. It is recognized that there are many less important changes which would also be desirable, but no attempt will be made to cover all of these in this memorandum.

This committee is vigorously opposed to two proposals which have been made by others in the past. One proposal is to require registration under the Securities Act of 1933 of "private offerings" such as have been and are being made to insurance companies. The other proposal is to subject companies having more than a minimum number of shareholders and a certain minimum amount of assets to the information and proxy requirements of the Securities Exchange Act, and to subject their officers, directors and 10% stockholders to provisions of that Act which would require them to report their transactions in the stocks of their companies and to pay over to the companies any short-term capital gains in such stocks. As these proposals are not currently being pressed, so far as this Committee is aware, no further discussion of them appears necessary at this time. The Committee, however, wishes to register its opposition to them in case they should be revived.

There follows a discussion of the general nature of the problems related to each of the subjects listed above and our suggested changes.

1. The dissemination of information to investors.

It is generally recognized that the Securities Act has failed in its purpose of conveying full and fair information regarding securities offered under the Act to investors **before** they purchase the securities. Few investors will trouble to read a prospectus, crammed as it must be with detailed technical information much of which is not comprehensible to most investors. Moreover, the general practice is to send the prospectus to the investor with the confirmation of sale, that is **after** he has bought the security. Such sales are made orally, as no written communication may be given an investor in advance of the prospectus. Hence, the investor generally makes his commitment to buy in reliance solely upon the oral representations of the salesman.

To remedy this situation, it is suggested that changes along the following lines should be made in the Securities Act:

(a) The present "tombstone ad" (which today merely permits identification of the security offered, and a statement of the price, from

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Caffrey to Push for Extension of Disclosure And Proxy Requirements to Unlisted Corp.

Chairman of SEC in statement to "Chronicle" makes clear he intends to recommend to Congress passage of legislation which would extend to unregistered companies having 300 or more shareholders and assets of more than $3,000,000 to Securities Act regulations regarding corporate earnings, proxies and trading positions of officers, directors and 10% stockholders.

Extending the disclosure and proxy requirements of the Securities Exchange Act of 1934 to the larger corporations whose securities are not listed is not as dead an issue as many dealers in the over-the-counter market, the associations to which they belong and the officials and stockholders of the unregistered companies apparently have thought it was.

James J. Caffrey

James J. Caffrey, Chairman of the Securities & Exchange Commission, made it very clear to the "Commercial & Financial Chronicle" yesterday that the matter stands exactly as he said it did in his statement to the House Committee on Interstate and Foreign Commerce on March 12 in which he revealed the Commission's plan to suggest to Congress certain amendments to the statutes after (1) the commission has had the chance to put the various proposals under consideration in definite written form and (2) the financial industry has had the opportunity to submit its comments on them.

Mr. Caffrey's reference of March 12 to the unregistered companies may have been missed by many (though our Washington correspondent reported this information in the Mar. 13 issue of the "Chronicle") since it was made only in passing, as it were, being sort of buried on page 40 of the complete 47-page statement. The reference is as follows: "At the time the recommendations for amendments are submitted, the Commission also expects to renew the recommendation made by it in 1946 to extend the reporting and proxy requirements to the larger unregistered companies. This recommendation was incorporated in a bill introduced in the closing weeks of the last Congress as H. R. 7151."

Then and Now

At the I.B.A. convention at Palm Beach last December, Mr. Caffrey is reported to have said that he did not propose to renew the recommendation made at the last session of Congress for extension to unregistered companies having 300 or more shareholders and assets of more than $3,000,000 of the Securities Exchange Act regulations regarding corporate earnings, proxies and trading positions of officers, directors and 10% stockholders. Mr. Caffrey is saying now, however, that what he said then was that he did not propose at the time to push this legislation until he had had the chance to discuss the question with the industry. He says that he has now had that chance and that, as he told the House Committee a little over two weeks ago, he does intend now to recommend favorable Congressional action in this respect. Elements in the financial industry which thought that they could talk the SEC out of extending the reporting and proxy provisions of the Securities Exchange Act to the larger unregistered companies thus have come to learn the hard but realistic way, it may be pointed out, how far they can hope to go in that general direction.

Caught Off Balance

Uncertainty and some confusion in the minds of many interested people concerning the SEC's intentions on the matter date back, in fact, to this I.B.A. meeting. Mr. Caffrey's remarks on the question then apparently have had the effect of lulling everybody to sleep on the issue rather than putting them on their guard which, in retrospect now, some observers think everyone should have kept.

This uncertainty over what the SEC intends to do was forcibly brought out only last Friday in a report of the Committee on Security Regulation of the Commerce & Industry Association of New York, Inc., which was forwarded to Mr. Caffrey at Philadelphia (printed elsewhere in this paper today). The Committee makes mention of a proposal to require registration under the Securities Act of 1933 of "private offerings" along with a reference to the "other proposal . . . to subject companies having more than a minimum number of shareholders and a certain minimum amount of assets to the information and proxy requirements of the Securities Exchange Act and to subject their officers, directors and 10% stockholders to provisions of that Act which would require them to

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Britain's Trade Policy Dilemma

By PAUL EINZIG

Dr. Einzig points out Britain's difficulty in supporting non-discrimination and multilateralism in forthcoming Geneva World Trade Conference. Holds, despite adverse situation, British Government will seek to carry out commitments under Anglo-American Loan Agreement, and forsees probability of further U. S. loans to Britain.

Although we are on the eve of the Geneva Conference, there are as yet no indications of the course that the British delegates will adopt towards the main issue—that of discrimination in international trade. In connection with the Loan Agreement of Dec. 6, 1945, the British Government committed itself in favor of the principle of non-discrimination. Its commitment, is however, sufficiently vague to allow wide scope for interpretation, and in any case the British claims for tariff reduction in the United States might well prove to be unacceptable to the Republican majority in Congress. So for all practical purposes Britain has a free hand at the Conference to aim at quantitative discrimination and the maintenance of the multilateral system.

Dr. Paul Einzig

Nevertheless, the Government could not light-heartedly disregard American interests and American feelings in this matter. Whatever may be the technical position under the letter of the Washington Agreement, there can be no doubt about the meaning of its spirit. A loan of $3,750,000,000 was granted on the condition that Britain would support the American trade policy. In such conditions it is for Britain morally, politically, and even financially impossible to come out definitely in favor of the opposite policy. Apart altogether from the possible political effects of such a course, it might have unfavorable financial reactions. For it would be idle to expect the United States to grant further assistance if the spirit of the terms under which the loan was granted is disregarded. And it looks as though Britain would badly need fresh assistance before we are much older.

On the other hand, it is becoming increasingly clear that in the Washington Agreement the British Government committed its country to a suicidal policy. Apart altogether from what may be agreed at Geneva, the terms of the Loan Agreement themselves impose an unbearable burden on the British balance of payments. The loss of foreign exchange that is certain to arise as a result of the premature restoration of the convertibility of sterling on July 15, 1947, is expected to cut short the respite obtained as a result of the loan. Had Britain borrowed on commercial terms—say, at 5% interest, and repayment in 25 years—the burden on the balance of payments would not have been nearly as heavy as that arising from the "strings" attached to the "political" loan. The chances are that a large part of what is left of the proceeds of the loan will be lost as a result of the drain caused by the convertibility.

The effect of the adoption of non-discrimination at Geneva on Britain's balance of payments would be even more disastrous. In existing circumstances such beneficial effects as may arise to Britain from a return to multilateral trade are bound to be very gradual. On the other hand the adverse effects are expected to be heavy and immediate. Possibly in 10 years' time Britain's export trade might secure its due share in the expansion of world trade brought about by non-discrimination. Meanwhile, however, the British balance of payments will be exposed to the effects of having relinquished the weapons of discrimination with which it could have been defended during the reconstruction period. Britain will have no means for correcting the maldistribution of its trade with "hard currency" countries and "soft currency" countries.

The main object of the loan was to meet the deficit of Britain's balance of payments until the beneficial effects of non-discrimination have restored its equilibrium. By the look of things, however, the proceeds will be exhausted long before such equilibrium can be hoped to be reached. In the circumstances there is a strong temptation for Britain, through sheer instinct of self-preservation, to put up a strong fight in Geneva in favor of discrimination. The alternative is to accept the American policy in the hope that in a year or two the United States would grant additional billions of dollars, and would continue to grant further loans until the deficit of the balance of payments is eliminated in the course of time.

This would mean, of course, that Britain would sink to the stature of a perennial borrower. The Labor Government, always ready to buy cheap popularity at the cost of sacrificing long-term interests, is not likely to be deterred by this consideration from taking the line of the least resistance. On the other hand, it may be reluctant to put itself in a position in which it would be at the mercy of Wall Street or of a Republican Administration. The memory of the so-called "bankers' vamp" of 1931, when the Labor Government was forced out of office largely by the influence of American finance, is still fresh in the mind of Socialist leaders. For this reason more than any other, discrimination is not likely to be given up lightly by Britain in Geneva.

Firm Name Now Leedy, Wheeler & Alleman

ORLANDO, FLA. — The firm name of Leedy, Wheeler & Co. has been changed to Leedy, Wheeler & Alleman, Inc. Offices will be continued in the Florida Bank Building. Officers of the firm are Loomis C. Leedy, President; Howard S. Wheeler, Executive Vice-President; Paul L. Pierce, Vice-President, and F. Monroe Alleman, Secretary and Treasurer.

The Labor Government's Failures

By RT. HON. WINSTON CHURCHILL*
Former Prime Minister of Great Britain

Asserting economic policy of British Labor Party hampers Britain's recovery and endangers its very life, Mr. Churchill characterizes its greatest evil as "injury to the spirit." Points out since end of war British living standards have declined and people are undernourished. Attacks Labor Government's neglect in coal shortage, and holds situation could have been avoided by precautionary action. Decries heavy occupation expenditures and increase in civil service costs and accuses Labor Government of trying to destroy wealth and free markets.

The problems which confronted the British nation on the morrow of their victory required the strength of a united people to solve and overcome. Instead of that, the Socialist Government, in their hour of unexpected success, set themselves to establish the rule of a party, and of a sect within a party. Having even then, as my right hon. Friend the Member for the Scottish Universities (Sir J. Anderson) reminded us, polled only 37% of the total electorate, they nevertheless deemed it their mission to impose their particular ideological formulas and theories upon all the rest of their fellow countrymen, regardless of the peril in which we all stood, regardless of the urgency of the work to be done, most of all, regardless of the comradship by which alone we had survived the war.

Winston Churchill

This was a crime against the British State and people, the consequences of which have hampered our recovery, darkened our future and now endanger our very life. In our immense administrative difficulty, the Prime Minister and his colleagues should have concentrated upon their immediate practical tasks, and left the fulfilment of party ambition and the satisfaction of party appetities, at least until we, and the rest of the world with us, stood on firmer and safer ground. Before they nationalized our industries they should have nationalized themselves. They should have set country before party, and shown that they were Britons first and Socialists only second. They should have set the day-to-day well-being of the whole mass of the nation before and above the gratification of party passions. In this they would have found an honorable and worthy mission, from which lasting honor for themselves and their party might have been reached.

Have Spread Class Warfare

On the contrary, mouthing slogans of envy, hatred and malice, they have spread class warfare throughout the land and all sections of society, and they have divided this nation, in its hour of serious need, as it has never been divided, in a different way from that in which it has ever been divided, in the many party conflicts I have witnessed in the past. In less than two years, our country, under their control, has fallen from its proud and glorious position in the world, to the plight in which it lies this afternoon, and with even more alarming prospects opening upon us in the future. That is their offense, from which we shall suffer much, and with the guilt and discredit of which their name and the doctrines of their party, will long be identified in British homes.

For our part, when this Government first took office, although profoundly distressed by the vote of the electorate—[Laughter]—no one more than me—we immediately offered any services which we could render to the national cause, not only at home, but in the United States. I, and my leading colleagues, did our utmost, against a good many of our friends here, in our party, to help the Government to obtain the American loan of £1,000 million, in spite of the disadvantageous conditions under which it was offered. I used such personal influence as I had in the United States, as the Chancellor of the Exchequer knows, to clear away American misunderstandings, so far as it is in the power of any private citizen to do any such thing. On every occasion hitherto, my colleagues and I have emphasized the importance of national savings, and we shall continue to do so, but I have an increasing feeling, in view of inflation, that at any rate the smallest class of savings might be linked to some permanent standard of values. We have voted with the Government in everything they have done for the sake of our country, but what has been the return? An aggressive party attack has been made upon us.

I am sorry to see, from the newspapers, though I am glad I was not here, that the Minister of Defense distinguished himself by showing that aggressive spirit last night. An unbroken stream of scorn and hatred has been poured out upon us, not only by Government speakers in all parts of the country, but from the official Government newspaper, the "Daily Herald." One would have thought that the ten million people, who voted for us, or with us, at the Election, were harldly fit to live in the land of their birth, although most of them were folks who had given a lot for the national victory.

Gravest Injury Is Psychological

The first and the gravest injury which our country has sustained is psychological. It is the injury to the spirit. I was the Prime Minister responsible, as head of the Government, for the present crushing weight of direct taxation including the almost confiscatory taxation of wealth. All this was done with a great Conservative majority by a Prime Minister of the Conservative Party and by a Chancellor of the Exchequer of the Conservative Party. I was also responsible, as head of the Government, for the controls and regulations of all kinds that were in force at the end of the war. We must not forget that afternoon in May, 1940—I was not here; I had to go to Paris—when the enormous Tory majorities in both Houses of Parliament voted into the hands of the Government, for the sake of our country's survival, practically all the rights of property and, more precious still, of liberty on which what we have called civilization is built. That ought not to be forgotten when hon. Members

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*Speech of Mr. Churchill in the House of Commons, London, England, March 12, 1947.

Labor Management Problems in 1947

By EDWIN E. WITTE*

Chairman, Department of Economics, University of Wisconsin

Former member of War Labor Board, after reviewing developments under Wagner Act, contends new labor legislation will not aid in accomplishing industrial peace. Sees threat of renewed strikes in mass production industries regardless of new Congressional legislation. Says there is still wide gap between thinking of labor and management, and that giving status and security to a union does not guarantee no further labor trouble but is merely an essential condition of getting along with union. Warns against extremists in both labor and management.

In discussing the "Labor Management Problems in 1947" it is logical to begin with a review of past developments.

Edwin E. Witte

I will say little about the period before 1935 when Congress enacted the National Labor Relations Act, popularly known as the Wagner Act. Unionism was then over 100 years old in this country. It had survived all of the ups and downs of the business cycle, all political changes, and all climates of public opinion. It was firmly established in many industries, but was almost completely excluded from the mass production industries.

Both unionism and collective bargaining had long been of undoubted legality. While there had been a few early cases in which labor unions were held to be illegal, it had long been firmly established that combinations of working men to increase their wages, shorten hours of labor or improve working conditions, are lawful. There never had been even one case in which a combination for these purposes had been held to violate the anti-trust laws, regardless of the size of the union or the percentage of the employes in a given industry included within its membership.

Union agreements were of unquestioned legality, including agreements for the closed shop—and without the limitation specified in the Wagner Act that closed shop agreement must be made with a union representing a majority of the employes.

As early as 1918 in the Declaration Principles to Govern Labor Relations during World War I, it was declared to be the policy of the United States to accord workers the rights of self organization and collective bargaining, free from all interference by employers. This statement came from the War Labor Board of that day, of which the then ex-President and later Chief Justice William Howard Taft was co-Chairman. This principle was first written into statute law in the Railway Labor Act of 1926, approved by President Coolidge. It also was included in the Norris-LaGuardia Act of 1932 and in the Bankruptcy Act of 1933, both of which were approved by President Hoover. It was reaffirmed in Section 7(a) of the National Industrial Recovery Act of the early days of the Roosevelt Administration.

The Wagner Act

This same provision is the central section of the Wagner Act. This law differs from the earlier legislation to safeguard the right of workers to form labor organizations and engage in collective bargaining only in that it implements this statement of the rights of workers by a short list of unfair labor practices of employers. The most important of these unfair labor practices are discrimination against workers for union

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*An address by Dr. Witte before the University of Cincinnati business and professional men's group current affairs forum, Cincinnati, Ohio, March 21, 1947.

Public Utility Securities

American Water Works Company, Inc.

American Water Works Co., Inc., last Friday amended its registration statement with the SEC covering issuance of $15,000,000 in bonds and approximately 2,600,000 shares of new common stock. The company was formed in 1936 to function as a subholding company for part of the water works interests of American Water Works & Electric Company, Inc. As now set up, it has outstanding 5,000 shares of preferred stock and 6,000 shares of common, all owned by the top company. This inactive holding company will become the "top company" for all the water works properties of the system, which are to be divorced from the electric interests. There are 68 of these subsidiaries, one-half of which have been in the system since 1886 and one-half since 1929. About one-half the companies are located in Pennsylvania and the balance in 20 other states in the east, middlewest and south. Some of the largest cities served are Birmingham, Chattanooga, Wichita, Pittsburgh, Peoria, etc. In addition to the water works companies, there are eight other subsidiaries.

The $15,000,000 10-year 3% collateral trust bonds will be sold to the John Hancock Life Insurance Company. Of the 2,600,000-odd shares to be outstanding, 2,343,105 will be offered to the common stockholders of American Water Works & Electric in a share-for-share ratio. The offered price will first have to be determined by competitive bids submitted for a stand-by underwriting. It is understood that two groups are in the field to bid for the business.

While the date of registration might normally fix a bidding date around the end of April, some delay may result from the necessity of clearing tax questions with the Treasury Department. May 1 would seem to be about the earliest date for bidding. It is understood the stand-by period will be ten days, during which the rights will be effective, and after which any unsubscribed balance of stock will be offered to the general public.

Some 2-300,000 shares of common stock will be used for required exchanges which will "collapse" two subholding companies in the water system, Community Water Service and Ohio Cities Water. A substantial part of the cash realized by American Water Works Company will be passed up to its parent, American Water Works & Electric, and will be used by the latter to retire its own preferred stock.

The registration statement indicates that the dividend rate on the new stock will be 65 cents per annum, the initial dividend of 33 cents to be paid six months after the date of the prospectus (assuming that conditions do not change materially). Estimated consolidated pro forma earnings on the stock have been as follows:

1946	87¢
1945	76¢
1944	75¢
1943	78¢
1942	82¢
1941	92¢
1940	75¢
1939	77¢

System revenues in 1946 were about 45% residential, 23% commercial, 16% industrial and 16% miscellaneous.

The pro forma consolidated balance sheet shows plant account, including untangibles, to approximately $166,707,000 and the depreciation reserves is about $21,300,000. Subsidiaries with total plant accounts of $102,000,000 are not presently subject to original cost, although about 30% of these may later become subject to write-downs in an amount estimated at $3,500,000 to $4,000,000. Of the 17 subsidiaries which have been ordered to change their books to original cost, 12 with plant accounts totaling about $58,000,000 have completed their studies, classifying $6,100,000 in account 100.5 and $1,900,000 in account 107. The latter amount has been eliminated in the new balance sheet, and the $6,100,000 is being amortized. Five companies with plant account of $6,500,000 are still working on their original cost estimates. Thus it appears that the combined plant figure of $166,700,000 may include in the neighborhood of $8-10,000,000 in excess of original cost, plus an unknown amount for companies not subject to this method of accounting.

McDonald Sworn in As SEC Member

Harry A. McDonald

Harry A. McDonald, who was appointed by President Truman as a member of the Securities and Exchange Commission to fill out the term of the late Robert E. Healy, which expires June 5, 1951, was sworn in by Chairman James J. Caffrey in Philadelphia on March 26, and immediately took up his duties as Commissioner.

Mr. McDonald, in addition to having acted as President of the H. A. McDonald Creamery Company, was until his appointment, a member of the investment firm of McDonald-Moore & Company, of Detroit, Michigan. Born in Cherokee, Iowa, on June 17, 1894, Mr. McDonald attended the Law School of the University of Chicago and is a veteran of World War I. Since 1919 he has had various positions, chiefly in the ice cream and dairy products line and in 1921-23 was employment manager of the Cleveland Electric Illuminating Company. Since 1934 he has been President of the H. A. McDonald Creamery Company. In politics, Mr. McDonald is a Republican. He is a director of the Detroit Board of Commerce.

N. Y. Munic. Bond Club 14th Annual Field Day

The Municipal Bond Club of New York will hold its 14th annual Field Day at the Sleepy Hollow Country Club, Scarborough-on-Hudson, New York, on Friday, June 20.

Members of the Field Day Committee are:

Frank L. Lucke, Laidlaw & Co., Chairman; Leonard R. Sullivan, Phelps, Fenn & Co., and James D. Topping, Braun, Bosworth & Co., Sub-Chairman; P. Hurley Bogardus, Barr Bros. & Co.; Frank J. Brophy, R. S. Dickson & Co.; Thomas C. Cafone, W. E. Hutton & Co.; Marquette deBary, Harris, Hall & Co.; Eugene L. DeStaebler, F. S. Moseley & Co.; Gordon B. Duval, Guaranty Trust Co.; George B. Gibbons, Jr., Geo. B. Gibbons & Co., Inc.; William T. Hall, Jr.; Edward H. Hills, Eldridge & Co.; Harold E. Leaf, R. D. White & Co.; Albert J. Milloy, First Boston Corp.; Richard N. Rand, B. J. Van Ingen & Co.; William J. Riley, and Joseph F. Vandernoot, R. W. Pressprich & Co.

Kaiser & Co. Admitting Meyerson & Stecher

SAN FRANCISCO, CALIF.—Kaiser & Co., Russ Building, members of the New York and San Francisco Stock Exchanges, and other leading exchanges, will admit Harry Meyerson and Henry Stecher to partnership in the firm as of April 10. Both have been with the firm for some time, Mr. Meyerson being in charge of the brokerage department.

Hemphill, Noyes Adds

Hemphill, Noyes & Co., 15 Broad Street, New York City, announce that the following have become associated with their firm as registered representatives: Roscoe B. Ayers, Jr., Alfred J. Coyle, Stephen B. Finch, John C. McLeod, and William L. Sneed.

Federal Government Must Relinquish Consumer Credit Control

By HON. JAMES C. DAVIS

Member House of Representatives from Georgia

Congressman Davis, explaining his bill to cancel Regulation W, contends present government control entails burdensome reporting by business, is no longer defendable as wartime measure, hinders peacetime production, and is undemocratic in its application.

On March 10, 1947, I introduced H.R. 2443, a bill to cancel Regulation W and to prevent regulation of consumer credit by the Federal government.

Regulation W, issued by the Board of Governors of Federal Reserve System, was adopted Aug. 21, 1941, to become effective Sept. 1, 1941. It was issued under authority of Presidential Executive Order No. 8843, dated Aug. 9, 1941.

Regulation W now applies to down-payment and maturity requirements on 12 major categories of consumers durable goods. Its regulations apply to any person who is engaged in the business of making extensions of installment credit in amounts of $2,000 or less or discounting of Purchasing obligations arising out of such extensions of credit, whether the person is a merchant, bank, loan company or finance company.

It affects the business of every dealer in automobiles, stoves, washing and ironing machines, refrigerators, radios, sewing machines, vacuum cleaners, and other listed articles.

It requires that every credit installment buyer of automobiles, and all other listed articles except certain items of household furniture, must pay at least one-third of the purchase price as a cash payment, and must pay the remaining two-thirds of the purchase price in not less than fifteen months.

It further requires that every merchant and dealer who makes installment credit sales of these listed items, and every bank, finance company, or individual, who lends money to buy these articles, or who buys purchase money notes executed for them, must be registered with, and have a license from the Federal Government to do business, and may be prosecuted for violation of the regulations, and punished by a fine of $10,000 or imprisonment for 10 years, or both.

The enforcement of this regulation necessarily means the making of detailed reports by the business man, and a force of federal employees large enough to review all these reports and to enforce the requirements of the regulation.

Regulation W was inaugurated as a temporary war-time measure when there was a need for control of the use of installment credit, because the manufacture and sale of the articles affected were absorbing resources needed for national defense.

The situation now has changed. Instead of decreasing peace time production, the need now is to increase peace time production.

Production of these listed items has not yet caught up with the demand for them. However, there is a point in the immediate future where production of these goods will catch up with demand for them, and when that point is reached, Regulation W will greatly retard sales of these articles.

It is undemocratic in its application. The purchaser of a car priced more than $2,000 is not affected by it, yet a man who buys a lower priced car is obliged to comply with its strict terms. There are many veterans and others who want to establish homes, buy furniture, possibly washing machines, refrigerators and the like, and possibly an automobile, and pay for all these items in regular installments from their salaries. Unless Regulation W is cancelled, many wage earners will be unable to buy these articles. A continuation of Regulation W will make it difficult indeed for many housewives to purchase articles which would materially add to the comfort and convenience of the family, such as washing machines, ironing machines, stoves, refrigerators, radios, vacuum cleaners, and many other items of household and kitchen furniture.

The removal of these restrictions will help the American veterans and American workers to reestablish their own homes and their own family lives by their own work and labor, and on terms which they can meet. Its removal will cause markets to expand and production to increase. It will give more work to labor and more investment to capital, and will contribute to prosperity of America as a whole.

Last but not least, one of the beneficial effects of canceling Regulation W will be to relieve this section of American business from government regimentation and to reestablish to that extent, the American system of free enterprise. The removal of this regulation will be quite a step in the direction of that goal toward which the American people have been looking, namely, that the Government will get out of business, and let the American people get back into business.

Forming Oppenheimer, Vanden Broeck & Co.

Oppenheimer, Vanden Broeck & Co., members of the New York Stock Exchange, will be formed as of May 1st with offices at 40 Exchange Place, New York City. Partners will be Winfried H. Oppenheimer, Alfred L. Vanden Broeck, Frank Neu, Robert R. Lansburgh, the Exchange member, general partners, and Robert J. Ullman and George W. Ullman, limited partners.

Mr. Lansburgh has been active as an individual floor broker and prior thereto was a member of Bear, Stearns & Co. Mr. Neu in the past represented Bear, Stearns & Co. in Amsterdam, Holland.

Looking Ahead in Casualty Insurance

By BENJAMIN RUSH, JR.*

Vice-President, Indemnity Insurance Co. of North America

Casualty insurance executive traces rapid growth of this field in last quarter-century and forecasts continued expansion, with more profitable results, particularly in automobile, workmen's compensation, and aviation risks. Predicts great increase in premiums and a reasonable competitive rate structure, as result of implications in Public Law 15. Advocates multiple line underwriting and simplification of policy forms.

Twenty-seven years ago, in 1920, then as now, two years had elapsed since the end of a great war. And what was the situation in 1920? In the spring of 1920 Senator Warren G. Harding was nominated for President by the Republicans and was elected to that office in November. F. D. Roosevelt was nominated for Vice-President by the Democrats. National Prohibition became effective in January 1920. Women's Suffrage was finally adopted the same year and, to quote from a history of that time, "serious labor troubles threatened during the latter months of the year. A general coal strike in the bituminous fields was prevented only by the prompt action of the government in declaring the strike illegal and issuing an injuction preventing the leaders from permitting the men to strike." Is there not a familiar sound to this? The national debt was considered to be so large, standing at $24,299,000,000, that it was doubted whether it could ever be paid out of an annual income of $65,928,000,000. And what about the casualty business, that upstart in the insurance family that was outgrowing its breeches so fast that benevolent parents, with an eye towards the profitable employment of this strapping youngster, were creating new clothes for him in the form of dozens of newly organized casualty companies.

Benjamin Rush, Jr.

Growth of Casualty Insurance

In 1920, stock casualty premiums had reached the amazing total of $416,505,144, an increase of over 400% in the last decade. Respectable old insurance agents who for years had refused to handle other lines than fire and marine were finally opening casualty departments and new agencies were springing up everywhere.

Let us briefly review the developments of the next two decades. By 1930, stock casualty premiums had doubled and stood at over $800,000,000, increasing by another $100,000,000 during the 1930's to stand at over $900,000,000 in 1940. By 1945, the staggering total of $1,324,890,000 had been reached. Think of it! So much for the past; what about the future?

This amazing growth of the business only indicates to me that casualty insurance has come of age. Now that the youngster has matured, a full and useful life for him stretches into the future. There is no question but that the development of the automobile, particularly from 1915 to 1930, played a very important part in this great growth. The production of motor vehicles reached an all-time high in 1929 of 5,358,000 units and the automobile thus became, instead of a luxury for the few, a necessity for the many. It is interesting to note that the production of so many units was secured on an annual national income of approximately $68,000,000,000.

According to the United States Public Roads Administration, the highest number of automobile registrations was reached in 1941, with a total of 34,400,000, which dropped in 1946 to approximately 30,000,000.

Various estimates have indicated that a replacement demand of 22,000,000 units in the next three years cannot be considered excessive, whereas the estimated production for a similar period is only 18,000,000 units. This would indicate that, barring strikes and other production delays, it will take approximately four years to fill the demand. At the end of this time, it is estimated that there will be over 40,000,000 registrations in the United States, which represents an increase of 25% over the number of registrations in 1946. I am not aware upon what this estimated replacement demand of 22,000,000 units has been based but, with an annual

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*An address by Mr. Rush before the Minnesota Association of Insurance Agents, St. Paul, Minn., March 28, 1947.

Dealer-Broker Investment Recommendations and Literature

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

Appeal—Letter on currently depressed stocks which appear attractive—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Auto Equipment Companies—Analysis—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y. Also available is a memorandum on **International Telephone & Telegraph.**

Companies Which May Earn More in 1947 Than in 1946—Circular containing comprehensive statistical data on 1182 stocks—Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Comparative Insurance Stock Prices—Based on earnings for 12 months ended Dec. 31, 1946—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Earnings Comparison of Fire & Casualty Insurance Stocks for 1946 — Circular — Laird, Bissell, & Meeds, 120 Broadway, New York 5, N. Y.

Motion Picture Industry — A Study—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Pennsylvania Legal Bonds—Compilation—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available are valuations and appraisals of **Railroad Equipment Certificates and City of Philadelphia Bonds.**

Public Utility Common Stocks—Brochure containing brief sketches of 10 stocks set up in "package" form—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y. Issues discussed are **Arkansas-Missouri Power, Black Hills Power & Light, Central Illinois Electric & Gas, Central Maine Power, Iowa Southern Utilities, Lake Superior District Power, Puget Sound Power & Light, Virginia Electric & Power, West Virginia Water Service,** and **Western Light & Telephone.**

Also available is the current issue of the **Republic Utility Stock Guide** containing quotations on public utility preferred and common stocks.

Railroad Developments of the Week—Summary—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Aerovox—New circular—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

American Box Board Co.—Circular—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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; Pfaudler, Corp.; United Artists; Vacuum Concrete; Barcala Mfg.**

Barnsdall Oil — Memorandum—Newburger & Hano, 61 Broadway, New York 6, N. Y.

Barnsdall Oil Company — Detailed circular—Edward A. Purcell & Co., 50 Broadway, New York 4, 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 $6 Preferred**—Detailed Review and discussion of nature and current operations of the various subsidiaries making up the system, in the March issue of the **"Investment Barometer"**—Fred. W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Central Steel & Wire Company—Memorandum—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

Cleveland Electric Illuminating Co.—Analysis with particular reference to its investment position as an operating utility equity—Rosenthal & Co., 60 Beaver Street, New York 4, N. Y.

Columbia Gas & Electric Corp—Memorandum discussing prospects—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Comercial Solvents Corporation—Memorandum—Jacobs & Low, 61 Broadway, New York 6, N. Y.

Consolidated Dearborn Corp.—Circular — Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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

Cudahy Packing Co. — Memorandum on the common stock — John Nickerson & Co., Inc., 61 Broadway, New York 6, N. Y.

L. A. Darling Co.—Descriptive brochure and annual report—Moreland & Co., Penobscot Building, Detroit 26, Mich.

Dumont Electric Company—Report—Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Also available are memoranda on **Le Roi Company** and **York Corrugating Company.**

Finch Telecommunications—Circular—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Also available are circulars on **National Paper & Type, Polaroid Corporation,** and **Monroe Auto Equipment.**

Hanson-Van Winkle-Munning Co.—Detailed analysis—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

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

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

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

Byron Jackson Co. — Discussion of situation—Sartorius & Co., 39 Broadway, New York 6, N. Y.

Kendall Company—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

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

Long Bell Lumber — Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Bird & Son, Inc.** and **Gruen Watch Co.**

Metal Forming Corporation — Memorandum—First Colony Corporation, 52 Wall Street, New York 5, N. Y.

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

New England Gas & Electric Association—Analysis—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Oliver Corporation — Study of prospects as speculation—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

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

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

Public Service Corporation of New Jersey — Detailed memorandum—Bear, Stearns & Co., 1 Wall Street, New York 5, N. Y.

Also available is a comprehensive circular on **Pullman, Inc.**

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

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

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

United Artists Theatre Circuit Incorporated—Discussion of speculative prospects—Ward & Company, 120 Broadway, New York 5, N. Y.

United Cities Utilities Co.—Card memorandum—Ray T. Haas, 231 South La Salle Street, Chicago 4, Ill.

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

Warner Co. — Memorandum on outlook—H. M. Byllesby and Co., Stock Exchange Building, Philadelphia 2, Pa.

S. D. Warren Co.—Analysis—May & Gannon, Inc., 161 Devonshire Street, Boston 10, Mass.

Also available is a detailed report on **Hytron Radio and Electronics Corp.**

West Ohio Gas Company — Analysis—J. J. O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

New Directors of Commercial Credit Company

Left to Right: Charles J. Zimmerer, Vice-President and Senior Financial Officer; W. Bruce Wylie, Vice-President of Commercial Credit Company and President of Commercial Credit Corporation, Baltimore; E. E. Yaggy, Jr., President, Gerotor May Company, Baltimore; Thomas B. Butler, President, Safe Deposit & Trust Company, Baltimore.

With Colvin, Mendenhall Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF. — Richard A. Hanan and John M. Stine are now with Colvin, Mendenhall & Co., 127 Montgomery Street.

Joins Dean Witter Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Dean Witter & Co., 632 South Spring Street have added Neil F. Campbell to their staff.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Leonard Krupnick is with Slayton & Co., Inc., 3277 Wilshire Boulevard.

Labor and Wage Prospects for 1947

By ROGER W. BABSON

Mr. Babson foresees fewer strikes and change in labor's attitude in industrial disputes. Holds better labor situation is due to removal of price controls and changed political complexion. Predicts some industries will grant wage increases in 1947, and points out need for practice of basic principles.

The economic well-being of any country is largely determined by (a) the amount of food, homes, clothing, recreation, etc., which is produced by its people; and (b) the way these goods and services are divided up among you and me and our neighbors. If, therefore, we are to be prosperous in 1947 we must produce. We cannot afford to lose another 110,000,000 man-days through some 6,027 strikes as we did in 1946.

Roger W. Babson

Strikes on the Wane

It is my belief that the struggle between management and labor has already begun to slough off. Of course, there will be continued demands for small wage increases. Where industries cannot afford further basic wage increases there will probably be demands for certain concessions as portal-to-portal pay, paid sick-leave, increased paid holidays, health and welfare funds, etc.

There is no question but that some of these demands are legitimate. The real trouble is that many of them are simply camouflage to cover up the real struggle between the unions, owner-management and the government for the control of industry. Knowing this, both employers and employees ought to muster every ounce of courage and common sense in order to negotiate wisely, not only for their own mutual benefit, but for the ultimate preservation of our American way of life.

Reasons for Labor's Change in Attitude

While strikes will remain a nuisance, a thorn in the flesh, if you will, of industry throughout 1947, the fact remains that the incidence of strikes has tumbled appreciably since November (July 720; September 541; November 477; December 228; January 191). I attribute this change for the better to:

(a) the fact that price controls have been lifted, which allows a greater latitude for bargaining;

(b) the political complexion has changed considerably in recent months;

(c) a warning handwriting is very clearly upon the wall for future strikers. Messrs. Green, Lewis and Murray all have sense enough to know that under present conditions continued belligerence and aggression can only lead to public hostility and a possible immediate retaliation from the new Congress. In the light of these trends I predict that 1947—much to the surprise of many employers and employees alike—may see the fewest critical labor disputes since 1939.

Wage Outlook for 1947

As a result of this return to normalcy there have been during December and January some wage increases for workers in the Trucking, Clothing Stores, Cotton Textiles, Printing, Painting, Plumbing, and Shipping industries. You can expect that where unrest continues, the greatest pressure for wage increases and fringe concessions will probably come from the Shipping industries, Motion Pictures, Chemicals, Household Furnishings, Radio and Metal Fabricating. Reason: The desire of the unions to share the reputedly high profits in these businesses.

Frankly, I am not now too concerned over this upheaval. I believe that after union labor has secured real power, it will find that its employers are better friends than its labor leaders. Labor will not give up collective bargaining and certain other new privileges; but it will listen more to the advice of its resident employers than it ever did before. This means that when the liberal interests are faced with full responsibilities, they become much more conservative and demand "checks and balances" for their own protection.

The Need for the Practice of Basic Principles

Bear in mind these truths, however: Three fundamental economic principles must be understood before we can realize any true measure of prosperity. These are:—(1) Only by increasing our national production will there be more to divide; (2) Our true national income can be increased most readily by extending free enterprise with a minimum of interference by government bureaucrats; (3) The masses are on the march and we should not handicap legitimate desires to better their condition.

Grimsditch With Fairman

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Norman V. Grimsditch has become associated with Fairman & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. Mr. Grimsditch was previously with Carter H. Corbrey & Co.

Chicago Brokers Favor Five-Day Week

CHICAGO, ILL.—A city-wide poll of Chicago stock brokers revealed that they are overwhelmingly in favor of year-round Saturday market closings, and lower margin requirements, according to the Stock Brokers' Associates of Chicago. 426 brokers were in favor of Saturday closing with 51 opposed; 281 favored extension of trading hours, and 142 were opposed.

On the margin requirements, 429 favored reducing the present 50% requirement, with 37 opposed.

Pennsylvania Brevities

Alan Wood Stockholders Want Action

At the annual meeting of Alan Wood Steel Co., a preferred stockholders' group, headed by Henry P. Carr and Joseph L. O'Brien, Philadelphia security dealers, demanded that the management take constructive action in respect to adopting a plan of recapitalization.

Carl W. Fenninger, chairman of a committee appointed by the management a year ago to study possible plans of recapitalization, told stockholders his committee had studied various aspects of the situation and had found it difficult to arrive at any plan that would do justice to all parties at interest.

In contrast to the committee's inability to report a plan, the preferred stockholders' group presented a plan of its own. Moreover they indicated a deadline of Aug. 1, 1947, by which time a satisfactory plan should be approved. In the event of management's failure to provide a plan by that date, the group threatened to institute court proceedings and bring about liquidation of the company and distribution of its assets.

The stockholders' plan provides for the issuance of $50 in cumulative convertible 5% debentures due 1967, callable at 100; 10 shares of cumulative convertible 5% preferred stock, par $10, callable at 11½, and $5 in cash for each share of present preferred. Accumulations on the present preferred were $55 per share at the end of 1946.

The plan provides that each present share of common would be exchanged for one share of common, par $1, and the company would be authorized to issue an additional 2,000,000 shares of common to be sold publicly at $6 per share.

The debentures and new preferred would be convertible into common at $6.25 per share until 1957 and at $10 thereafter until 1967.

* * *

Pennroad Corporation

Pennroad is, and has always been considered, an investment trust. It operates no rolling stock. Yet something that might be lightly described as a "lawyers' club car" rolled into the company's Philadelphia terminal last Monday when U. S. District Judge George A. Welsh announced that legal fees aggregating $2,485,000 had been recommended to be paid to 16 attorneys and three stockholders' committee members who successfully prosecuted suits against the Pennsylvania Railroad. Damages amounting to $15,000,000 were awarded and paid to Pennroad last year. Pending final determination of legal fees, $3,000,000 was set aside for this contingency and $12,000,000 added to capital surplus.

The largest fee recommended — $1,950,000 — would go to a group including the law firm headed by former U. S. Senator Daniel Hastings of Wilmington; the firm of Evans, Bayard and Frick, Philadelphia; Marshall, Carey and Doub, Baltimore, and Hugh F. O'Donnell, New York. This group had been chief counsel for Pennroad for 11 years.

* * *

In its annual report, United Gas Improvement Co. states that sales of gas by its subsidiary, Philadelphia Gas Works Co., in 1946 were largest in history, totaling 27,514,042,000 cubic feet, an increase of 6.7% for the year. Operating revenues of $21,615,732 also set a new mark.

* * *

Penna. Veterans' Bonus

It will take a constitutional amendment to make possible the payment of a state bonus to the veterans of Pennsylvania, but Representative Baker Royer (R. Lancaster) has already proposed the necessary legislation. Authorization will be sought for a bond issue not to exceed $500,000,000.

It is contemplated that the method of payment will include a formula providing that ex-service men and women will receive $10 a month for domestic service and $15 per month for overseas duty, with a $500 "ceiling."

* * *

Sewage Bids Received

Bids for construction of the first step in Philadelphia's $38,000,000 sewage disposal system—extension of the Northeast Sewage Treatment Works — have been received at the Department of Public Works. Virginia Engineering Co., Newport News, submitted the lowest of five bids, $3,543,951. The highest bid, $3,965,625, was tendered by Francis A. Canuso & Sons, Philadelphia.

The bids were within the $4,000,000 estimated by department officials as the cost of constructing settling and aeration tanks and the main conduit within the plant area. Bids did not include construction of about 10 miles of intercepting sewers in the area drained by the proposed sewage works.

* * *

Following the pattern of New York, the Philadelphia Stock Exchange will close Saturdays beginning May 31 through June, July, August and September.

* * *

Philadelphia Transportation Co. has sold privately during March $5,094,000 equipment trust certificates to finance the purchase of new equipment ordered for delivery this year. On order are 210 streamlined street cars and 65 trackless trolleys. During 1946, 83 new passenger vehicles, all buses, were placed in service. The equipment certificates mature serially over 10 years and bear an average interest rate of 2.56%.

* * *

Personals

Joseph N. Pew, Jr., Chairman of the board of Sun Oil Co., has announced the establishment of a 5-member executive committee to administer policies and coordinate company operations. In addition to Mr. Pew, members are Robert G. Dunlop, President; S. B. Eckert, Vice-President in charge of marketing; C. H. Thayer, Vice-President in charge of manufacturing, and John G. Pew, Vice-President in charge of production.

* * *

J. Robert Storey, former Vice-President, has been elected President of Camp Curtin Trust Co., Harrisburg, to succeed the late R. A. Enders.

* * *

P. A. Staples has been elected President and Chairman of the board of Hershey Chocolate Corp., to succeed W. F. R. Murrie, retired.

* * *

Philip H. Cooney, Vice-President in charge of investments, Insurance Co. of North America, has been elected a director of Pennsylvania Power & Light Co.

* * *

David H. Harshaw has been elected President of John B. Stetson Co., filling the vacancy created by the death of George L. Russell, Jr.

* * *

Corporate Shorts

Pennsylvania Company for Insurance on Lives and Granting Annuities, one of the state's largest banking institutions operating 18 offices in Philadelphia and suburbs, has officially shortened its cumbersome title to Pennsylvania Company for Banking and Trusts.

"Our firm was originally chartered in 1812 as a life insurance company," William Fulton Kurtz, President, explained. "It discontinued its life and annuity business about 1870, and since that time has been a banking and trust company.

"Needless to say, our very long and misleading title had often caused confusion in the public mind and it was to correct that situation that the change in name was made."

* * *

At the annual stockholders' meeting scheduled for April 28, stockholders of Wawaset Securities Co. are expected to approve the company's "down-stream" merger with its operating subsidiary, Warner Company. In the distribution of assets, the holder of each share of Wawaset common will receive 1.9 Warner Company common. In addition, a cash dividend of 32 cents per share will be paid to Wawaset holders on April 25.

* * *

Pennsylvania Power & Light Co. has arranged for a loan of $11,000,000 for two and a half years at 1½% interest. The Chase National Bank is acting as agent for a group of nine banks which will supply the funds. Proceeds will be used in connection with the company's $27,000,000 construction and expansion program.

* * *

Barium Steel Corp. has sold Jacobs Aircraft Engine Co., Pottstown, Penna., for $1,500,000 to A. R. Jacobs, Vice-President and General Manager. During 1946, Barium acquired control of seven plants, including Central Iron & Steel Co. of Harrisburg.

* * *

Electric Storage Battery Co., with general offices in Philadelphia, reported for 1946 consolidated net income amounting to $3,283,510, after all charges and taxes, equivalent to $3.62 a share on 907,810 shares of common outstanding. This compares with $2.20 per share earned in 1945.

* * *

On Tuesday, March 11, there was another addition to the distinguished list of century-old institutions in Philadelphia. Tradesmens National Bank & Trust Co. observed its 100th anniversary.

* * *

Scott Paper Co., Chester, Pa., reports 1946 consolidated net earnings of $2,019,614, after all charges, compared with $1,756,205 in 1945. After preferred dividend requirements, net per common was $2.07 compared with $2.00 in 1945.

* * *

Pittsburgh Consolidation Coal Co. has announced plans for a broad research and development program aimed at the production of gasoline and gas fuel from soft coal. By the end of three or four years it is hoped to have in operation a plant costing approximately $120,000,000 capable of turning out 400,000,000 cubic feet of gas a day. Standard Oil Development Corp. is collaborating.

* * *

Peoples Natural Gas Co. of Pittsburgh has signed contracts with Texas Eastern Transmission Corp. for purchase up to 125,000,000 cubic feet of gas daily to be delivered via Big and Little Inch.

Industrial Price and Production Policies Need Revision

By SOLOMON BARKIN

Research Director, Textile Workers Union of America

Labor spokesman charges industrialists and publicists have confusingly dramatized issues to divert attention from industry's mistakes. Holds recent and current price and production policies gravely threaten our economy. Recommends following remedial measures: (1) fostering of technological advances; (2) ever-rising wage scale; (3) opening of industry's price and production policies to public scrutiny; and (4) price rebates in case of higher-than-anticipated returns.

The most pressing issue before the nation is industrial pricing and production policies. Labor issues have been dramatized by industrialists and publicists who sought to divert attention from industry's own practices. But the crucial determinant of the economic future and the character of our industrial relations problem in this country will be the type of price and production policies industry will follow. If they contribute to the realization of full employment; if they assure stable annual employment and make the annual wage a reality even though not a contractual obligation; if they moderate the cyclical booms and busts; if they contribute to an ever rising standard of living; if they inspire confidence among both consumers and producers in continued expenditure and production, they can supply the basis for a definite optimistic program of economic attitudes and industrial relations.

Solomon Barkin

Labor union demands represent the people's aspirations. These can be realized along lines consistent with a dynamic expanding economy where price and production policies promote full employment at ever rising living standards. Industry's conduct must support such programs.

(Continued on page 43)

Says "Over-the-Counter" Market Is a Misnomer

R. Victor Mosley, President of National Security Traders Association, suggests a prize be given for a more appropriate name. Points out "off exchange" trading far exceeds in volume and importance transactions on the exchanges.

Speaking at a dinner sponsored by the Cleveland Security Traders Association, in Cleveland, O., on March 28, R. Victory Mosley, of Philadelphia, President of the National Security Traders Association, called attention to the important function the "traders" in the securities markets perform and said he despised the name "Over-Counter-Market" in which these security traders operate. In indicating the relative volume of business in the unlisted market Mr. Mosley stated that in 1946 the total market value of the bond business done on all stock exchanges approximated $1,200,000,000 and a few days ago in an off exchange deal $200,000,000 of American Telephone & Telegraph debentures were sold within a few hours.

R. V. Mosley

Mr. Mosley pointed out that "off exchange" trading was the oldest form of security brokerage, and mentioned among others a stock issue by passengers on the Mayflower and dealings in stock of the Bank of North America in Philadelphia which was founded in 1781. He suggested that a prize of $500 should be given by the National Security Traders Association to the one suggesting a more appropriate name for the business to replace Over-Counter-Market. He suggested the term "National Securities Market" as much better designation for the field of operations of security traders.

Richmond NASD Dealers Sponsor Meeting

WASHINGTON, March 31—Approximately 75 representatives of Virginia securities dealers attended a meeting in Richmond, Va., March 26, sponsored by Richmond members of the National Association of Securities Dealers through Robert P. Martin, of Davenport & Co., member of District Committee No. 11 of NASD. Herbert F. Boynton, of H. F. Boynton & Co., Inc., New York City, Chairman of the Board of Governors, and Wallace H. Fulton, Executive Director of NASD, were the principal speakers. James H. Lemon, of Johnston, Lemon & Co., Washington, Chairman of District Committee No. 11, introduced the speakers.

Mr. Boynton reported on conferences that had been held within the business and with the Securities and Exchange Commission and its staff on proposals looking toward amendment of the Securities Act of 1933, particularly Section 5 thereof. Mr. Boynton indicated that the NASD effort is being directed toward obtaining changes in the Act which will permit more prompt, wider and complete information on new issues of securities after they have become registered and during the so-called "waiting period." He also said that NASD is considering the advisability of supporting efforts toward improved and wider use of educational programs for people entering the securities business.

Mr. Fulton discussed administrative operations of the Association, emphasizing that District Committees and the Executive Office of NASD are anxious to be of assistance and service to the membership. He advised the Virginia dealers that the Board of Governors, now that the Association is in a position to do so, favors calls upon members in their offices for discussion of problems in which the advice of trained personnel could be helpful.

Remer, Mitchell Dept. Under J. A. Kimball

CHICAGO, ILL. — Remer, Mitchell & Reitzel, Inc., 208 South La Salle Street, announce the opening of a Municipal Bond Department under the direction of J. Austin Kimball. Mr. Kimball was formerly Manager of the Municipal Trading Departments of the Chicago office of Weeden & Co. and has recently been associated with Merrill Lynch, Pierce, Fenner & Beane.

Real Estate Securities

Despite the waves of optimism which sweep over the market in real estate securities with almost clock-like regularity and consistency, many investors persist in remaining bearish on the long-range trends in real estate, insisting, as it were, there are dark clouds which exist behind the silver lining. With so much talk about approaching recession, it is not surprising that real estate should be infected with the same pessimism that can be found in so many sections of the business environment generally.

When security prices plunge downward with the violence which they exhibited last September and, for that matter, to some extent since then, however, those bullish on real estate contend it is safe to say at least that the bears may have overdone the thing just a little. At the end of every major decline in security values—that is, after investors have had the chance to get their second wind, to re-examine the situation with calmer eyes — bond and stock prices do have the stubborn tendency to right themselves. As a group, investors are probably ultra-sensitive to the slightest changes in the financial weather and for that reason are undoubtedly prone to exaggerate things. When business is very obviously good, their optimism knows no bounds; let the slightest ill wind blow and they are in the depths of gloom.

Some of the more pessimistic investors are convinced that the better bond issues anyhow are either now or recently have been at their peaks in values and if the prices at which they are selling or recently have been selling change at all, they can only fall. What they are really saying is the outlook for some properties at least has been and is still so good that bonds upon them have recovered in value to a considerable extent, in some cases almost to par. Their pessimism probably stems out of the fact that if they were to purchase such securities now they would have to wait until the bonds actually mature before realizing any substantial profit from their investment or if they own such bonds and were to sell them, they would have certain taxes to think about.

The bears can see nothing encouraging in the reports that plans are being pushed for the construction of new modern office buildings in the so-called more desirable locations. According to them, the new buildings can only hurt the old. Tenants in existing structures will flock to the new buildings, they say. Vacancies will thus appear and increase in the older structures and earnings on the older properties anyhow, if not all real estate, will have a strong tendency to fall, they reason. It could happen that the new buildings would prosper but depression would certainly fall upon the old, they think.

Those holding the opposite view feel that estimates of the harm that the new buildings can do, if they can do any harm at all, are being grossly exaggerated. After all, they say, the chief reason why plans for new construction are being rushed is that demand for office space is so very great.

The bears predict that the time is not far when in the financial district at least, some of the small firms will decide to go out of business, merge with some other houses, or double up in order to cut down expenses, including the expense of rent. There may indeed be signs of contraction in business all around, including the securities business where volume of trading today admittedly is not what it was, but nevertheless small firms are not closing their doors, nor is anything heard, yet at least, about possible mergers, and the fears of the bears, it appears, are all in the future, say those on the bullish side.

Many market analysts feel that prices generally may drop in the near future but that they will not drop to prewar levels. Anyhow, until the great catastrophe of a general price decline actually does materialize, they say, it can be only speculation to say that a depression is inevitable. Some well-informed people, however, are taking the view that as soon as order can replace chaos in Europe, the business environment in this country, as in the whole world, will become more cheerful. It is the general economic environment which determines values, they say. At the moment, however, actual deterioration of the business environment, they hold, would seem to be not so much a fact as a fear.

Morris Sitkoff Will Open Own Offices

Morris T. Sitkoff will open his own investment business with offices at 42 Broadway, New York City. Mr. Sitkoff has been a partner in Lambuth & Co. and prior thereto was with James D. Cleland & Co.

Morris Sitkoff

Today's Shaky Real Estate Market

By ELLIOTT V. BELL*
Superintendent of Banks, New York State

Holding sustained recovery can be achieved only by a sound period of expansion in real estate field, New York Banking Superintendent warns construction costs have advanced beyond bulk of home seekers' ability to meet, and is driving prospective purchasers out of market. Urges caution in appraisals and conservation in real estate financing as a factor in preserving the whole economy.

Behind every real estate loan there is an appraisal. Bad appraisals make bad loans; bad loans make for ultimate losses, deflation and distress.

Elliott V. Bell

The appraisal of real estate values is peculiarly difficult today, yet there was never a time when so much depended upon competent, honest appraisal work. We are in a period of pronounced inflation — inflation growing out of a great world war and 17 years of deficit financing. Real estate is especially inflated. There is today danger of an inflationary boom in real estate that could only result in a subsequent bust. Clearly this is a time for caution and courage.

In the face of the current postwar inflation there is much apprehension of a general setback in business later this year. Most economists predict a recession, although they say it will be mild. The stock market for months has been shouting that it sees trouble ahead.

It is a simple, historic fact that wartime price inflations in the past have invariably reached their peak within two years after the shooting stops. The great question is whether the normal primary postwar reaction which everyone is expecting, is going to be short and mild or long and severe.

Expansion Needed in Construction Industry

Now one thing that could lift us out of such a recession and give backbone to a sustained recovery would be a major expansion in the construction industry. The construction industry normally employs more workers than any other single industry. It pays higher average wages than any industry save anthracite coal mining. It can assert a profound influence upon the general level of economic activities.

It is, I think, very important that we should have a sustained revival of building in this country. It is important to all the GI's and their young brides who want homes of their own. It is important to all the industries that supply building materials. It is important to the banks and insurance companies and other thrift institutions that need good mortgages for the investment of people's savings. It is important for the welfare of our entire economy. That means it is important to the Greeks and the Armenians and the Portuguese and the Dutch, and all the other people of all the nations all over the earth, because inflation and deflation in the United States cast their shadows clear across the world.

The very hope of peace itself rests upon the ability of our country to achieve a sustained recovery, and that question in turn rests to a considerable degree upon whether we are going to have in the field of real estate a sound period of expansion or another speculative boom and bust.

Factors Favoring Expansion

Powerful factors, both long-term and short-term, favor expansion in the building field. World War II interrupted the rising phase of a major construction cycle which started in the mid thirties. The war itself reenforced the factors making for expansion in the field of construction. There was a great rise in incomes, a great accumulation of savings, an increase in marriages, a large internal migration of people. All of these things greatly increased the demand for housing and the means for satisfying that demand. The construction industry has before it at this moment a tremendous market, good for many years to come. The danger is that the construction industry is pricing itself out of that market.

Most of you, I think, are fairly familiar with the facts. The construction costs of a standard six-room house are today about 70% over prewar figures on a national average. In one large city in this State construction costs rose 22% last year and are now 83% above the average for 1935 to 1939. According to one authority a standard six-room house built in a midwestern city which cost less than $4,500 in 1933 costs practically $13,000 today, an increase of 190%. The rise in cost since 1939, according to this measure, has been 120%.

The Office of Housing Expediter estimates that the average cost of the new permanent housing units that will be built this year will be $7,200. I think most of us know that it has not been possible, in this neighborhood, to buy much of a house for $7,200 lately. Yet how many people can afford to pay even that much for a house?

According to some careful studies published in the Federal Reserve Bulletin last summer, 70% of the family units in this country had incomes of $3,000 or

(Continued on page 22)

*Address by Mr. Bell before the 7th Annual Appraisal Conference of the New York State Society of Real Estate Appraisers, New York City, March 28, 1947.

Should Have No Fear Of National Debt

By ABBA P. LERNER

Professor of Economics, New School for Social Research

Prof. Lerner denies it is unsound for government to get into debt, and contends that "as long as we owe it to ourselves" it is not a subtraction from national wealth or a national burden. Defends further borrowing to pay debt interest and decries need to balance government budgets. Favors so-called "Functional Finance," which uses taxes and borrowing to maintain a level of prosperity.

"Commonsense" Maxims

The common concern about balancing the budget of the Federal Government can be expressed by four simple propositions:

(a) It is unsound for the government to spend more than it collects in taxes and thus to get into debt,
(b) This could not be helped during the war, but
(c) Now that the war is over there can be no excuse for getting still further into debt, and
(d) We should repay the war debt as soon as possible in order to restore our credit in case we should need to borrow again.

These maxims of "sound finance" are unfortunately not as wise or as sound as they are plausible and popular. They are much more dangerous than the national debt itself. This is because they are derived from a false fear which springs from a fundamental misunderstanding of the nature of national debt; and false fears are more dangerous than wild beasts. In a modern city an escaped man-eating tiger is a much less serious danger than a propensity to treat tabby cats as if they were tigers—to be frightened by every cat in the street into forgetting about the automobile traffic.

Abba P. Lerner

The maxims of "sound finance" are based on the supposition that government debt is the same kind of thing as *private debt* or *interpersonal debt*. They come from a belief that a government which borrows money is heading for the same kind of trouble as an individual who impoverishes himself by chronically spending more than his income and getting into debt. But the *national debt* is not the same kind of animal.

"We Owe It to Ourselves"

The primary difference between private debt and national debt is that *we owe the national debt to ourselves.* The nation as a whole is not impoverished by na-

(Continued on page 47)

Federal Reserve Board Clarifies Reasons For Backing Bank-Loan Bill

Pending legislation would end government appropriations for industrial loan operations. Reserve Board contends need arises from great increase in prices, and expanded inventories and receivables resulting from rise in business volume, maintains partial-guarantee technique has been proved sound through past experience in both peace and wartime.

WASHINGTON — The Bill to provide assistance in financing small business through established banking channels, which was introduced in the Senate Jan. 27 last under the sponsorship of Senator Charles W. Tobey, Republican of New Hampshire, has been summerized and explained by the Federal Reserve Board which is recommending its adoption.

The pending bill would repeal the appropriation of about $139,000,000 available under existing law for industrial loan operations of the Reserve Banks, and government appropriations would no longer be used for this purpose.

The bill (S. 408) would also repeal section 13b of the Federal Reserve Act, adopted in 1934, which authorizes Federal Reserve Banks to make industrial loans. Certain provisions of this section have proved so restrictive as seriously to impair the ability of the Federal Reserve Banks to assist in the financing of business.

In lieu of section 13b, the new bill would add a paragraph to section 13 of the Federal Reserve Act authorizing Federal Reserve Banks to guarantee loans made by financing institutions to business enterprises on a much more effective basis than that permitted by present law. While the Federal Reserve Banks would no longer have authority to make direct loans to business, they would be authorized to guarantee business loans subject to regulations prescribed by the Board of Governors and to the following qualifications:

(1) No loan guaranteed could have a maturity of more than 10 years.

(2) A Federal Reserve Bank could guarantee up to, but not more than, 90% of any loan.

(3) The aggregate amount of all guarantees could not exceed the combined surplus of the 12 Federal Reserve Banks.

(4) In order to insure the availability of guarantees for loans to smaller businesses, the aggregate amount of all guarantees which are individually in excess of $100,000 could not exceed 50% of the combined surplus of the Reserve Banks.

(5) The Reserve Banks would utilize their own funds to carry out guarantees made under the bill.

Need for the Legislation

A basic need for small, independently owned business enterprises is long-term funds. Some businesses need funds for modernization of equipment and some need special labor-saving facilities in addition to other requirements. The need also arises from the great increase in prices and greatly expanded volume of business which have come about in recent years and which have resulted in a much larger volume of accounts receivable and of inventories. Because of these various factors many enterprises whose financing needs have ordinarily been met through current borrowings now need financing on a longer-term basis.

(Continued on page 51)

Four Join Dept. of Rutter & Co., N. Y.

Rutter & Co., 20 Exchange Place, New York City, members of the New York Stock Exchange, announce that the following have become associated with the firm in the investment security department: Halsey S. Downer, formerly associated with Smith, Barney & Co. for five years; Joseph O. Rutter formerly with E. I. du Pont de Nemours & Co.; Richard Wallower, formerly with Grumman Aircraft Engineering Corp.; and Carl J. Muller, recently returned from four years' service overseas.

NSTA Notes

CLEVELAND SECURITY TRADERS ASSOCIATION

Over 350 members and guests attended the Eleventh Annual Dinner of the Cleveland Security Traders Association on March 2[illegible]. Among the guests were officers of Cleveland corporations and banks and some of the city's leading attorneys, journalists and jurists. Pictures taken at the meeting appear elsewhere in the "Chronicle."

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis inaugurated a series of monthly luncheon meetings at the DeSoto Hotel, March 26, with an attendance of 50 members.

Railroad Securities

Some railroad analysts have begun to look with greater concern at the long-term prospects of those roads heavily dependent upon the movement of coal for their livelihood. In relation to general industrial production it has been recognized for some years that the long-term trend of coal consumption, and consequently coal traffic on the railroads, has been downward. With steady technological advances, consistently more efficient fuel use has been inevitable. In addition, competing fuels such as natural gas and oil have been cutting steadily into traditional coal markets. An important example of this is to be found in the railroad industry itself, with the growing popularity of diesel power.

Heretofore the factors adversely affecting the status of coal have been of an evolutionary nature and their influences have made themselves felt only gradually. Now it is felt in many quarters that the railroads face revolutionary changes that may reach imposing proportions over a relatively short spell. The first of these was the threat of atomic power. So little is generally known about this subject and so many contradictory views have been expressed even by the experts that there was a tendency to shrug off atomic power as a threat to coal. It was felt that even if atomic energy was destined to become a major source of power it was still so far off that it need not influence investment policies.

A new factor has entered the field in recent months. Early this year Alabama Power began practical experiments on the burning of coal underground to create a gas to be piped out and used as fuel. The experiments were on a small scale and got very little publicity. The full results of the original efforts have not as yet been released. One of the primary benefits expected was that the process would allow exploitation of seams so thin or isolated that extraction is not economically feasible. If the experiments are fully successful the process could well replace a significant volume of coal now moving by rail.

The most recent development is on a considerably larger scale and has received a large amount of publicity in the press. Early last week Pittsburgh Consolidation Coal and Standard Oil Development Co. announced plans for the construction of a pilot plant for gasification of coal. The pilot plant is to be erected at Library, Pennsylvania, where Pittsburgh Consolidation has large holdings of coal land. If the pilot plant is successful it is planned to begin construction of the inital commercial plant by the end of 1949 with production planned for 1951.

According to the press reports this initial commercial plant would have a capacity of 400 million cubic feet of high heat value gas daily. This gas can, if the experiments as a whole prove successful and the process is economically feasible, be used directly as fuel or further processed into high octane gasoline and/or oil. One of the benefits expected to stem from this gasification is that is would make possible the utilization of large reserves of low grade coal.

It is obvious that no matter how successful these experiments in gasification of coal may be the railroads are not going to lose all, or even a major portion of, their coal tonnage. The steel industry, for one thing, would still need a large tonnage of coal in its operations no matter what is used as fuel. Also, there is no definite information at this early date as to the costs of the projected operations although obviously experiments on the present scale would hardly have been undertaken unless there was good reason to expect that the costs would not be prohibitive. All in all, while there is no immediate threat to the status of the coal roads, gasification experiments have progressed to a point where they must be followed very closely and where they must be given considerable weight in arriving at any sound long term investment program.

Mediation Board Fails to Settle Dispute Between U. F. E. and A. M. Kidder & Co.

By EDMOUR GERMAINE

But says it is still trying. However, Arthur Meyer, Chairman of the Board, who intervened in the case last week, left early this week for a vacation in the South. Apparently, it is now up to Frederick Bullen, Executive Secretary of the Board, if anyone, to figure out some way to prevent the strike which threatens to tie up the New York Stock Exchange, the Curb, and several brokerage houses other than A. M. Kidder & Co., as well as A. M. Kidder & Co. itself on Monday, April 21.

No progress whatsoever has been made by the New York Mediation Board to date in its attempts to settle the dispute between the United Financial Employees, AFL, and A. M. Kidder & Co., over a first contract covering wages and other terms of employment. It can't be said that the Mediation Board hasn't tried to produce better results and it says it is still trying. Perhaps it is just that the union and the firm both feel that an out-and-out showdown is the only real way out of the impasse in which, in their respective opinions, they now find themselves.

Arthur Meyer, Chairman of the Mediation Board, who intervened in the dispute last week, left early this week for a vacation in the South. Unless the Board has some surprise in mind, it would seem now that it will be up to Frederick Bullen, executive Secretary of the Board, if anyone, to figure out some way to prevent the strike which threatens to tie up the New York Stock Exchange, the Curb, and several brokerage houses other than A. M. Kidder & Co., as well as A. M. Kidder & Co. itself on Monday, April 21.

The Board has revealed that at one time in the negotiations, the U. F. E. was willing to settle on the same terms that the Financial Employees Guild, CIO, obtained a contract with Herzfeld & Stern, that is, a $5 a week raise in pay plus a bonus of 7½% of gross profit or, in other words, profit before partners' out-take.

The dispute now is primarily over wages, according to the Board. The union originally wanted a 25% across-the-board increase in salaries. Now it would be willing to settle for either (1) a straight 20% across-the-board increase or (2) a 15% across-the-board increase plus a bonus. The firm has dismissed 30 employees since negotiations for a contract have begun and all but one of these were union members, the Board states. The union now also wants to include in any contract with the firm a provision requiring the company to restore the balance between union and non-union members in its employ which existed before the dismissals in hiring people to work for it in the future.

The firm has granted merit raises and made certain adjustments in pay to bring its pay scales to the levels prevailing for similar jobs elsewhere in the street, the Board says. These raises, granted to 40 employees out of 115, if spread among the 115, would have been the equivalent of a $1.20 a week raise across-the-board, the Board states.

The company is opposing the union at all points and it is difficult to see where any common ground of agreement can possibly exist between it and the union.

Though the union insists it intends to obtain contracts with Harris, Upham & Co., Bache & Co., and White, Weld & Co., along with A. M. Kidder & Co. at this time, it admits it has not yet approached the management of these firms to talk matters over. It says that others, "more important than the union," will have to seek a settlement of the union's controversy with these houses. The union lost an election among the employees of Harris, Upham & Co. but it has asked the State Labor Board to set the results of this election aside. The union thinks it has inherited the old AFL dispute at Bache & Co. It would have asked for an election at White, Weld & Co. but decided not to do so after White, Weld & Co., the day before the union was scheduled to petition for an election, dismissed nine employees, all members of the union. There can be no doubt, however, that the union is moving heaven and earth trying to enroll as many employees of these various firms as members in order to have their unqualified support in the threatened strike.

An Indictment of Soviet Policies

By LOUIS BUDENZ*

Professor of Economics, Fordham University
Former Managing Editor, "The Daily Worker," New York

Former Communist and Editor maintains Soviet Russia's aim is world domination, and to that end, seeks a war of nerves against United States. Cites statements of Soviet leaders and periodicals in support of this, and accuses Russia of backing "machine gun election in Poland" and destroying four freedoms in satelite countries. Asserts Communists in U. S. are subservient to Stalin and carry out a campaign of deceit under instructions from Moscow. Warns a U. S. policy of appeasement will destroy our economy and endanger our freedom and security.

Today I hope to bring to you a factual indictment of Soviet Russia's policies, and an indictment of the Communist party, based again on facts—my own experience—but supported, likewise, by certain documents. It will have to be fragmentary, necessarily, because in forty minutes I cannot heap up here before you all the evidence which I have at hand. In fact, it does seem very fragmentary, indeed, compared to the entire story that could be told. But if there is anything must come out of what I say, it is this: In relation to this symbol of two camps—that it is impossible today to stand in two camps. And St. Augustine said for many years, he remained in both camps, as a result of this indecision, just as I remained in two camps, endeavoring to reconcile the two of them.

Louis F. Budenz

At this moment it is impossible to remain in two camps, the Camp of Totalitarianism and the Camp of Freedom. And any policy of appeasement which endeavors to reconcile these two camps is destined to defeat and failure.

Why do I state that? Because, out of my experience I have learned, briefly, this succinct succession of facts. That Soviet Russia is bound upon a policy of world domination, as definitely and determinedly as ever Hitlerite Germany was.

Secondly, in pursuit of that policy of world domination, it is using a Fifth Column—the Communist party—which has no other reason for its existence than to carry forward the will and whim and wish of the Kremlin, in each particular period of history.

Thirdly, this Fifth Column exists by methods of illegality against the Government and the people of the United States, and likewise, by a policy of a pattern

(Continued on page 50)

*Transcript of an address (entitled "In Two Camps") by Prof. Budenz at a luncheon forum at the Columbia University Club, New York City, Jan. 22, 1947.

Rep. Smith Questions Gold Buying Policy

Alleges inconsistency with Truman Doctrine entailed in continuing our purchase of Russia's metal. Secretary Snyder replies.

WASHINGTON.—The wisdom of the United States' continuing purchases of gold from Russia is being vigorously challenged by Representative Frederick C. Smith of Ohio (R.). Mr. Smith, a member of the House Committee on Banking and Currency, both on the floor of the Congress and in correspondence with Treasury Secretary Snyder, has cited the possibility of this policy being inconsistent with the Truman Doctrine.

Frederick C. Smith

In a speech in the House on March 21, Representative Smith suggested inconsistency in Russia's shipments of gold to us, which were resumed last year. (See table in "Chronicle" of March 20, p. 1549).

The text of Mr. Smith's speech follows:

"Mr. Speaker, in view of the responsibility of Congress to have before it the fullest information bearing upon the President's recent message to Congress and on the implication of H. R. 2616, it is desirable to know whether this country is pursuing consistent policies.

"One of our policies, which is of direct help to the Union of Soviet Socialist Republics on economic lines, is the United States official policy of purchasing gold from every source at $35 an ounce.

"Before the recent war this policy was suspended in the case of the Axis, because it was pursuing political and economic policies which the administration considered injurious to this country. The question now is: Are we similarly pursuing in the matter of gold buying a policy in conflict with that which the President has just recommended to the Congress? To obtain the administration's views on this important matter I have written the Secretary of the Treasury for information."

The Treasury States Its Policy

The text of Secretary Snyder's reply to Mr. Smith's query as to the Treasury's position on the matter follows.

My dear Mr. Smith:

This is in reply to your letter of March 19, 1947, asking whether the Treasury favors the continuance of buying gold from Russia.

It is the policy of the Treasury Department to buy gold offered to it by governments and central banks of countries with which we maintain financial and commercial relations, when these countries want to acquire dollars either for expenditure within the United States or for the settlement of international balances with third countries. Such gold purchases are subject only to the Gold Declaration of Feb. 22, 1944, a copy of which is enclosed, which was issued by the United States simultaneously with similar declarations by the United Kingdom and Russia, and to which most of the United Nations members subsequently subscribed.

The Treasury believes that the purchase of gold in accordance with this established policy is necessary to the continued use and free acceptance of gold as an international medium of exchange.

Sincerely yours,
(Signed) JOHN W. SNYDER,

Bond Club of New York Announces Plans for 1947 Annual Field Day

Plans for the 1947 Bond Club Field Day were announced by James Coggeshall, Jr., of The First Boston Corporation, President of the Bond Club of New York. The outing will be held at the Sleepy Hollow Country Club, Scarborough, New York, on Friday, June 6. This year's Field Day is the 23rd annual event of its kind, having been revived last year after a wartime lapse.

William G. Laemmel of Chemical Bank & Trust Co., has been named chairman of the Field Day Committee. He will be assisted by four vice-chairmen—Jo M. French of Blyth & Co, Inc.; Ernest J. Altgelt of Harris Trust & Savings Bank; C. Russell Lea of Reynolds

Jas. Coggeshall, Jr William G. Laemmel

& Co., and Robert L. Hather, Jr. of the Chase National Bank.

An elaborate program of sports events and entertainment features has been arranged for the Field Day, according to Mr. Laemmel, who announced the appointment of the following committees to direct the various activites:

Bawl Street Journal—J. Emerson Thors, Kuhn, Loeb & Co., Chairman; John A. Straley, Hugh W. Long & Co., Inc., Editor; Norman P. Smith, Merrill Lynch, Pierce, Fenner & Beane, circulation manager; Walter F. Blaine, Goldman, Sachs & Co.; Joshua A. Davis, Reynolds & Co.; Richard de La Chapelle, Shields & Co.; L. Walter Dempsey, B. J. Van Ingen & Co.; Robert W. Fisher, Blyth & Co., Inc.; Raymond D. Stitzer, Equitable Securities Corp.; Walter M. Thomas, Hornblower & Weeks; C. Marshall Wood, Blair & Co., Inc.

Publicity—William H. Long, Jr., Doremus & Co., Chairman; Eugene P. Barry, Shields & Co.; Benjamin J. Buttenwieser, Kuhn, Loeb & Co.; Lloyd S. Gilmour, Eastman, Dillon & Co.

Attendance & Transportation—J. Howard Carlson, Halsey, Stuart & Co., Chairman; Harold W. Davis, Laird, Bissell & Meeds; Elmer F. Dieckman, Glore, Forgan & Co.; Edwin H. Hemingway, Harriman Ripley & Co.; Conrad H. Liebenfrost, Stern, Lauer & Co.; Lincoln J. Patton, Halsey, Stuart & Co.; James J. Sullivan, Blair & Co., Inc.; H. Edward Vollmers, Morgan Stanley & Co.

Dinner—P. Scott Russell, Glore, Forgan & Co., Chairman; Gordon B. Duval, Guaranty Trust Co.; E. Norman Peterson, Equitable Securities Corp.; R. W. Pressprich Jr., R. W. Pressprich & Co.; Arthur F. Searing, Drexel & Co.; Walter H. Steel, Lazard Freres & Co.; James D. Topping, Braun, Bosworth & Co.; Darnall Wallace, Coffin & Burr, Inc.

Trophies — James A. Lyles, First Boston Corp., Chairman; Albert F. Donohue, Kidder, Peabody & Co.; Dudley N. Schoales, Morgan Stanley & Co.; Richard A. Woods, Merrill Lynch, Pierce, Fenner & Beane.

Stock Exchange — Charles F. Hazelwood, Estabrook & Co., Chairman; Harry C. Clifford, Kidder, Peabody & Co.; Robert H. Craft, Guaranty Trust Co.; W. H. Reginal Jarvis, First Boston Corp.; Grant Keehn, First National Bank of New York; Robert Lewis, Estabrook & Co.; William R. Rovensky, Hornblower & Weeks; John M. Young, Morgan Stanley & Co.

Golf—William H. Morton, W. H. Morton & Co., Inc., Chairman; John J. Clapp, Jr., R. W. Pressprich & Co.; Herbert S. Hall, Morgan Stanley & Co.; Edward D. McGrew, Northern Trust Co.; William M. Rex, Clark, Dodge & Co.; Sanders Shanks, Jr., The Bond Buyer; Charles J. Waldmann, Kean, Taylor & Co.; Henry P. Warren, Jr., W. C. Langley & Co.

Tennis—Sumner B. Emerson, Morgan Stanley & Co.; Chairman; Amyas Ames, Kidder, Peabody & Co.; Clifton A. Hipkins, Braun, Bosworth & Co.; Marvin L. Levy, Goldman, Sachs & Co.

Indoor Sports—John W. Valentine, Harris, Hall & Co., Chairman; Clarence W. Bartow, Drexel & Co., Inc.; Elwood B. Boynton, H. F. Boynton & Co.; William B. Chappell, First Boston Corp.; Robert G. Dillon, Dean Witter & Co.; G. H. Walker, Jr., G. H. Walker & Co., Gerald B. West, Stone & Webster Securities Corp.

Carnival & Side Show—Geo. K. Coggeshall, Schoellkopf, Hutton & Pomeroy, Chairman; Paul G. Devlin, Blyth & Co., Inc.; Allan C. Eustis, Jr., Spencer Trask & Co.; Ransom F. Hodges, First Boston Corp.; George Holzman, Chase National Bank; William P. King, Harris, Hall & Co.; W. Laud-Brown, Bankers Trust Co.; Edward H. Nelson, Kidder, Peabody & Co.; Julius C. Ransom, White, Weld & Co.; George H. Reeves, Chase National Bank; Arthur C. Turner, New York Hanseatic Corp.; Walter W. Wilson, Morgan Stanley & Co.

Pool—Emmett Lawshe, Shields & Co., Chairman; Charles L. Bergmann, R. W. Pressprich & Co.; David W. Lovell, Laurence M. Marks & Co.; Eugene W. Scarborough, Central Republic Co.

Music—Donald D. Leeds, Bartow, Leeds & Co., Chairman; Craig S. Bartlett, Central Hanover National Bank & Trust Co.; Francis D. Bartow, Jr., Bartow, Leeds & Co.; Richard N. Rand, B. J. Van Ingen & Co.; Guy O. Reynolds, Bartow, Leeds & Co.

Soft Ball—Wendell R. Erickson, Stone & Webster Securities Corp., Chairman; F. Seymour Barr, Barr Bros. & Co., Inc.; Thomas T. Coxon, Hallgarten & Co.; Francis P. Gallagher, Kidder, Peabody & Co.; W. Murray Lee, Reynolds & Co.; Arthur W. McGrath, First National Bank of New York; Gardiner H. Rome, Stone & Webster Securities Corp.

Horseshoe Pitching—Alfred J. Ross, Dick & Merle-Smith, Chairman; Herbert E. Anderson, Jr., Green, Ellis & Anderson; E. Jansen Hunt, White, Weld & Co.; Charles A. Pope, Barr Bros. & Co.

Moyer & Co. Celebrates 105th Anniversary

PHILADELPHIA, PA.—Last month marked the 105th anniversary of Moyer & Co., which began business at 11 S. Third Street in 1842 under the name of John E. Fox & Co. The firm's early transactions were in gold, currency and bank notes. Edward E. Moyer was admitted to partnership shortly after the business started. The firm became Fox, Moyer & Co. in 1906. A year later, John T. Fox retired and the name was changed to Moyer & Co. Since 1928 the firm has been located at 1500 Walnut Street. Present partners are: Clarence L. Moyer, Henry C. Fox, Jr., Edward T. Moyer and Clarence L. Moyer, Jr.

Stuart Wyeth Added To Staff of Dixon & Co.

PHILADELPHIA, PA.—Stuart MacR. Wyeth has become associated with Dixon & Co., 1411 Chestnut Street, members of the New York Stock Exchange as a registered representative.

Barysh Back at Desk

Max Barysh, of Ernest & Co., 120 Broadway, New York City, has returned from a month's trip to Florida.

New Branch for Brady

Brady & Co. announce the opening of their branch office at 510 Broadway, Saratoga Springs, N. Y., under the management of Paul F. Hittinger.

H. L. Buchanan Partner

Charles E. Halden has been admitted to partnership in the New York Curb Exchange firm of H. L. Buchanan & Co., 120 Greenwich Street. Mr. Halden has been active as an individual Curb Floor broker for some time.

Geo. Miles Joins Gimbernat & Sellwood

Gimbernat & Sellwood, 111 Broadway, New York City, members of the New York Stock Exchange, announce that George H. Miles has become associated with the firm. Mr. Miles was formerly manager of the syndicate department of Ira Haupt & Co. Prior thereto he was manager of the bond department for Penington, Colket & Wisner.

Mutual Funds

By HENRY HUNT

"A Burnt Child"

During World War I, as a result of the sale of Liberty Bonds to the public, hundreds of thousands of American citizens learned for the first time what a bond was. During the prosperous '20s, hundreds of thousands of people in all walks of life bought common stocks for the first time. The market crash in 1929 turned their profits into losses and the early '30s taught this new class of investors that even good stocks can sell at incredibly low prices when a real depression sets in.

The stock market recovery during the middle '30's undoubtedly attracted large sums of money from the same investors who almost lost their shirts in the 1929-32 debacle.

During 1937-38, as a result of unexpected economic deterioration, these common stockholders were "burnt" again, while in early 1942 when Russian armies were on the ropes, the attitude of these investors toward the stock market reached the nadir of despair. Again in 1946, after four years of rising stock prices, the market "fell out of bed," catching most investors fully invested as usual.

Ten months after the beginning of the 1946 decline, we find that business conditions, as measured by leading indices, are better than they were at the top of the 1946 market. However, we also find that, despite the lower level of stock prices, most investors are now strictly out of the market and many financial experts are predicting still lower prices for equities.

Could it be that the new generation of investors as well as the same generation of financial "experts" are merely proving the old adage, "A burnt child fears the fire"? Certainly no previous business recession has ever been so widely advertised as the one now predicted to be in the making. As Mr. S. B. Lurie recently wrote so aptly, "The trouble is that we've become a nation of economic hypochondriacs."

A New Balanced Fund

On Monday, the **Broad Street Sales Corporation**, a Seligman affiliate, brought out a new balanced fund known as the **Whitehall Fund.** Fifty percent of the portfolio is to consist of good to high grade bonds and preferreds and 50% in seasoned, growth common stocks. Total load is 7% with 5% going to dealers. Only 16 common stocks are to be included in the original portfolio as follows: Three oils, three building stocks, two chemical and drug, three utilities and five consumer goods stocks. It is interesting to note that no motors, steels or other heavy industry issues are represented.

While there is nothing particularly new in the concept of **Whitehall Fund,** at least its name, which closely resemble the Navy's classification of submarines, is different.

It is rumored that additional balanced funds will be making their appearance before long. The current vogue for this type of investment media stems from a swing in the investor's attitude away from "appreciation type" funds toward the relative safety of a balanced portfolio of high grade bonds and better quality common stocks. In effect, the balanced fund is a defensive medium whose shares sell best in a period of market uncertainty such as the present.

Record Demand for "The Doctor Reviews His Portfolio"

The above titled article written by **Walter J. J. Smith of the National Securities & Research Corporation** appeared in the Jan. 4 issue of "The Journal of the American Medical Association." It described the advantages offered by mutual funds to doctors and other professional men who lack the time or ability to properly supervise their investments. According to Dr. Morris Fishbein, the editor of the publication, this article has aroused widespread reader interest, and the demand for reprints on the part of dealers in mutual fund shares has been of record breaking proportions. To date, 106,000 reprints have been sold as compared with the "Journal's" total circulation" of 117,000.

Notes

Wellington Fund has a new booklet called, "Solving An Investment Problem."

Keystone Funds has issued a pamphlet entitled "Ten Securities That Satisfy a Wide Variety of Investment Requirements."

Calvin Bullock's "Perspective" concludes: "In summary, it appears that the present period is stronger in its financial aspects than at the end of World War I and that the credit collapse of that period should not be repeated. The other major economic indices, however, appear to be following basically similar patterns although differing in degree. The demand for goods, particularly capital goods, is now much greater than in the earlier period, but a lesser degree of price inflation has taken place—at least to date. Furthermore, the stock market is more cautious in its appraisal of present earnings and its realization of the prospects of a readjustment in prices and profits. Under such circumstances it would appear that the readjustment that may lie ahead will likely be of a lesser severity and intensity than occurred after the First World War."

Distributors Group has available a new folder title "Mutual Funds—What They Are and What You As An Investor Gain by Their Use."

A new folder on Railroad Series has been issued by **Hugh W. Long.** It contains the following interesting tabulation:

Cost of a Full-Speed New York to Chicago Run (4000 h. p. locomotives)

A 25-year-old steam loco.	$1,000
A modern steam locomotive	357
A Diesel locomotive	320
An oil turbine locomotive	268
A coal burning gas turbine locomotive	113

(More than 70% of all locomotives in operation in 1946 were over 25 years old.)

Italy Joins Int'l Fund And the World Bank

WASHINGTON, March 27—The Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development were signed today by Signor Alberto Tarchiani, Ambassador of Italy, on behalf of the Government of Italy.

Italy's application for admission to membership was approved at the first annual meeting of the Board of Governors in Washington in October, 1946. Italy's quota in the International Monetary Fund is $180,000,000, and its subscription to the capital stock of the International Bank for Reconstruction and Development is 1,800 shares of a par value of $180,000,000.

The signing of the Articles of Agreement by Italy brings the total of countries having membership in the International Monetary Fund and the International Bank for Reconstruction and Development to 42.

Syria and Lebanon, whose application for membership was approved at the same time, have until April 15, 1947, to sign the Articles of Agreement.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The government securities markets are now under the influence of that uncertainty which is always present when important developments are to take place. . . . Expected changes in short-term rates, have caused prices to move down, with volume receding, as dealers and investors await the much talked about reversal of trend in interest rates. . . . Until there is clarification of what will take place and the financial community has had an opportunity to evaluate it, the market is likely to be pretty much of a defensive affair. . . .

Although there has been good investment buying from savings banks and insurance companies, very little is likely to be done by these institutions now, in face of the talk that bills may go to ⅝% or ¾%, certificates to 1⅛% or 1¼% with five-year maturities between 1.75% and 1.85%, and the longest eligible 2½% on a 2.25% basis. . . .

Although there will be no change in the long-term interest rate of 2½%, there could still be a sizable adjustment in market prices of the longer-term Treasuries, particularly the eligibles, without approaching the issue price of these securities. . . . This would not entail any increase in interest cost to the government. . . .

DEFROSTING SEEN IMMINENT

Whether there will be such an adjustment in prices or whether the market has already quite fully discounted impending interest rate changes will be known only in the future. . . . The opinion is practically unanimous now among money market experts, that there will be a defrosting of short-term interest rates in the near future. . . . It could hapen in a few days or a few weeks. . . .

In some quarters the belief is held that the whole procedure has been agreed upon except for the time when it will be announced, which will be sometime in the next two weeks. . . .

The reason given for the change in interest rates is not the trend in purchases of long government securities or the shift from shorts to longs, but the inflationary trend of commodity prices and business loans. . . . In order to halt this inflationary trend and to get back some semblance of control over the creation of reserves, it seems as though the Central Banks, along with the other monetary authorities have decided to unpeg short-term rates. . . .

TOUGH SPOT

The position of not being able to stop or retard the creation of reserves. by member banks, is not a very enviable one to be in. . . . This is the spot the Central Banks are in now. . . . This predicament that the Federal Reserve Banks find themselves in is because there is no flexibility in the buying rates for bills and certificates that are offered them by the member banks. . . .

With a set buying rate at Federal for bills and certificates member banks are in a position to create reserves, and there is nothing much that the Central Banks can do about it. . . . With ample reserves, loans are being made or higher yielding Treasuries are bought, with the uptrend in commercial borrowings by far the more important at this time. . . . Too many marginal loans are being made. . . .

EXPERIMENT

The inflationary trend of loans means that too much bank credit is going into real estate and inventories. . . . This must be halted, and one way in which it can be done is by defrosting short-term rates. . . . Varying short-term rates are likely to mean less selling of issues to Federal to create reserves. . . . While short-term rates will be allowed to fluctuate, they will not be entirely without protection from the monetary authorities, which means that fluctuations will be kept within limits. . . .

What these limits will be cannot be indicated yet, although Chairman Eccles of the Federal Reserve Board recently stated that Treasury bills might go to ⅞% and certificates to 1¼%. . . .

It is believed that the monetary powers will first unhook Treasury bills and experiment with them for a while, until they find a natural level to settle at. . . . There will probably be some interference by the Central Banks to influence the trend if it is believed that it might be moving too far in either direction. . . . The reason that Treasury bills, will most likely be experimented with first is because they are a discount issue, without a set coupon rate, which should make them easier to handle and control. . . . Whether changes will be made in the certificate rate at the same time that the bill rate is cut loose is purely conjecture although some informed money market followers do not believe this will be done simultaneously. . . .

COLLATERAL EFFECT?

What will be the effects on the intermediate- and long-term Treasury obligations, of a defrosting of short-term rates? . . . The immediate effect will be to create uncertainty in the market which does not breed the confidence that is so necessary in making purchases of any security. . . .

Therefore, it seems to be quite evident that changes in short-term rates which will result in a somewhat higher general level of interest rates will at least take some buyers out of the market, which probably means that a ceiling has been put on prices of intermediate- and long-term government bonds, for some time to come. . . .

The psychological factor will be very important and will have far-reaching effects on all those connected with the money markets. . . . A large number of buyers will no doubt be sidelined by changes in short-term rates, with many of them likely to be out of the market for a considerable period of time. . . . The extent of the adjustment in short-term rates will be very important in determining the amount of fluctuation that will take place in prices of the intermediates and long Treasury obligations. . . .

Bank eligibles and restricted issues may eventually move in different directions, but this is not likely to come until the market has had an opportunity to evaluate the effects of higher short-term rates. . . .

In 1937, it was believed that increases in reserve requirements would firm short-term rates, with little or no effect on long-term rates, but this did not turn out to be the case. . . . The tightening of reserves brought about a temporary decline in prices of all Treasury issues, the longs as well as the shorts. . . .

Washington And You

(Continued from page 5)

Federal export insurance system. Despite assurances by Bank President Martin that no such guarantee is needed, a congressional team will try to elbow to enactment a bill creating an insurance system similar to those of Canada and England. Export-Import Bank would be told to administer the law.

* * *

Praise the Lord, but better let Washington know, too, if you want Federal loan legislation written. That's a prayer uttered by Senate Banking Subcommittee Chairman Capehart after hearing a welter of conflicting testimony on small business needs. He heard: (1) an allegation by Commerce Undersecretary Foster that one-half to one-third of financially sound small business has been unable to obtain loans from RFC or elsewhere, (2) evidence that RFC has refused a very small percentage of loan requests, (3) argument by Treasury Secretary Snyder that life of the RFC should be extended.

* * *

Whereupon Chairman Capehart wanted to know plaintively: (1) is the RFC frightening small business away, or (2) does small business not need loans? He demanded from RFC a list of loan applications rejected since 1938, appealed to small business for enlightening data on loan needs—in other words, to put up or shut up.

* * *

RFC's future becomes more obscure. Heretofore there has been a general feeling the agency should be continued in standby shape after June 30. Such sentiment is now fading, is yielding to the question—Why? Unless convincing affidavits are forthcoming that small enterprise actually needs RFC ministrations, the sprawling lending bureau may be scrapped.

* * *

If you've got some venture capital—or want some—better help Treasury Secretary Snyder and House Ways and Means Committee Chairman Knutson from their joint dilemma. Snyder stoutly claims most risk money comes from people in lower brackets. Knutson says nuts, insists individuals with $40,000-and-up incomes supply the venture money. Argues Knutson . . . "People in those low brackets cannot afford to take a chance." Retorts Snyder . . . "They are taking it though."

* * *

The Treasury blithely tinsels this deadlock with proof that nearly 50% of the dividends paid out by industry go to persons receiving incomes of less than $5,000.

* * *

Commercial, industrial and agricultural loans continue to touch new peaks but are absolved by Treasury and Commerce Department experts from blame for mounting inventories. Such loans reached a $11,077,000,000 total March 19. The Federal experts interpret these figures as showing that business, industry and agriculture are borrowing to operate rather than spending cash on hand.

* * *

Washington expects a continuation in the decline of bank earnings as reflected by a 5% shrinkage in 1946 profits of Federal Reserve member banks. The Federal Reserve Board attributes this trend to (1) increased expenses, (2) increased income tax charges, (3) decline in recoveries and profits on securities sold.

* * *

Here's something to remember in connection with [illegible] discussions: circulating media in the U. S. increased from $5 billion in 1932 to $30 billion currently; checkbook money in the same period burgeoned from $22 billion to $80 billion.

* * *

Construction of two bowling alleys in the White House is progressing despite tight Civilian Production Administration restrictions on non-residential construction. CPA boasts that in February it ordered 1,918 non-housing projects stopped—including a Long Island bowling alley.

* * *

Better have proof of results as well as intent if you deduct from your gross income amounts paid as dues to clubs or civic groups. The U. S. Tax Court has just denied tax exemption to dues paid by a corporation for its officers' memberships in the Kiwanis and Rotary. The corporation claimed the dues were expended for business reasons. The court replied, proof was lacking.

* * *

OPA lawyers with ambitions to continue prosecution of price-ceiling violators will be subdued by Congress. It's a safe wager the lawmakers will tell the OPA shysters to lay off prosecutions other than the obviously big racketeering deals.

* * *

A broad investigation of raw copper supply and distribution is to be undertaken by the House Interstate and Foreign Commerce Committee. Legislation directing the inquiry has been offered by Republican Representative Crawford of Michigan. House OK will be voted shortly. The Committee will be directed to report findings and recommendations within 90 days.

* * *

The copper investigators will (1) look at foreign and domestic supply potentials, (2) appraise the extent to which imports may expand with the suspension of the four-cent excise tax, (3) analyze equity of supply distribution as between integrated and non-integrated fabricating companies. This latter phase may inspire monopoly talk and legislation fashioned to prevent the independents from being starved by the big producer-fabricators.

* * *

The St. Lawrence waterway has been given the deep freeze and won't be thawed out until Federal taxes and expenditures have been substantially curtailed. Certain congressional elements who are presently striving to get an OK for the project will fail.

* * *

War Assets Administration continues to fret about the $1 billion of machine tools remaining in surplus. The agency is compounding a long-range plan for disposing of these machines without injuring domestic manufacturers, hopes to arrive at a detailed conclusion within a month or less.

* * *

Blanket export control authority for the President may be allowed to die June 30 as now scheduled. It's possible Congress may substitute for this executive power export restrictions on specific items adjudged to be scarce.

* * *

Legislation extending the moratorium on Federal regulation of the insurance industry is expected to be pressed before adjournment. Under existing law the moratorium expires next January 1. Extension will be urged upon the grounds that many States have failed to pass proper laws contemplated by the original moratorium statute

India Finance Official Opposes Scaling Down Of Sterling Balances

Alluding to what he called "the fulminations of the British press" concerning British counterclaims against Indian sterling balances, Sir Cyril Jones, Principal Secretary of the Finance Department of the Government of India, in the Council of State on March 17 declared:

"The Government of India has consistently maintained that India has already paid for India's defense, as determined by the financial settlement, to the limit of her financial capacity. It follows from that that there should and can be no scaling down of India's sterling balances."

After debate the Council of State passed the following resolutions:

"This Council is of the opinion that the sterling balances accrued to the credit of India are the result of great sufferings, sacrifices and services on the part of the Indian masses who were committed to participate in the last war; welcomes and endorses the remarks of the finance member in his budget speech on the subject of these balances and accordingly recommends to the Governor-General-in-Council that he do ensure that in the negotiations with His Majesty's Government, which are due to be held in the near future, the stand taken by the finance member is maintained and that any attempt to scale down the balances on the pretext of return for defending this country is discountenanced."

Russell, Berg Branch

WASHINGTON, D. C.—Russell, Berg & Co. have opened a branch office at 1603 K Street, N. W. under the management of Lloyd R. Freeman, Jr. Mr. Freeman was formerly with Baker, Watts & Co. and Merrill Lynch, Pierce, Fenner & Beane in Baltimore.

Frank Shea in Toronto

TORONTO, ONT., CANADA—Frank Shea is engaging in a securities business, acting as dealer in Canadian mining and industrial securities, from offices at 32 Front Street, West.

Canadian Securities

By WILLIAM J. McKAY

Canadian official apathy concerning the Canadian dollar free market in New York has produced its inevitable results. This outlook has been based primarily on the fact that free market in relation to the official market is not sufficiently important to be given special consideration. The official attitude moreover stresses the point that the unofficial market is essentially the concern of the non-residents who are given the facility to operate in this market. That the free market has any bearing on the official exchange market, or on the Canadian economic standing as a whole, has always been deprecated in official circles. To some extent also there is a feeling of surprise and bewilderment, that in view of the Dominion's acknowledged superb management of its internal affairs, the state of the Canadian dollar unofficial external market should give rise to any external doubt and uncertainty.

Recent events however belie the wisdom of this attitude. It is not an exaggeration to state that in the absence of this misleading barometer of Canada's economic state, the current pressure on the Canadian dollar would not have taken place. Without the free market, rumors of devaluation and the bearish propaganda of interested parties would have dissipated their strength against the unyielding barrier of the strictly controlled official rate. In the existing circumstances the narrowness of the unofficial market has aided and abetted bearish influences.

In the early stages of the war the free market for sterling in New York suffered from the same disability. British prestige was lowered and unhealthy rumor thrived as a result of the inadequacy of the uncontrolled narrow free market. As soon as the situation became palpably embarrassing steps were immediately taken to bring the free market in line with the strictly controlled official market. From that moment confidence in sterling was restored and British commerce ceased to be undermined by the vagaries of the free market.

In comparison with the British situation the Canadian economic state is immeasurably stronger. In the event of the restoration of multilateral convertibility of the leading currencies of the world, the Canadian dollar alone with the U. S. dollar will be the currency in the greatest demand. In a world of scarcity of available supplies of urgently needed food and primary commodities Canada is in a uniquely favorable position. It would appear therefore that the Dominion not only has the means but also the most successful of precedents, to take the necessary action that would immediately dispel the current atmosphere of doubt and uncertainty.

During the week the market was again influenced by currency rumors and the weakness of the rate for free funds. Dominion internals declined but the volume was on a restricted scale. At the present levels it would appear that the devaluation rumors have been fully discounted as the current prices now closely approximate those prevailing before the revaluation of the dollar last July. Although the discussion of a possible change in the official parity intensifies with every fluctuation of the free rate there is still no apparent reversal of the Canadian official attitude, which in effect takes the view that there is nothing in the present situation which justifies a further adjustment of the official parity. The external section of the market was quiet and inactive with Canadian Nationals in some demand at slightly higher prices. Internal stocks were dull with the exception of the golds and papers which moved irregularly higher.

MacIlravy Fifty Years With Henry Clews & Co.

George W. MacIlravy, partner in Henry Clews & Co., 9 Broadway, New York City, members of the New York Stock Exchange, on April 1 celebrated 50 years' association with the firm. The firm itself, organized April 1, 1877, is observing its 70th anniversary. Starting as a runner, in 1897 after graduation from Boys' High School in Brooklyn, Mr. MacIlravy worked in various departments and was admitted to partnership in the firm in 1919. He served as a governor of the Association of Stock Exchange Firms for eight years.

G. W. MacIlravy

The firm, one of the oldest commission houses in the country, was founded by the late Henry Clews, author of "Fifty Years in Wall Street." Present partners, five in number, consist of Russell L. Gilbert, senior partner and member of the New York Stock Exchange; Charles J. Scheid; Augustin A. Noonan and Mr. MacIlravy, general partners, and Leta Clews Cromwell, special partner.

Present Economic Problems and Prospects

(Continued from page 2)

highly unstable because three factors introduce a large measure of uncertainty into the total economic situation. They are: First, unsettled problems of industrial relations; second, recurring crises in international affairs; third, impending readjustments in a distorted domestic price structure. The presence of these large uncertainties explains why the equity securities of American industrial concerns are selling at a lower multiple of earnings per share than in any recent year save in deep depression or war. It explains why they yield almost 4.7% per annum at a time when the long-term interest rate on riskless securities is about one-half as much. It suggests that buoyant markets for equity securities may not be expected until these uncertainties are dispelled or greatly reduced.

Underlying the more immediate forces of business instability are factors making for strong growth and prosperity over the longer term. First, there are indeterminate but unquestionably large deferred domestic and foreign demands for durable goods of all kinds by consumers, businesses and governments. Secondly, the dollar amount of liquid assets held by American consumers and business enterprises in the form of cash, bank deposits, savings accounts and government securities are about three and one-half times as large as in 1939. Third, as a result of wage increases, heaving progressive personal income taxation and excess profits taxation during the war years, the distribution of these liquid assets and of current income among consumers is much better designed to support large markets than was the case before the war. Fourth, rapid advances were made during the war in applied science and industrial technology in respect to military production. The utilization of this technology in serving civilian markets will create unusually large needs for new plant and equipment and great imvestment opportunities. Fifth, as world political and economic conditions gradually stabilize, channels of international trade and investment will open up and large foreign markets will emerge for American mass-produced durable goods, for the equipment to make them and for the technical skills to manufacture them.

Before the American economy reaches the Elysian fields of a postwar replacement prosperity, it must first cross the river Styx of labor-management difficulties, foreign crisis and domestic price readjustment. Let us try to evaluate the probable bearing of these factors upon business during the year ahead.

Business Recession Not Likely

In my opinion, a business recession during the next year is not likely to be precipitated by bad industrial relations. By bad industrial relations I mean either a breakdown of collective bargaining that results in work stoppages in such key industries as coal, steel or railways, or else collective bargains that push up costs and prices to a point where buyers hold back from the market. The year 1946 probably will mark the worst crisis in American industrial relations for some years. The peak period of man-days of production lost through industrial disputes lies behind us. The principal reasons for this view are that cost of living will stop rising and may fall moderately during the next year. This will reduce pressure for wage increases. Labor unions, and their members, are less able to afford interruptions of income than they were in 1945 and 1946, because the 20% rise in cost of living during 1946 has left a smaller margin of savings to fall back upon. Business concerns are less able to afford work stoppages because they will not be able to carry back unused excess profits tax credits. Workers have seen that the strikes of late 1945 and early 1936 did not, in the main, achieve their objectives, for the reason that they could have obtained the preponderance of their demands from management without striking. The social irresponsibility of Mr. Lewis in threatening to undermine the national prosperity and the international position of the United States by withholding the coal supply has aroused Congress and the people. For all these reasons there will be a very strong disposition on both sides of the collective bargaining table to reach agreements.

Nevertheless, industrial relations will continue through 1947 to be a factor of large uncertainty. Congress will wrestle with two great problems: How to make the collective bargaining process operate effectively; and how to insure that collective bargains concerning wages, hours, and working conditions promote, and do not impede, high production and employment and stable prices. We cannot expect solutions to those problems in 1947, but we may expect an interim period of industrial peace.

Unsettled International Relations

The second factor making for great short-term economic instability is the unsettled state of international relations. There is a kind of peace in the world today, but there are not expectations of peace. The four-power division of defeated Germany and the disastrous policy of Potsdam have delayed the economic recovery of all western Europe by two to four years and increased the relief it must have to survive. War with Russia is highly improbable during the next few years, because the American people are reluctant to fight another war and the Russian leaders know that years are needed to heal the gaping economic wounds their country bears from the recent war. Yet fear of war with Russia will persist. There will be recurrent crises arising when the United States and Russia make contact with each other at the peripheries of their respective areas of influence—in the Eastern Mediterranean, in the Balkans, in Germany, in China, and perhaps in India. These crises will have unsettling effects on our financial markets. The precarious economic position of Britain is forcing her to withdraw military forces and economic aid from the whole eastern Mediterranean area and will compel her to contract her commitments in other parts of the world. Already, the United States has begun to fill the vacuum so created in Greece and Turkey. The logic of events will cause this country to occupy other positions abandoned by Britain, even though the wisdom of this policy has not been thoroughly considered.

The Federal Budget

The full implications of these facts for the Federal budget during the next few fiscal years cannot now be foreseen, but two conclusions are clear: First, American outlays for foreign relief and rehabilitation will be larger and of longer duration than at first appeared probable; second, the United States has become a great military power and is irrevocably committed to the maintenance of a large military establishment. Consequently, our desires for substantial postwar cuts in Federal spending, in taxation and in Federal indebtedness are unlikely to be gratified in the measure we have expected. It is improbable that the Federal expenditure of $37.5 billion called for in President Truman's recommended budget for the fiscal year ending June 30, 1948, actually will be reduced by a substantial amount. For this reason—and for other reasons I shall mention later—it would be unwise for Congress to make reductions of from 20% to 30% in personal income taxes retroactive to Jan. 1, 1947. The net impact of the international situation will probably be to reverse the recent movement toward a deflationary Federal fiscal policy. Consequently, the state of international relations is not likely to be the precipitating cause of a business recession in the next year, but rather to be a counteractive to a recession that might develop from other causes.

Distorted Price Structure

The third important element of short-term instability in the present business boom is the impending readjustment of a distorted price structure. In the face of a strong demand, nearly all commodity prices have been moving upward since the abandonment of OPA controls and the tapering off of government subsidies. During 1946 the all-commodity index of wholesale prices of the Bureau of Labor Statistics rose 30%—the most rapid annual increase on record with the exception of the 50% rise in 1864 and the 40% rise in 1916. More significant than the over-all rise in prices is the difference in the rate of upward movement of different commodity groups. If we measure price increases up to the end of 1946, from the active entry of the United States into the war in December, 1941, it is found that prices of farm products at wholesale have moved up 87%, prices of foods rose 82%, of textiles 35% and of hides and leather 45%. In contrast, prices of fuels and lighting rose 25%, metals and metal products rose 28%, building materials 32%, chemicals 26% and housefurnishings 18%. Against an 87% rise in prices of farm products, commodities other than farm products advanced 33%.

The wartime pattern of price change—which has continued through the first quarter of 1947—is therefore one of enormous rise in farm prices, as a result of greatly increased foreign and domestic demands for foods and fibres in the face of a comparatively inelastic supply, of large but somewhat smaller derivative increases in the prices of the industries most closely related to farming—food, textiles and hides and leather—and of comparatively moderate increases in the balance of the economy. Obviously, the restoration of balance in the price structure requires a fall in the prices of farm and derivative products relative to the prices of other commodities. This adjustment might be made by a fall in farm prices, a rise in non-farm prices, or by both kinds of price movement. It is probable that both types of price adjustment will begin to occur within the next year, as European agriculture revives and relief demands for American food and clothing taper off.

This raises an important question. Will a fairly sharp rate of decline (more than 10% per annum) in the prices of so important a group of commodities as farm products and the derivative products of the food, textile and leather industries precipitate a general business recession? Such a result is conceivable. Falling prices on a wide front produce inventory losses, diminish profit expectations, lead to deferral or cancellation of property expenditures and through this mechanism can propagate a general decline in production and employment in a closely interrelated economy. Few instances can be found in American history of sustained production in association with a wholesale price index falling more than 5% per annum.

The present regime of $2.75 wheat and $1.65 corn is reminiscent of the agricultural price boom that followed World War I, a boom that reached its peak in May of 1920, one year and seven months after the signing of the Armistice. In March of 1947 we also stand one year and seven months beyond the end of World War II. Devotees of "pattern" methods of forecasting point to the 40% contraction in wholesale prices and the 25% fall in rate of production that occurred within one year after May of 1920. They argue that an equally severe postwar business recession will shortly be upon us. Although there are many discomforting similarities between the two economic situations, the analogy is not close for several reasons.

First, the rise in wholesale prices during and following World War I up to May of 1920 was about 142%, whereas, so far it has been about 85% since 1939. Second, there were extended business inventory holdings predicated on short-term bank loans built up during 1919 and early 1920, the forced liquidation of which accelerated the contraction in prices and production that occurred later in 1920 and early in 1921. At the present time aggregate business inventories are not excessive in relation to sales volumes and they are more soundly financed. In the third place, the business community is much more widely apprehensive of imbalance in the price structure than it was in 1920 and inventory commitments are being more carefully timed and watched. A fourth difference is that the distribution of income and of liquid assets among consumers is much more even and conducive to the support of a continued high level of consumer spending than it was in 1920. A larger fraction of consumers have some savings than ever before in history. Closely related to this is the existence of cushions to consumed expenditure, such as GI benefits and unemployment compensation, and of cushions to prices, such as the commitment of the Federal Government to support "parity" prices for agricultural products.

Finally, it cannot be denied that the latent demand for durable goods, including housing, by both consumers and businesses is now much larger and more insistent than it was in 1920. This time the United States fought a four-year war that at the peak of the war effort engaged nearly 50% of our productive resources, whereas we were active participants in World War I for less than two years and reached a maximum war effort at nearer 25% of aggregate national income. For all these reasons, it is a safe prediction that a business recession beginning within the next year would not be as severe as that of 1920-21.

Deferred Demands for Durables

Another approach to the problem of forecasting business prospects during the coming year involves a recognition that the business boom that developed during 1946 was mainly in non-durable goods, notably food. Of total consumer spendings of $127 billion during 1946, 61%, or $77.2 billion, were spent on non-durable goods, and 11%, or $14.1 billion were spent on durable goods, the balance being spent for services. The proportion of consumers' disposable income spent on durable goods in 1946 was well under that of the last prewar year, 1941. Large deferred demands for housing, automobiles, home furnishing and domestic appliances may be expected ultimately to push the proportion of consumers' disposable income spent on durables well above prewar normal levels.

The question is: Will increases in spendings on durable goods during the coming year be large enough to enable the whole economy to make a smooth transition from a non-durable to a durable goods boom? The productive capacity of the durable goods industries, including residential housing, will probably continue to limit output more directly than consumer demand. Assuming that important strikes and labor and material bottlenecks can be avoided in these industries—and this is vitally important—it is possible to make some rough estimates of the potential increase in consumer expenditures on nondurable goods in 1947 over 1946.

During 1946 about 2,750,000 cars and trucks were produced for civilian use in the United States. During 1947, 5,000,000 vehicles could be produced. Multiplying the increased number of units arbitrarily by an average retail sale value of $1,500 per vehicle, gives an increase in expenditure of $3.4 billion. During 1946, approximately $3.3 billion was spent on new non-farm residences. Outlays on residential construction during 1947 could readily reach $6 billion—an increase of $2.7 billion. Expenditures on other consumer durables than housing and automobiles amounted to about $7 billion in 1946. It would be possible for these to rise by 50% or to increase by $3.5 billion. A total increase of $9.6 billion in spending on consumer durable goods and housing during 1947 would certainly counteract most of any likely contraction in outlays on food and other nondurable goods by consumers, or in expenditure by government or business.

One is bound to recognize, however, that business expectations are notoriously sensitive, the American economy is highly unstable and our history is punctuated with booms and depressions. One cannot reasonably expect so favorable and well-timed an articulation of economic forces that the transition from a nondurable to a durable goods boom will be made without a dip in production and employment.

The most defensible conclusion that can be reached is that a general business recession is not inevitable within the next year, but the balance of probabilities is that a recession of moderate depth and duration will begin within this period. If it comes, I should expect such a recession to be confined within the limits of a 15% decline in industrial production as measured by the Federal Reserve Index and to an equal percentage fall in the all-commodity index of wholesale prices with the contractive price and production effects concentrated in agriculture, food, apparel and leather goods.

Fiscal and Monetary Policies

A final word should be said about governmental fiscal and monetary policies. As a result of wartime changes in the Federal tax system, fiscal policy has become a powerful tool for stabilizing production and employment at a high level. Nearly $27 billion of total estimated Federal net receipts of $40 billion during the current fiscal year consist of taxes on individual and corporate incomes, a large part of which is on a current collection basis. These taxes rise or fall sensitively with changes in national income, so that any decline in national income will be met promptly by a larger percentage decline in the taxes paid by some 35,000,000 individuals and 300,000 corporations, leaving more money in their hands to spend.

Conversely, any future rise in national income will be associated with an accelerated rise in the amount of income diverted from consumers' hands to the Federal Government. This "built-in" flexibility of the present Federal tax system is very desirable and it should be increased through conscious efforts by Congress to adjust Federal expenditures, tax rates, and personal income tax exemptions from time to time for the purpose of counteracting the inherent instability of total spending in our free-market, private enterprise economy. This is not the place for a full discussion of fiscal policy and I merely wish to raise two specific questions regarding impending Federal fiscal policy:

First—In view of a continued high level of Federal expenditure and no substantial budgetary surplus on a cash basis, is it wise to reduce personal income taxes by 20 to 30%, retroactive to Jan. 1, 1947, while price inflation is still in progress and there is no clear evidence of inadequate consumer expenditure? Would it not better serve the interests of economic stability to defer use of the stimulant of tax reduction until it is more clearly needed?

Second—Faced with a substantial decline in the demand for agricultural products and in agricultural prices, should not the Federal Government, in the interests of domestic economic stability as well as in the broader interest of international relations, pursue a generous policy of loans and relief grants to foreign countries, timed as far as possible to cushion the impending agricultural price readjustment?

It is very important that Americans examine economic policy issues such as this and seek to answer them, not in terms of narrow and immediate personal interests, but in a broad framework of national welfare. If this is done, we shall surely move forward to the twin economic goals of our free society—high and expanding production and employment and stable prices.

Michigan Gas & Elec. Common on Market

A banking syndicate headed by Otis & Co. and Ira Haupt & Co. on April 2 offered to the public 120,000 shares of Michigan Gas & Electric Co. Common stock (par value $10) at $17.75 per share. The stock was awarded March 31 on a bid of $16.509 a share. Of the offering of common stock, proceeds from the sale of 40,000 shares will accrue to the company. Of the balance, 57,226 shares are being marketed for the Middle West Corp., and 22,774 shares for Halsey, Stuart & Co. Inc. The company's capital set-up consists of $300,000 of 2% notes, $3,500,000 1st mtge. bond series A 2⅞% series due 1976, 14,000 shares of $100 par value preferred stock, and the common stock offered to the public.

Lucas, Cleveland Mgr. For Union Securities

CLEVELAND, OHIO — Union Securities Corporation announced that William E. Lucas has been appointed Manager of its Cleveland office in the Union Commerce Building. Prior to joining Union Securities Corporation, Mr. Lucas had been associated with Moody's Investors Service since 1931.

White & Company Opens Branches

ST. LOUIS, MO. — White & Company, members of the St. Louis and Chicago Stock Exchanges, have opened branch offices in the Joplin National Bank Building, Joplin, Mo. under the direction of V. C. Looper, and in the Pine Board Building, Springfield, Mo. under the management of C. B. Nelson.

Women's Inv. Co. Formed

SAN DIEGO, CALIF. — Women's Investment Co. of America has been formed with offices at 625 Broadway. Officers are J. Waldo Malmberg, President, and Ruth B. Evans, Secretary. Mr. Malmberg has been proprietor of J. W. Malmberg & Co.

Today's Shaky Real Estate Market

(Continued from page 14)

less, even at the peak of our current inflation. Eighty-five per cent had incomes of $4,000 or less. On the basis of inquiries that I have made, I believe it is possible to say that the family with a $3,000 income cannot ordinarily afford a house costing more than $6,500. The family with a $4,000 income cannot ordinarily afford to go above $8,500 and it takes a $5,000 income to swing a $10,000 house.

Costs Too High

Let's just see how that works out. Let's assume a $10,000 house is sold on the basis of $2,000 cash and an $8,000 mortgage. That means about 1% a month or $80 is needed for payment of interest and principal and taxes. If only $20 a month is allowed for the costs of heating and repairs, we have a total of $1,200 a year as the minimum cost of living in what is today a relatively modest house. An income of at least $5,000 is necessary to assume costs of that magnitude, yet even today only 8% of the 46 million family spending units in the United States has incomes of $5,000 or more.

According to this same Federal Reserve study there were some three million families in the United States who wanted to buy houses last year and who were willing to spend from $13 to $15 billion, but of this number one-third planned to spend less than $4,000 for a home. On the average the heads of these three million family units expected to pay not more than $5,000 for a house. Is it any wonder that a chill has come over the market for homes in the past few months, even in the face of the greatest housing crisis in our history?

Peak of Housing Demand Passed

The peak of the urgent demand for homes now seems to have been reached in the second quarter of last year. Prices of new houses are down from 15 to 20% from last year's highs and prices of old houses are said to be off even more.

The average American citizen, showing his usual good sense, has concluded that real estate prices and current costs of construction are too high. Thousands of potential home buyers have decided that, tough as it is, they will go on living doubled up with friends or relatives rather than pay an exorbitant price for a badly built house. To my way of thinking this sensible attitude on the part of the public is one of the most encouraging developments in recent months.

Yet, of course, the halt in the real estate boom has its dark side. This increased resistance to high prices has resulted in a sharp drop in new home construction. As was the case after World War I, construction costs today are continuing to rise even after construction activity has started to fall off. The government forecasts — joined in by the Department of Commerce, the Bureau af Labor Statistics and the President—that a million new dwelling units would be started this year have already been abandoned. The actual number, it now appears, will be at least one-quarter to one-third less.

Residential Building Off

In the face of a great housing shortage the volume of residential building construction has fallen off sharply in this area with the decline in privately-financed housing especially severe. Current high costs of construction are threatening to price private industry out of the market. Beyond that, the fact that the price of privately-financed housing is being driven above the reach of the overwhelming majority of our people, is creating a mounting demand for an expansion of subsidized public housing.

There are demagogues of the right as well as of the left. It will do no good to denounce subsidized housing if private industry cannot produce adequate housing within the means of the majority of our people, even at today's high level of income and savings.

The extent to which current inflated real estate prices have driven the prospective purchaser out of the market is strikingly illustrated by the sharp decline in the demand for GI loans. In spite of the extraordinarily favorable terms that are offered to veterans, the applications for veterans' loans in January of this year were down 25% from the levels of last summer and the Veterans Administration says that there is "a growing reluctance on the part of many veterans to acquire real estate or other assets at prevailing high prices."

Well, the public, including the GI, is showing sense. I know that most of our great financial institutions can be counted on to show equal sense in this difficult period. Yet I am told that a few of these institutions cannot restrain themselves from bidding absurd premiums for the privilege of lending money at low rates on the basis of optimistic appraisals, at the peak of what is surely one of the great inflationary periods of history.

Bad Real Estate Financing

Real estate financing has made many mistakes in the past. It has much to answer for. Reckless mortgage lending in the last inflationary period, the 20's, brought a ruthless reckoning in the deflation of the 30's. It is only within the past few years that the frozen real estate upon which many of our bankers had been sitting for twelve long years has at length thawed out.

It should not be forgotten that most of the loans of the 1920's that went sour in the 1930's were made at two-thirds or less of appraised values. Today many mortgage loans are being made at 80% and, in the case of GI loans, even at 100% of appraisals.

If we could get into such difficulties with loans made at two-thirds of appraised value, think how much difficulty we could get into with 100% loans, unless appraisals are sound.

I realize, of course, that there are elements of strength in the mortgage lending field today which were not present during the last real estate boom. Today we have widespread use of the regularly amortized mortgage. We have FHA insurance and FHA standards. We have government guarantees on the GI loans. But let me say at once, private finance will not escape censure if large numbers of GI loans go bad leaving the government holding the bag.

Factors in Appraisals

In the appraisal of real estate values today, it is not enough to consider such things as current costs of reproduction, current supply and demand, current sales prices. Real estate cannot be separated from the rest of our economy. It is indeed highly characteristic of our economy. The American economic system has been likened to a gambling casino where the wheel of fortune is up one day and down the next. Real estate shares fully in this boom-or-bust, rags-to-riches, speculative tendency. That is what makes the appraisal of real estate so difficult and so interesting. It seems to me that in this current state of affairs, you appraisers of real estate have a great responsibility and a great opportunity. Your judgment is often the deciding factor whether a loan will or will not be made.

Pressures for Excessive Loans

I know that today there are many pressures to stretch appraisals and to make excessive loans. The government guarantee of GI loans provides a serious temptation. But bankers and banking institutions are not free to conduct their business without regard to the public welfare. If a manufacturer of buttons or bottle caps conducts his business in an unsound or speculative fashion, he injures only himself. But if a banker makes unsound loans he is helping to undermine our whole economy and thus he injures everyone.

It is no favor to the thrifty citizens of this nation to enter into excessive competition for mortgage loans in order to maintain a 2% dividend on savings bank deposits instead of 1½%. It is no favor to a GI to lend him more than he can afford to borrow in order that he may pay more than it is worth for a house he can't afford to own.

This is the time for appraisers to show the courage to resist boom hysteria. This is the time for appraisers to proclaim that they have a professional standing and an integrity that does not permit them to tailor the appraisal to the loan.

As I have looked back over the record of real estate appraising and mortgage lending, it seems to me that there has been one very obvious weakness. That is a tendency to be overly optimistic in good times and overly pessimistic in bad times. I feel that I can reproach you for this error because it is a very human error which you share in common with bank supervisors. That also has been the sin of bank supervision—that it was too easy in good times and too tough in hard times.

I should like to invite you to join with me today in a quiet resolve that we will turn that tendency around. Let us be tough in flush times so that we can be easier when times get hard again, for, make no mistake, hard times will come again.

I do not for one minute underestimate the difficulty of your job. I have no easy formulas to offer. I only ask you as you do your work to keep your standards high; to maintain at all times the honesty, integrity and dignity of your profession. In doing this you will be serving best yourselves, your clients and the public.

Observations

(Continued from page 5)

and wages as equal elements, without realizing that wage decisions *per se* are far more important. Increased wage grants are relatively inflexible, as well as contagious throughout the economy on a nation-wide basis; while price adjustments, on the other hand, are both raised and lowered quickly and individually. For example, contrary to the trend of price boosts, Mr. Ford exceptionally reduced the price on his car; and on a single day a fortnight ago the International Harvester Company reduced its prices at the very moment the Long Island Railroad Company was filing an application for a fare rise.

It must also be remembered that wage rises directly affect union members exclusively and may themselves lead to price rises; while price reductions react to the benefit of everyone, including the wage-earner himself.

The Government's Responsibility For Inflated Prices

Another fallacy, shared by President Truman, consists in blaming the inflationary price rises on industry. Actually, it is not industry but Government itself that must accept such responsibility.

Stability and reduction in the cost of living have very importantly depended on the course of farm prices, whose level and direction are determined by government direction. At the end of January, food prices began to rise further from the levels which were already historically high. This increase was most pronounced in wheat and corn, despite their bumper crops of last year. The reason for this apparent paradox was that enormous government buying for export purposes last year created a price condition extremely vulnerable to speculative operations. In the important case of dairy products, whose prices assuredly are too high, the Department of Agriculture has now decided to postpone reduction in the price of milk until at least May first.

Looking at the overall picture, we find that about 70% of the rise in the consumers' price index during the past year took place in the category of food.

Half of the last year's increase in the cost of living has resulted from rises in livestock and dairy products. Total agricultural income was $14,700,000,000 in 1946, 25% above the 1919 record inflationary amount, and this year is even surpassing 1946.

During the interval since August, 1939, farm prices, aided by government support, have risen 178% while industrial prices have risen only 59%.

This distortion in food prices has the widest economic repercussions. For the high price level of this *necessity* of the consumer not only correspondingly diminishes his ability to buy durable goods, but also brings about successful demands for additional wage increases, which in turn stave off the necessary lower prices for those durable goods.

Instead of baiting industry for inflating the price level, government should get a bit introspective about its own responsibility, as well as concerning its continuing propensity to lend its prestige to the popularization of the other fictions about the wage-price situation.

Recommends Revision of Securities Act

(Continued from page 6)

whom a prospectus may be obtained and by whom orders will be executed) should be broadened to permit an indication of the nature of the business and assets of the issuer and a brief description of the securities offered.

(b) A short form of prospectus, similar in its scope to the present newspaper prospectus, should be authorized for circulation at any time after a registration statement is filed. After the waiting period has expired, it should be permissible to make sales on the basis of this short form prospectus. However, the full prospectus should be available to any potential investor who desires it and should be sent to all investors to whom a sale is made with or prior to the confirmation of sale.

Such a short form prospectus should generally be limited to a brief statement of the general nature of the issuer's business and assets and of its funded debt and capitalization; a brief summary of its earnings during the three preceding fiscal years; and a brief statement of the amount and proposed use of the net proceeds of the issue, the offering price and the name of the principal underwriter. The Commission should be given power to require additional information by regulation if necessary in the public interest or for the protection of investors.

(c) Condensation of the information required in the regular prospectus should be authorized.

(d) The regular prospectus required for a company which has previously registered under the Securities Act or under the Securities Exchange Act and which has regularly filed the required annual and interim reports with the Commission should be a short document setting forth simply the general nature of its business and assets, pertinent facts concerning its capitalization and the securities being offered, financial statements, the purpose of the issue, the net proceeds, the offering price, underwriting discounts and the names of the underwriters. Similarly, a relatively short prospectus should be all that is required for companies which are subject to regulation by, and file, as matters of public record, detailed reports with, either Federal or State commissions.

The prospectus required for offering by such companies might conceivably be the same as the short form of prospectus suggested under paragraph (b) above.

(e) Section 10(b) of the Securities Act requires a change to permit the use of a year-end statements in a revised prospectus. It should provide that the information should not be more than fifteen months old when a prospectus is used more than twelve months after the effective date of a registration statement.

2. Simplification of the registration process.

Much has recently been accomplished by the Commission along the lines of simplification of the task of registering securities for sale under the Securities Act of 1933. Awkward and expensive forms of registration statements have been abolished and simpler ones adopted. There has been a noticeable increase in the cooperativeness of the staff and in its understanding of the problems and difficulties of the company seeking to register its securities. However, it is still expensive and sometimes difficult to compile and set forth all of the detailed information still required, and the delays inherent in the process often result in the company "missing the market" and being unable to sell its securities.

(a) One step along the lines of simplification would be to authorize, in the case of a company which has previously registered under the Securities Act or the Exchange Act and which has filed all annual and interim reports to the SEC required under these Acts, the registration of its securities simply by filing a short form of prospectus containing the information indicated in section 1(d) above.

(b) Another amendment which would be most helpful would be one requiring the Commission to review a registration statement before it is formally filed. When all deficiencies developed in such review have been corrected, the company should be permitted to file the statement officially and such filing should be followed by a brief, fixed waiting period on the expiration of which the statement would become effective.

This procedure would offer several advantages. In the first place, short form and complete prospectuses could be circulated in preliminary form during the waiting period after the formal filing with the knowledge that no further changes would be required. Secondly, the issue would not be prejudiced, as issues sometimes are now, by public knowledge of the delays, which are often unavoidable, in getting the registration statement into a form satisfactory to the SEC. Finally, the issuer and the underwriters and dealers handling the issue, knowing definitely when the registration is to become effective, would be able to make their plans accordingly and would not be subject to the risks and uncertainties of the present procedure.

(c) The Commission should be more clearly authorized not to require all of the information specified in Schedule A of the Securities Act. In other words, the Commission should be given discretion to require in any registration statement only such of the items called for by Schedule A as may be appropriate and necessary in the public interest and for the protection of investors.

3. Integration of the information and registration requirements under the two Acts.

This subject is closely related both to the simplification of the registration process and the suggestion that after a company has once filed a registration under either Act, it should be required only to file a simple prospectus to register additional securities for sale under the 1933 Act. Considerable progress has been made by the Commission administratively in permitting the material filed under the 1933 Act to be used to qualify for listing under the 1934 Act, but there is room for improvement and specific Congressional authorization would be desirable. The ways and means of achieving true integration of the information requirements under the two Acts require considerable thought and study.

4. An increase in the size of small issues exempt from registration, but with broader supervisory powers on the part of the SEC.

Registration of a small issue of securities is generally much more expensive in proportion to the size of the issue than a large one. These costs are so high that an issue of less than $500,000 is usually uneconomical. It should be borne in mind that these costs indirectly are borne by investors. There is a distinct public interest in the development and financing of small enterprises and, therefore, in the minimizing of the costs of such financing. Hence, an increase in the size of small issues exempted from registration up to $500,000 appears desirable.

On the other hand, the likelihood of fraud and of unwarranted misstatements is probably greater in connection with the sale of the securities of small, little-known companies. Hence, if the amount of the exemption is increased, it would seem fitting that the Commission be given some supervisory power over such issues.

It is suggested, therefore, that the exemption be increased to $500,000 and that a reasonable waiting period be required after filing of the offering circulars and other data and that the Commission be given stop order powers exercisable both before and after the expiration of the waiting period in case of any material misrepresentation.

5. Clarification of the anti-manipulation provisions of the Securities Exchange Act.

Orderly securities markets are clearly in the public interest and at times the market for any particular security may require the active intervention of an interested buyer or seller if it is to be kept orderly. Under the present anti-manipulation provisions of the Exchange Act it is doubtful, at least, that anyone may thus intervene without violating those provisions.

On the other hand, fraudulent manipulation, that is, manipulation which misleads and deceives investors, should be outlawed.

Accordingly, it is suggested that:

(a) the preambles to the Exchange Act should be amended to indicate that one of the purposes of the Act is "to encourage and foster orderly, active, stable and liquid markets for securities upon securities exchanges and in the over-the-counter markets";

(b) the anti-manipulation provisions should be amended to indicate that they are aimed at transactions intended to create a false and misleading appearance with respect to the market for the security dealt in; and

(c) the anti-manipulation and stabilization provisions should expressly state that they are not intended to prohibit "transactions effected for the purpose of establishing or maintaining a fair and orderly market or for the purpose of stabilizing the market in connection with or to facilitate a primary or secondary distribution of securities provided that such transactions are (1) reasonably necessary for such purpose, (2) not excessive in volume, (3) effected within a reasonable price range, and (4) reported daily to the Commission; and that, when effected in connection with or to facilitate a primary or secondary distribution of securities, the general character, extent and effect of such transactions are disclosed by means of a prospectus or otherwise to purchasers of the securities being distributed."

Such changes would do away with the ambiguity, indefiniteness and uncertainty of the present provisions which have tended to weaken and hamper the functioning of our security markets.

6. Restriction of publicity on unproven charges.

In its earlier days the Commission in a number of instances issued orders charging individuals and companies with the grossest sort of wrongdoing before any of the charges were proven. In some cases the charges actually proved to be unwarranted or greatly exaggerated and in one notorious case, which is still undecided, the mere publication of the Commission's charges resulted in an overnight loss of millions and millions of dollars to the stockholders of the company.

To avoid any repetition of these abuses, the power of the Commission to give publicity to unproven allegations of wrongdoing should be carefully restricted and it should be required to hold private hearings on charges of wrong-doing unless the accused requests a public hearing.

Some other matters which should be covered by any program to amend the securities laws include amendments which would (1) outlaw the present requirement of the Commission's proxy regulations that any proposal of any stockholder must be included in the management's proxy statement, (2) require, in any action brought under the provisions of these Acts for damages or rescission based on a misstatement of, or omission to state, a material fact, proof that the person bringing the action relied upon the misstatement or omission, (3) permit delisting a stock by vote of a majority of the holders of the stock, and (4) exempt employees' pension plans from the registration requirements of the Securities Act.

Any law enacted to amend these Acts should specifically provide that it should not be construed as validating, ratifying or approving any rule, regulation, form or order theretofore prescribed or issued by the Commission unless before its enactment a thorough review and study is made by Congress of the existing rules, regulations, forms and orders.

Committee Members

Members of the Special Committee on Security Regulation are as follows: Louis K. Comstock, Chairman; James M. Barker, William C. Breed, W. Gibson Carey, Jr., Herbert L. Carpenter, Lionel D. Edie, Charles R. Hook, Fred Kent, John Lowry, Jeremiah Maguire, Frank Wilbur Main, Russell G. Smith, Laurence Arnold Tanzer, Joseph M. Wells, Howard I. Young, Edward B. Twombly (Counsel for Committee).

Securities Salesman's Corner

By JOHN DUTTON

Hare's Ltd. has suggested in a memo released March 19, 1947, that the more successful salesman of today sells industry not common stocks. By so doing the thought is directed to the prospect's mind that the salesman is interested in rendering an investment service rather than selling a particular stock. At any rate the idea is workable and it is a subject that has appeal at this time. It doesn't take an investment expert to see that the securities of some industries are much more inviting mediums for investment than others.

The most effective sales presentations always come to the point. They don't ramble all over the lot. So if you wish to sell the idea to your customers that certain industries are more promissing investment medium than others, do it in the fewest words possible.

One approach to an understanding of this complicated subject is to ask ourselves what makes certain industries attractive in the light of today's economic conditions. The answer lies in recognizing the CAUSES FOR SHRINKING PROFITS and finding industries that eliminate such handicaps to a larger extent than others.

Here are the two profit killers in American industry today; high labor cost and the strikes and troubles that make up our unsettled labor situation; and uncontrollable costs of raw materials.

There are some industries that by their very nature USE a smaller amount of manpower than other lines of endeavor. These are the service industries such as insurance, personal loan companies, the oil industry, utilities—particularly natural gas and hydro electric power companies—soft drink manufacturers, chemical companies and concerns engaged in the operation of coin vending services. If you will look at the record, labor disturbances have been conspiciously absent in these industries.

When the prices of commodities are playing leap frog with each other from day to day, or where the price level is uncertain either in an upward or downward direction, companies THAT CAN CONTROL THEIR OWN SOURCES OF RAW MATERIALS enjoy an advantage over their competitors because they can stabilize basic costs and control profit margins. In this category you will find the chemicals, some of the fertilizer producers, producers of building materials owning their own forests, clay deposits, stone quarrys, etc., paper companies owning timber reserves, mines, natural gas and oil companies, and the service companies. It was the slow-down in deliveries of many raw materials and semi-finished parts that produced so many disappointing income accounts in 1946.

Here then is the basis for a sales presentation concerning attractive industries—if you can control labor costs and material costs today you are in an enviable investment position.

There are other reasons why industries are attractive or unattractive but it is best to make a simple presentation of the highlights and let it stop there. Any salesman who talks like a college professor in economics may impress a few people but he will bore more of them than he will sell. For instance there are new product industies such as air-conditioning. Such opportunities for profitable investment can be clearly indicated by making reference to the large market which exists in the industrial and commercial fields alone and the excellent public reception to the use of air-conditioning where it has been used in the past. Or you can point out cyclical industries such as railroad equipments and mention the NEED FOR RAILROAD CARS, pointing out that hardly a day passes that the public press is not emphasizing the critical shortage that exists here. If you happen to have a handful of clippings from the newspapers and other business publications, you can offer a much more impressive case for your viewpoint if you place them on your prospect's desk. He can read them and you can quit talking—these articles will make a better sales talk than you will make.

No matter what you have to say, if you are trying to convey an idea to others, it is axiomatic that **you** need to know what YOU ARE TRYING TO SAY. Then say it concisely and clearly. Economics can be a complicated subject if you disgress and start to roam around. The successful salesman puts ideas into plain, simple language that anyone can understand. If you tell your customers that certain industries have a minimum of labor trouble, or that they own their trees, iron ore, or natural gas, etc., that kind of plain talk is something any business man can appreciate today.

Britain's Economic Dilemma—Its Origin and Nature

(Continued from first page)

come, but imposing the necessity of certain reservations.

Thus, to give the matter point, foremost in historical change is the decline in economic importance to Britain of her Empire, or Commonwealth as it is now more usually called. That Britain is no longer to hold the gorgeous East in fee and that, beyond this, her Colonies and Dominions will soon compete with her for international trade, ends a highly remunerative period of privilege and pride of place. The transition is one casting a shadow on British mentality, although few would defend the practice of Imperialism. But the mind of the Briton has changed in other ways during the past thirty years. He is still at heart an individualist, chary of planning and organization from above, but he feels that between 1918 and 1939 Individualism made a poor show. He is unconvinced that this was the fault of Individualism as such and believes, indeed, that the international conditions operating in those days would have been more damaging to Collectivism had it then been the ruling creed. Nevertheless, he feels that he has, for the time being, lost a firm foothold from which to attack Socialist innovations.

The Riches of Poverty

The most considerable effect upon Britain of two wars has been impoverishment, although that is not perceived by the majority of her people. The loss of overseas investments, the recession of London as an international financial center, the new and unfavorable directions of trade—to name no other—are happenings demanding compensating replacements which, however, have not been made. Concurrently, with lower national wealth and income, the State debt has risen to stupendous figures. This latter is explained away, even in apparently responsible quarters, by the fact of so much of the debt having been raised at a very low rate of interest, with redemption dates skillfully fixed far ahead. But every student of finance knows that mortgaging the future is a dangerous practice, that, indeed, under such circumstances, the future has the knack of suddenly becoming the present in some awkward and unanticipated problem. Supplementing the reality of poverty is the illusion of wealth. There has never been so much money in Britain before—and so little to buy. But the man of truly limited means who is able to carry out some black market or similar deal involving the passing of many notes feels himself elevated to a position of no small stature. Additionally, the government, until the last few months, has fostered the idea of relative abundance. It has, for example, published figures of pre-war and post-war consumption of food in Britain, with little disadvantage to the latter period. But, actually, these figures are of little guidance without a comparison of respective qualities: and this guidance is not forthcoming. Even now the authorities persist in publishing indices to show that the rise in cost of living since 1939 is only about one-third. This wholly deceptive result is secured by the taking of a few selected items and leaving out the rest—including the cost of traveling, which has more than doubled.

Nationalization Trend

Superimposed upon the whole psychological and economic fabric of the nation is now the slowly rising pyramid of nationalization. It presses heavily, and the more so, since many business men believe that the base will continue to be materially widened so as to embrace their own activities. The knowledge that hitherto pyramids have been used for the purpose of entombment would be more consoling if it could be quite sure that those who are to sleep their last sleep therein will be the politicians. It must, in fairness, be said that in one direction, namely that of the coal industry, nationalization has few opponents. The most conservatively minded find themselves in agreement with the London "Times" when it declares that "low wages, short time, unemployment, social isolation, and, in the past, the contrasting wealth of coal owners, have left their legacy." Nationalization may not prove the solution of coal mining difficulties, as witness that in 1946, with nationalization underway, the output of deep-mined coal per man was 259 tons as against 308 tons for 1937. But it has to be admitted that the former regime in the coal mining industry had brought about an impasse.

Individuals to Save the Government

The issue by the British Government of the recent "Economic Survey," constitutes a drastic admission of much that it had previously denied or ignored. There is no longer any make-believe that Britain's economic position is enviable, or even that it has any redeeming feature. It should be appreciated that much within the "Survey," excepting statistics, is based upon memoranda prepared for the former Coalition Government. That government's point of view is, therefore, at this late day endorsed in principle, so justifying Mr. Churchill's plea for a National Government at the end of the war, although, of course, the remedies which he then proposed are still not conceded. The Socialist Government is acutely aware that its idea of the achievement of prosperity by means of regulation and control has proved as insubstantial as fairyland, without the latter's irridescent attractions. All is now presented as prosaic, with the emphasis put upon the necessity of increased production. The hope officially entertained is that the Government's faults and failures will be swallowed up and forgotten in the midst of a huge volume of output of goods and services. Indeed, almost overnight, responsibility for success or defeat in the economic realm has been disavowed by Whitehall with a coolness very near to the impudent. The individual is being told that the fate of the nation depends entirely upon him working harder and not upon the alleged wisdom of his rulers. The Socialist Government has, in fact, without making due acknowledgment and while still enshrouded in dogmas, fallen back upon those tenets of individualism which hitherto it has been at so much pains to discredit.

Production and Incentive

But the individual is not going to produce more, unless he is provided with incentive and unless, also, he is assured of a right reward for his labors. It is true that wage rates have increased considerably and—it may be noted—with no corresponding rise in output. But the economic position of the upper middle class who normally provide much of the creative energy for industry as well as for the professions has steadily worsened. Moreover, the capitalist class is not willing to launch out into new enterprise in order to assist State encroachments and for the State to claim such enterprise as being its own fruitful work. Therefore, the prospect for increased production under the existing government is not encouraging. It is the case, as has been said already, that the Socialist Government is shedding as much of its original program as it can do without the rank and file being aware of what is happening. The government is very careful in its latest pronouncements to insist that it does not wish to control or direct industry but only to "influence." This might be a distinction without a difference, the mere wearing of kid gloves in order to distract attention from a red tie. But it probably is the position, as far as Mr. Atlee, Sir Stafford Cripps and Mr. Ernest Bevin are concerned, that they would be happy in proceeding along radical lines which stop well short of "Socialism in our time." Even so, business men see no reason why they should facilitate the expediencies of those who now wish to capitalize their own failures.

The significance of the change recorded above lies in the fact that the British people were told at the election that once the country was committed, through a parliamentary majority, to the active pursuit of the Socialist ideal, then the Age of Plenty would begin. But it has been officially discovered, in less than two years, that men's motives and conduct are governed not by the theoretical, but by the realities with which they meet in everyday life and which they have to turn to the best advantage.

Satanic Suspicions

Undoubtedly, were a National, Conservative or a Liberal Government to urge the people to produce more and work longer, it would get a whole-hearted response from capitalists and from the upper and lower middle classes. The attitude of trade unionists cannot be foreseen, but were response to come only from the classes previously named, the extent of national renascence would be considerable. But the present situation is that these classes are disinclined to undertake special effort in the absence of different and trusted direction. Promises made by the Socialist Government as an outcome of its own extremity are regarded as coming in the classical category that when the devil was sick the devil a saint would be, but when that gentleman was out of danger devil a saint was he. The Socialist Government, then, will have to rely mainly on trade unionists to answer their call for higher production. Even supposing—and it is a large supposition—that trade unionsts are willing to work harder and for more hours, can the effect be decisive without the cooperation of the brain-workers and the financiers?

Readjustment But No Immediate Emergence

The conclusion of the whole matter is that there is at present no way open leading out of the economic dilemma in which Britain finds herself. The immediate outlook is for continued readjustments as substitutes for those fundamental alterations that cannot come before political change. Those modifications include, if we may coin a needed word, a further "austerilizing" of expenditures; this time not least the gambling outlays of the working classes. There will have to be a halt called to the speculation in capital values, a speculation long since divorced from the yields returned. Rates of interest will have to rise if sufficient money is to be attracted to government securities and to the financing of fresh enterprise. Further than this the prophet who is jealous of his reputation will not go at the moment.

Business Prosperity in 1947

(Continued from page 3)

tories and farms and businesses of all kinds was so high in 1946 and because wages and salaries have advanced from prewar levels, total income payments of all kinds amounted to about $165 billion last year compared with about $78 billion in 1940 the last prewar year.

The high level of incomes and the backlog of savings in the form of war bonds, currency holdings and bank deposits resulted in a level of demand last year which made it impossible to supply all the customers who wanted to buy. This was especially true in the case of the socalled reconversion products such as automobiles, housing, refrigerators, washing machines and the like.

While price controls remained in effect the excess of demand over supply offered a strong temptation both to sell and to buy in the black markets. The inflexibility of price control, discriminating as it did against the production of some things, for instance, standard white shirts for men, and encouraging the production of other things for which profit margins were higher, for example, women's apparel, resulted in a great deal of distortion in the kinds of production undertaken and in the supply of goods to consumers. With the ending of price control we saw happen what has happened before both in this country and abroad—the so-called laws of demand and supply went to work with vengeance on a great many products, especially farm products and foods. Demand was brought into balance with supply, not primarily because supply increased, but because prices rose and pinched off a good part of the excessive demand. The distinction between black markets and legitimate markets was wiped out. Prices rose markedly. Wholesale prices rose 24% between June and December of last year, most of this rise occurring in farm products and foods. Consumer prices, or the cost of living, rose about 15% during the same period. In a period of such good markets and rising prices it is not surprising that also everybody who wanted a job could have one. Unemployment, despite the demobilization of a large part of the Army and Navy, amounted to the surprising total of only 2,000,000 persons in the latter part of the year. Contrast this figure of less than 2,000,000 with the total of more than 7,000,000 in 1940.

It is not surprising that under circumstances in which business is booming prices rising, and unemployment at a minimum, unions should demand and get higher wages. As a result of steady work and wage increases, average weekly take-home pay in manufacturing amounts now to almost $47 per week, almost as much as the average in the peak month of January, 1945, when workers were putting in four and one-half hours more per week. This average weekly take-home of nearly $47 compares with an average of about $25 in 1940.

No Indication of Severe Business Recession

There is nothing so far in this picture of record-breaking production, employment, income and wages that would lead one to expect any severe business recession. What is the basis for the fear so often expressed that we are in for trouble this year?

There is one school of thought which maintains that every period of rapidly rising prices during and after a great war is followed by a period of rapidly falling prices. This same school points to the warning of more difficult times to come implied in the decline in the stock market last September. We may question, I think, whether a decline in prices under present circumstances should be anything to give serious cause for alarm. Many prices are out of line with costs, with the prices of competing products, and with the incomes of the people who have to pay them. A decline in farm prices and foods, for instance, would provide an encouraging sign that we may get through the wage negotiations now being carried on in the mass production industries without serious strikes and without unreasonable wage increases. The recent reversal of the down trend in farm prices under the influence of buying for foreign relief will be unfortunate if it stops the decline in the cost of living which has just started. A reduction in the cost of living in the months ahead should be considered to be most desirable. The real danger is that the Number One pressure group in this country—the professional friends of the farmer—will try to block the forces of competition which are working toward lower prices by extending subsidy payments. After the record prosperity enjoyed by farmers during the war, they should now be able and willing to stand on their own feet.

Prices of Manufactured Goods Out of Line

The prices of manufactured goods which are most out of line will, if reduced, merely permit consumers to save enough on some of their purchases to buy some of the new products which were off the market during the war. It will be difficult for consumers to continue to pay the prices which recently prevailed on women's clothing, for instance, and still to buy the new automobiles or refrigerators. We could not reasonably expect boom times to last forever in the soft goods lines, in luxury spending, and in gambling. Competition of a more normal assortment of goods for the consumer's dollar can only restore balance in consumer spending and reduce the ridiculously high demand for many non-essentials.

History alone will render the verdict, but there is a real possibility that if we look back upon 1947 and find it to have been a year of price readjustment we shall consider the price readjustment to have been a healthy development.

What other basis is there for expecting a readjustment in 1947? Many have argued that consumers are spending so much of their income for current living that an increase in production and productivity which is expected this year is bound to produce a shortage of buying power at present prices. This argument goes as follows: Consumers are spending now better than 90% of all the income that they have left after paying their taxes. Since people saved before the war something like 8 to 10% of their income, there is no margin left to buy more goods than people are buying now. Therefore, if production increases by say 10% in 1947, there will not be enough income to take the increased production off the market at current prices.

Here again it is difficult to become very depressed about the situation. Robert Nathan and the CIO have argued that the way to correct this condition is to raise wages once more. Mr. Nathan and the CIO are talking about raising the wages of the 14,000,000 to 15,000,000 union members who make up only about one-quarter of the total number of people who work for wages in this country. Raising union wages is no solution because it would deprive the great mass of American consumers of the benefits of increased productivity which is presumed to create the condition complained of and it would raise the costs of the businesses employing the unionized workers to such an extent that their prices would have to be increased by an amount more or less corresponding to the wage increase. The better solution would appear to be to let the matter work itself out in a manner which will permit the public generally to enjoy the benefits of increased productivity. That is why letting competition take its course is desirable. If some producers cannot sell their total output at current prices then they will have to cut prices, as they have always done in the past. If this line of action is taken we can anticipate such price reductions as may be necessary to bring balance between incomes and production. Here again there is no reason to be particularly concerned about the price reductions that may occur because they are reductions necessary to bring the economy into better balance and to preserve the level of prosperity which we are enjoying. Let us then by all means resist government support of union pressure for higher wages.

Inventories

A third line of argument looking toward recession this year depends on rapid rise in inventories. Inventories, they say, have increased by about $7 billion during 1946. Yet when we look at the ratio of inventories to sales we find that it is not even up to the prewar levels in most lines. It may be true that inventories in some lines are excessive and we have seen recently as evidence of this a number of clearence sales in the retail stores concentrated upon such items as furs, women's clothing and men's sportswear. There is no reason for anyone to get panicky about this natural process of reduction of excessive inventories. It has occured before and presumably it will occur again.

I do not mean to say that there is no danger of over-accumulation of inventories or that it will be easy to shift from a period in which inventories are rising to one in which inventories are kept at a fairly stable level. It behooves businessmen and their bankers to watch the growth of inventory with care and, above all, to avoid accumulation of inventory simply for the purpose of making a speculative profit on an expected increase in prices which may not materialize. So far as the future is concerned, the slowing down of inventory accumulation, which results in an increase in income without a corresponding increase in sales of goods, can be offset by an increase in investment of a different kind. If, for example, housing prices are sufficiently attractive that contractors choose to build and consumers to buy considerably more houses in 1947 than they did in 1946, then the increase in construction will provide jobs and income sufficient to offset the loss of jobs and income which might result from the decline in inventory accumulation.

Past Furnishes No Absolute Guidance

It should be remembered in connection with any discussion of prospects for this year that the past affords us but limited guidance. Both the accumulation of needs and the money to buy the goods to satisfy those needs are probably greater than they have ever been before.

Personal holdings of currency bank deposits and government bonds stand now at about $150 billion compared with less than $50 billion in 1939. So great a backlog of buying power has never before existed. It is equivalent to very nearly a year's income for all the people in the country. Business holdings of liquid assets amount now to $70 billion compared with $20 billion in 1939. This backlog of demand is merely one of the aspects of this period which makes it different from almost any other period of business uncertainty which we have experienced. Those who are fond of drawing a parallel between the period immediately following the First World War and, especially the crash of 1920, and the present would do well to keep differences of this kind in mind. They should remember also that there is not now as there was in 1919-20 any stringency of credit. Most important of all, there was not in 1920 the historical experience which is still fresh in our minds today. To argue that history will repeat itself is to argue that people do not learn from history.

Approaching a Balance

An appraisal of the business situation today, therefore, must include consideration that the peak of prices may have been reached, that some prices have already declined, that other may decline, and that still others may stop rising and level off. The condition in which anybody could sell anything for any price within reason and some things for prices

(Continued on page 26)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

First quarter balance sheet statements will be appearing in the newspapers by the time this column is published. It may be of interest, therefore, to survey briefly the trend of deposits, loans, government securities, etc., as they have been presented each week by the New York Clearing House Association and the Federal Reserve Bank of New York.

The trend of deposits for New York Clearing House banks since the first of the year is as follows:

	Demand	Time ($000,000)	Total
Jan. 2, 1947	21,786	1,404	23,190
Mar. 20, 1947	21,503	1,397	22,900
Change ($)	— 283	— 7	— 290
Change (%)	— 1.3%	— 0.5%	— 1.2%

The decline, it will be noted, has been very slight; but compared with a year ago, there has been a substantial drop as the following figures show:

	Demand	Time ($000,000)	Total
Mar. 21, 1946	25,982	1,251	27,233
Mar. 20, 1947	21,503	1,397	22,900
Change ($)	— 4,479	+ 146	— 4,333
Change (%)	— 17.2%	+ 1.2%	— 15.9%

Further analysis of the figures discloses, however, that this drop has been confined to government deposits, which now aggregate $642,000,000 against nearly $6 billion a year ago.

	Demand Deposits ($000,000)		
	U. S. Deposits	Others	Total
Mar. 21, 1946	5,966	20,017	25,982
Jan. 2, 1947	580	21,206	21,786
Mar. 20, 1947	642	20,861	21,503

Commercial demand deposits, on the other hand, are 4% higher, and time deposits are 1.2% higher. Before the end of March, government deposits will experience further shrinkage due to a Treasury call on the banks to repay 20% of Treasury balances held as of March 26 at close of business, which are needed for redemption of $1.5 billion of certificates on April 1.

Total loans and investments of reporting Federal Reserve Member Banks in New York, have shrunk 2.5% since the first of the year, and now are about 19% lower than a year ago. This does not imply, however, that the earning power of the banks is 19% less than it was. An analysis of the total figures is quite revealing in this respect, as per the figures in the table below.

It is very evident that the principal shrinkage has been in those items which return a lower rate of profits to the banks (loans to brokers, etc. and short-term government paper), while the higher yield government bonds have suffered approximately no shrinkage, and the more profitable commercial loans are $1.186 billion higher, an expansion of 40%.

Today, government bonds plus commercial loans aggregate $13,436,000,000 vs. $12,298,000,000 a year ago. Today they constitute 73% of total loans and investments; a year ago, they constituted 54%.

Of course the fact still remains that the banks' total loans and investments are lower, but their composite character, in terms of potential earning rate, has improved.

Turning to the record of earning assets and earnings of a group of 15 leading New York City banks, a rather interesting fact is brought out. Earnings figures used are net operating earnings, exclusive of security profits and recoveries, so far as determinable. Earning assets are averaged for the four quarterly reports of each year.

Year—	U. S. G. Securities ($000)	Loans and Discounts ($000)	Total Earning Assets ($000)	Total Net Annual Oper. Earnings ($000)	Net Return on Earning Assets %
1939	4,353,362	2,980,883	8,844,163	83,328	.94
1940	5,390,965	3,001,830	10,040,536	86,154	.86
1941	6,908,512	3,589,324	12,174,380	90,741	.75
1942	8,912,343	3,807,242	15,347,780	96,020	.63
1943	12,814,688	4,061,150	18,251,830	110,954	.61
1944	14,687,269	4,857,748	20,837,823	123,676	.59
1945	15,528,045	5,912,328	22,876,510	127,686	.56
1946	13,619,606	6,222,336	21,307,640	127,819	.60

As earning assets expanded through the war years, especially in the category of government securities which reflected the war financing program, net return on earning assets melted away from nearly 1% to little more than ½ of 1%, on account of abnormally low interest rates, and the large proportion of short-term financing. It is significant, however, that in 1946, the first full year since V-J Day, this downward trend appears to have been reversed, for the 15 banks showed a net return of 0.60% against 0.56% the previous year. And this higher rate of net return was achieved in the face of a 21.0% payroll increase over 1945 and a 7.6% increase in overall operating expenses. It will also be observed that average total earning assets were lower in 1946 by more than $1.5 billion dollars, or approximately 7.0%, but that total net operating earnings were fractionally higher.

The changing composite character of earning assets, as already pointed out, combined with some scattered firming of interest rates, undoubtedly accounts for this improvement in the average earning rate. It is also interesting to note that overall operating expenses did not expand as greatly as did wages and salaries, which indicates that somewhere in the banking set-up some economies and improved efficiencies have been introduced.

If these trends persist through 1947, viz: increase of commercial loans, steadiness in volume of government bonds, improvements in efficiency and economy of operations, (in the face of salary increases), then it would appear that net operating earnings in 1947 need not decline greatly if at all, from those of 1946. And if, in addition, upward adjustment of short-term interest rates eventuates, as seems possible, and the banks should increase interest rates charged on commercial borrowings, as has been strongly urged by Morris A Shapiro, then bank earnings could show moderate to substantial improvement.

First quarter statements will be studied with special interest this year.

Loans & Investments—Reporting Member Banks, New York
(In billions of dollars)

	Loans				Investments				
Date	Brokers Securities etc.	R. E. & Misc.	Comm. & Agric.	Total	U.S.G. Short Term	U.S.G. Bonds	Others	Total Invsts.	Total Loans & Investments
Mar. 27, 1946	3,184	641	2,971	6,796	5,542	9,327	1,100	13,462	22,765
Mar. 26, 1947	776	783	4,157	5,716	2,292	9,279	1,123	12,694	18,410
Change $	—2,408	+142	+1,186	—1,080	—3,250	— 48	+ 23	— 768	—4,355
Change %	—75.6	+22.1	+40.0	—15.9	—58.6	—0.5	+ 2.0	—5.7	— 19.2

Rook in Europe to End UNRRA

Major General Lowell Rook, retired United States Army officer who has been Director General of the United Nations Relief and Rehabilitation Administration since Jan. 1, left by plane for Europe on Mar. 24 to wind up the organization's affairs, according to the New York "Times" of March 25. General Rook said that UNRRA had distributed goods valued at $2,500,000,000 overseas. The General, who will be abroad about six weeks, is to report in June at the final meeting of the UNRRA Council in Washington.

Business Prosperity in 1947

(Continued from page 25)

beyond reason has passed. We are rapidly approacing a more balanced condition in which sellers will once more have to go out and compete to get the business. It will come as a shock to some businessmen, spoiled by almost 10 years of continuous upward advance in prices and volume, that there will be some difficulty in increasing volume further and that all their talents for improving quality and shaving prices may be necessary to maintain their competitive position. It will come as a shock to others to find that the competitive system is a system of profit and loss and that their turn has come after a good many years of profitable operation to fall into the loss category. They will be faced with the uncomfortable task of improving their efficiency, raising the quality of their products and exerting real selling effort. Workers will likewise be faced once more with the choice of earning all their pay or losing it. They may be comforted but slightly by reflecting that they are doing precisely what is required under a private enterprise system to justify the continued existence and strengthening of that system. Under the spur of competition they will be giving to the public better values for the public's money.

Just in case some people are not convinced of the desirability of the adjustments which appear to be indicated by what I have said, let me leave this thought: Even if we should have in 1947 and 1948 as large a business recession as we had in 1920 and 1921 we will have a drop in income of not over 25%, which will leave us with an annual level of income of about $130 billion compared with the $93 billion which we had in 1941. After adjustment for price changes such a drop would still leave us with an income considerably above the level enjoyed in 1941, the highest peacetime year before the war. I want to repeat at this point, however, that so large a drop in income appears to be improbable because of the backlog of liquid assets and the potentiality of consumer credit expansion coupled with the real need of consumers, all of which are of a magnitude much greater than they were in 1920.

This year can be the first of many prosperous years if we face our problems courageously and lick them. The outlook is for considerable readjustment in prices and production, with a return to competitive selling. It will be a bad year for us all if we lose our courage and turn to government for relief by deficit spending merely because we are afraid to make the adjustments necessary for sustained prosperity under a competitive private enterprise system.

A significant turn of the public sentiment in the United States away from the left and at least towards the middle, in contrast to the sentiment in every other part of the world, should be heartening to those of us who consider ourselves persons of good will. If the private enterprise system which we hold so dear is to survive the test, and the present situation constitutes a test, its friends must accept the responsibility which rests upon their shoulders. When most of the decisions were made in the bureaus in Washington or by governmental offices and agencies, the responsibilities of the businessmen were not as great as they are today. Private industry as represented and influenced by this group must and should now rise or fall, sink or swim, on the basis of the judgment of its own management.

I believe the time has come when we should give attention to those questions which bear on the survival of private enterprise as a system supporting what we understand as being the American way of life. These questions have to do with the relations between nations, with the individual liberties of the citizens and the fair relation of industry to its employees.

Above all else, the private enterprise system to be successful must support a free economy. This is only possible where reasonably full employment exists at wages which will support a standard of living reasonably satisfactory to labor, with an opportunity for a fair return to capital. Ours is the responsibility. Ours is the opportunity and if we miss this opportunity we will have missed our chance.

Winston Churchill, in his speech before the House of Commons on Aug. 16, 1945, giving his final review of the war and his first major speech as leader of the Opposition, described thus our opportunities and responsibilities. He said, The United States stand at this moment at the summit of the world. I rejoice that this should be so. Let them act upon to the level of their power and their responsibility, not for themselves but for others, for all men in all lands and then a brighter day may dawn upon human history. . . . Our pilgrimage has brought us to a sublime moment in the history of the world. From the least to the greatest, all must strive to be worthy of these supreme opportunities. There is not an hour to be wasted; there is not a day to be lost."

These last two decades will go down into history as the decades when minorities and pressure groups had tremendous power over our opportunity. The time has come when we must organize the majority to withstand such pressure groups. By organizing the majority I do not mean that it should be organized in one organization, but that the many several organizations such as your own in all parts of the country should organize to defend the rights and opportunities of the majority of the people. Otherwise, we shall not be able to make conquest of our future as a nation and hand down to our descendants the blessings we hold so dear.

Maintaining Prosperity—Roles of Management and Government

(Continued from page 2)

have to disavow any concern with any present government policy, any desire to change any such policy, and any wish to substitute any other policy.* I take it that there is no such person in this audience.

Aside from extremists, the true concern of thoughtful citizens is to achieve and maintain that proper proportion of private enterprise and public action which will safeguard our traditional freedoms, assure our social contentment, and make for our economic prosperity. Lest you fear that I am indulging only in generalities, I shall shortly propose to you a specific formula for this blend of private and public action, which I hope will meet with your approval and elicit your cooperation.

Outlook for Prosperity

On the outlook for prosperity, the concensus in the business world today, I think, shapes up something like this: There is a feeling that there may be some recession in business activity in 1947 or 1948. There is also the feeling that basic economic conditions are so favorable that this recession, if it comes, will be of minor scope and short duration, and that after it is over we shall have several years of high prosperity.

I share the opinion that, if there is such recession, we shall get over it without too much trouble and move on to several years of high prosperity. However, I do not regard such a recession as inevitable and, contrary, to those who think that the longer it is postponed the more serious it will be, I think that the longer it is postponed the more likely we are to avoid this intermediate recession entirely. We have been remarkably fortunate on the whole, despite some difficulties, in the speed of our shift from war production to peace production; and if we can get by another year or so without the kind of trouble we had in 1920 and 1921, it is well within the range of possibility that we may enjoy some further years of prosperity without first undergoing an intermediate recession.

This will depend primarily upon whether industrial prices and farm prices adjust themselves with sufficient speed and sensitivity to levels at which continuous high consumer demand can be maintained. For if these adjustments are made wisely and well, I think that businessmen who are watching the economy carefully will retain that confidence of outlook necessary for sustained high volumes of business investment.

Long-Range Problem

My main emphasis on this occasion, however, is not upon the fairly immediate economic outlook. My main emphasis relates to another opinion commonly held by businessmen. This is the opinion that after a few years of high prosperity, with or without an intermediate recession coming first, we shall be in for another big depression—as big or bigger than the one that started in 1929.

It is this fatalistic pessimism regarding the economic outlook five or seven or 10 years hence that I desire most vigorously to challenge.

I believe that if we face-up to this long-range problem now, and commence to prepare for the future before we are up to our necks in difficulties, we can avert another catastrophic depression through moderate measures—provided that these measures are taken on time.

To ignore this long-range problem because the danger is five or seven or 10 years away seems to me fundamentally inconsistent with the whole character and spirit of American enterprise. It seems to me utterly incongruous that businessmen in their separate and individual undertakings should project their personal plans for 15 or 25 years ahead, while at the same time ignoring consideration of nation-wide economic events which could sweep away the savings of a life-time—just because these events are not going to occur in 1949 or 1950.

All that is needed to arouse the spirit of American business against this perilous apathy is a full realization of what another major depression would mean.

In our domestic economy, another major depression would bring untold human suffering, and losses of staggering billions of dollars. At the very least, it would incite more government intervention in the economy than any of us here would like to contemplate. At its worst, it could shake to the foundations both our form of enterprise and our form of government. Only those who secretly or openly would like to see these forms changed beyond recognition can view such a prospect with equanimity. The more conservative one is, in the best sense of that term, the more anxious one becomes to avert such a shaking-up.

When we think of the rest of the world, we become even more concerned about what a large depression in America would do. Whether or not we all agree on specific proposals, we must all be in agreement that America for its own safety and protection has a tremendous stake in the growth of free institutions rather than totalitarianism overseas. And whatever methods may be employed toward this end, nothing will be half so important as the example right here in America that our free enterprise system works successfully—without periodic breakdown or demoralization. That example would serve as a beacon light from pole to pole.

Must Avoid Depression

Those best informed of world events know that the avoidance of depression in America is absolutely central to the preservation and extension of free institutions in other parts of the world; and since I believe that freedom is as important as peace, and that peace cannot be maintained enduringly without freedom, it follows that maintaining American prosperity is a cornerstone of the edifice of world peace.

But these reasons for maintaining prosperity, urgent though they are, are after all on the negative side. There is an affirmative side as well. The individual businessman is not concerned solely with avoiding losses or bankruptcy. He is more generally concerned with expanding his sales, enlarging his prospects, and enhancing his earnings. The most important reason for maintaining prosperity is that to do so would assure levels of business prosperity and national progress far above historic analogy.

We have emerged from the recent war with increases in the size and capacity of our economy which exceed any flights of imagination 10 years ago.

We had a national income of $164 billion a year in 1946, contrasted with $70.8 billion in 1939 and $83.3 billion in the peak prosperity year 1929. Even after allowing for the changes in the price level, we are now producing about 50% more per capita than we ever did before the war.

We have now almost 58 million people employed, exclusive of the armed forces, contrasted with 45 million in 1939 and 46 million in 1929.

We have made gains in technology and invention during the war, the effects of which are not yet fully revealed, and we may be on the threshold of the utilization of new types of power which will create a veritable Twentieth Century industrial revolution.

Within a decade or two or three, we may achieve the capacity to produce twice as much per capita as we were able to produce in the best years before the war.

But none of these gains remove—on the contrary they accentuate—the problem of maintaining maximum employment and prosperity. For the more we increase our capacity to produce, the more realistically we must face-up to the problem of distribution—the problem of balancing productive capacity on the one side with a market for the products on the other. We want to avoid a seller's market with inflation, or a buyer's market with deflation. We want to stimulate and sustain maximum employment and maximum production through an adequate supply of purchasing power, so distributed throughout the economy that demand and supply are kept in balance at the highest feasible levels.

Maintaining Maximum Employment

There is more agreement than is commonly supposed among economists and businessmen as to the core requirements for maintaining maximum production, maximum employment, and maximum purchasing power. Risking the danger of over-simplification, I would say that this core requirement is to maintain equilibrium in the flow of income between those who use it or want to use it for additional production in order to earn still more income, and those who use it or want to use it as consumers for the satisfaction of the wants and niceties of life. The quantitative factors in this equilibrium, and the means of obtaining it, are not matters of agreement. But there is more general agreement that the job has not been done well enough in the past, and that it can and should be done more satisfactorily in the future.

This equilibrium is sometimes called maintaining supply and demand in balance. It is sometimes called maintaining production and consumption in balance. It is sometimes referred to as the problem of distribution or the problem of purchasing power. All of these terms are different modes of identifying the same problem.

Solution Rests on System of Free Enterprise

The main responsibility for the better solution of this problem of economic equilibrium does not rest with the government. It rests with our system of private enterprise, embracing the actions of businessmen, workers, farmers and consumers. It rests mainly in the area of price and wage policy, because the relationship between these two items mainly determines whether businessmen earn enough profits to stimulate productive initiative and whether consumers have enough income to buy the products as rapidly as they are produced.

The future of our prosperity, the future of our free enterprise system, depend largely upon whether these price and wage policies are made with wisdom and foresight and temperance, and with a sound understanding of their profound effect upon general levels of economic activity—in the longer run and not only for the moment of quick but transitory gain. We all know now that wages and prices are not determined automatically by the rules which Adam Smith wrote more than 170 years ago. They are determined in large measure by the conscious and deliberate actions of business organizations, and they are affected also by the actions of labor organizations.

So long as we retain our free system, there will never be complete agreement between management and labor regarding the wage-price-profit relationship, and some of these disagreements will continue to be settled by the relative strength of the parties. But the hope of the private enterprise system rests upon a diminishing use of force, and upon increasing knowledge and acceptance regarding those wage-price-profit relationships which will maintain production and consumption in balance at the highest feasible levels, and, therefore, contribute to the long-run benefit of both management and labor.

While both management and labor have a job to do in gaining this knowledge and in its application, management is in the strategic position to take the leadership in this field. Both prices and wages are determined in the first instance by management, although the actions of labor have an important infuence upon both. Management, by and large, is acclimated to the study of economic conditions. It needs only to raise its sights to the broader considerations of sustained economic prosperity as against the more limited considerations of immediate profit and loss.

There is nothing novel about this idea. Management has always made market studies. All that is now proposed is that these market studies be broadened to include all of the factors which affect the market—those factors which affect it in the long run as well as those factors which affect it in the short run.

I should add that one of the most encouraging aspects of the present situation is the extent to which management concerns and management organizations are making these broader inquiries as a springboard for putting them into practice.

While the government should certainly keep out of the regulation of prices and wages, there may well be aids which the government can extend cooperatively to private enterprise in making these general studies of nation-wide conditions, and the workings of the economy. These would provide management with some guides and standards in the determination of basic economic policy. These aids by the government might be likened to the sending out of weather reports although the government does not require anyone to take shelter from the storm.

The more successful our business system becomes in discerning those factors and making these decisions which add up to economic equilibrium, the less need there will be for fiscal or compensatory devices by the government for the purpose of straightening out real or supposed disturbances in the economy. I believe the development of improved economic policies within the free enterprise system is a more far-reaching method of attaining economic stability than the use of governmental devices.

Nonetheless, there are certain government programs which cannot be avoided. These include taxation, the management of the national debt, certain phases of money and banking, the established types of regulatory activities, and public spending for certain well-established purposes such as national defense and social security. In the aggregate, these activities are immense. And they are inescapable, although there may be differences of opinion as to their exact size from time to time. This being the case, it is all-important that the government carefully measure the effects of these activities upon the whole economy and so conduct them that maximum encouragement will be accorded to private enterprise and so that each such activity will play its part in balancing rather than unbalancing the economy.

For these reasons, there must be some intelligent integration of private business policy and public policy. Both affect the flow and distribution of national income, and consequently both have an influence upon maintaining national prosperity.

This definition of areas of private and public concern and action raises the further question: "How are the series of private and governmental actions in these various fields to be blended into a symphony rather than allowed to deteriorate into a mass of crashing discords?"

There is nothing totalitarian about looking at the whole picture before deciding what to do. There is no excessive emphasis upon the role of government in insisting that the government should think before it acts. In reality, one of the most frequent criticisms of government emanating from conservative businessmen has been that the various things done by the government have not been consistent—with consequent lack of the stability to be derived from a discernible policy or pattern. In short, there has been a felt lack of instrumentalities for the rationalization of policy. This lack has become more conspicuous as events have drawn the government into an increasing proliferation of activities.

The Employment Act of 1946

The Employment Act of 1946 is designed to focus the attention of industry, agriculture, labor and government upon the goal of continuous maximum employment, and upon the methods of obtaining it.

The law divides into three parts. First, it requires that the President submit to the Congress at the commencement of each regular session an Economic Report. This Report, broadly speaking, must contain a survey of the state of the Nation's economic health, a discussion of trends, an appraisal of government programs bearing upon the economy, and specific recommendations for carrying out the policy of the Act. This policy is aimed toward creating and maintaining conditions affording employment opportunities for those able, willing and seeking to work; and also toward promoting maximum employment, production and purchasing power. Second, the law establishes a three-member Council of Economic Advisers to assist the President in the preparation of the Economic Report and, working permanently throughout the year, to engage in related activities. And, third, the law establishes a Joint Committee within the Congress, composed of 14 members drawn equally from the Senate and the House. The function of this Committee is to receive the Economic Report, study it, and file a report appraising its recommendations for the guidance of the various legislative committees. Putting aside embellishments, this is all there is to the law.

The Council of Economic Advisers, as I have said, operates under this Law. It constitutes a specific agency of the government, divorced from a special interest in any particular program or policy, in order that it may objectively service the President, the Congress and the country, in appraising and developing over-all economic policy.

The tasks of the Council require of it certain obvious practices:

First, it must draw upon the resources and thinking of the various government departments operating in the economic area. It must not duplicate their specialized work. Its task is one of interpretation and synthesis.

Second, the Council needs skillfully and temperately to cultivate relations with the economic world outside the governmental sphere. Its central task is to study the health and problems of our general economy—and only as a supplement to this to evaluate the impact of governmental programs. The Council cannot study the general economy just by reading books. It can do so only by a working relationship with industry, agriculture, labor and consumers. Not only are these groups entitled to know what the Council is doing and thinking; but what is infinitely more important, the Council should draw upon the thinking and attitudes of these groups in formulating its own recommendations.

Through these series of relationships there are, we hope, prospects for moving appreciably toward national economic policies which broaden the areas of agreement, and narrow the areas of difference, among various segments of our American society. In the long run, increasing unity about fundamentals is the hallmark of progress.

The first step toward unity lies not in the selection of methods but rather in the definition of goals. We got a lot of agreement about methods during the war because everybody was in accord about the goal—victory in the shortest possible time. The nearer we can come to the objective of agreed-upon goals, about the possibilities and prospects of the American economy, the nearer we shall come to a reconciliation of methods.

No one is so pretentious as to believe that there will be any quick or easy formula for avoiding depression. But the difficulty of the task should not turn us from it when its solution is transcendently important. During the recent war, we did not only solve problems of production; we also solved more general problems of economics. We met problems of war financing, of distribution, of labor supply, and of scarcities of civilian goods, with a great deal more know-how than during the first world war. In consequence, at least up to the present time, we are in a much better economic condition in all respects than we were during the second year following the first world war.

The techniques for peacetime prosperity are entirely different from those for the conduct of a war. But, with equal realization of the critical need for a successful outcome, and equal determination to make the outcome successful, we can certainly learn to stabilize our economy at high levels of activity, reap the constantly increasing reward of improved production techniques, and, with great benefit to ourselves, make an increasing contribution to world economic stabilization and the world peace which can rest only upon economic and social contentment.

U. S. Gets Check From South Africa

The Union of South Africa on March 21 handed the United States a $50,000,000 check as the first of two payments on the $100,000,000 settlement of her lend-lease account in the biggest such cash transaction to date. Also included in the settlement were certain items of surplus lend-lease property transferred from Great Britain's lend-lease account. Acting Secretary of State Dean Acheson received the payment on behalf of the United States in his office from Minister H. T. Andrews immediately after they had exchanged notes consummating the agreement. The second $50,000,000 will be paid in six months, according to Chester T. Lane, Lend-Lease Administrator, who negotiated the settlement. During the war approximately $169,000,000 in lend-lease supplies were shipped directly to South Africa.

Meeting of Ass'n of National Advertisers

The program for the Spring Meeting of the Association of National Advertisers has been announced by William N. Connolly, Advertising Manager of S. C. Johnson & Son, Inc., and Chairman of the Association's Program Committee. The meeting, which will be held on April 7, 8 and 9 at the Hotel Drake in Chicago, Mr. Connolly said, has been patterned on what ANA members consider the most pressing and important advertising and sales promotion problems faced by national advertisers today. Members, it was recalled, were polled on their selections of topics for discussion at the Spring Meeting and the program has been built around their responses. On Monday, Apr. 7, members will have an opportunity to learn some of the newest developments and uses of market research. Under the Chairmanship of Robert B. Brown, Vice-President of the Bristol-Myers Co. and Vice-Chairman of ANA, a panel of experts in the market research field will present their findings. Members of the panel include Lyman Hill, Servel, Inc.; Frank Mansfield, Sylvania Electric Products, and Richard Crisp of S. C. Johnson & Son. The program for the afternoon on April 7 will deal with media changes and selection, at which there will be talks by Ben Duffy, President, Batten, Barton, Durstine & Osborn and Del Everett, Research Director of the Ford Motor Co. There will also be sessions bearing on measuring advertising results and merchandising advertising to salesmen and dealers; Jack Kurie of M & M and George Percy of the Bauer & Black Division of The Kendall Co. have respectively been named Chairman of these sessions. Among other things there will be a discussion at the meeting, of the U. S. agricultural market and a discussion of production and distribution of business-sponsored motion pictures. Several phases of advertising "as a tool of management" will comprise the program for April 9. Under the Chairmanship of Howard Chase, Director of Public Relations, General Foods Corp.—there will be talks by Jack Smock, Foote, Cone & Belding, Los Angeles, Calif.; Evans Clark, Chairman, Public Advisory Committee of the Advertising Council, R. J. Canniff, Servel, Inc. and Earle B. Savage, Jr. General Mills, Inc., will develop ways and means advertising can be used to sell goods.

As has been customary, the Spring Meeting is restricted to members of the Association and advertiser guests. An attendance of over 300 is expected at the Drake in Chicago. Thomas H. Young, Advertising Director of the U. S. Rubber Co. and Chairman of the ANA Board, in commenting on the meeting program said: "During the war we used to talk about the competition which was ahead of us. Today that competition is rapidly becoming a reality. Advertising, as never before, must sharpen its techniques."

Cleveland Security Traders Association

Carl Zies, *V. D. Anderson & Co.;* George Gund, President, *Cleveland Trust Co.*

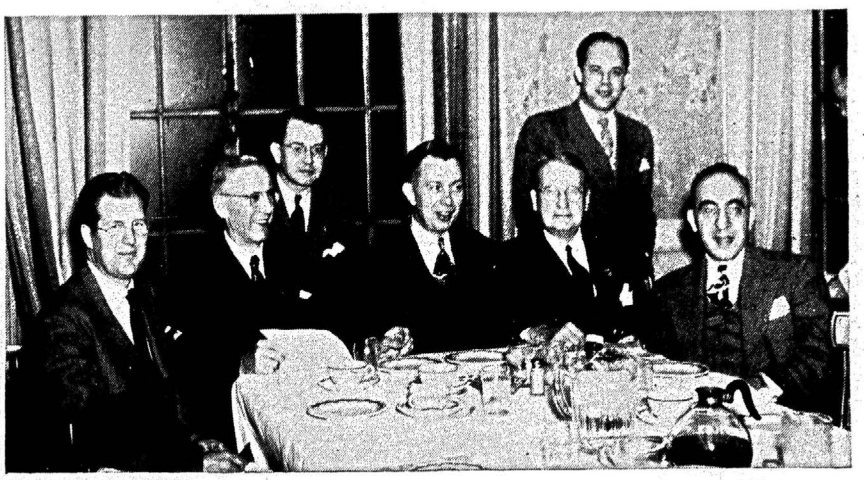
R. Victor Mosley, *Stroud & Co.*, Philadelphia; Neil H. Jacoby, *University of Chicago;* Jay L. Quigley, *Quigley & Co., Inc.;* Paul Yarrow, *Clement, Curtis & Co.*, Chicago.

Snapped at Cleveland Traders Dinner

Walter B. Carleton, *Fahey, Clark & Co.;* David J. Barhyte, *Hawley, Shepard & Co.;* C. Fisher, *National Quotation Bureau;* Michael J. Heaney, *Joseph McManus & Co.*, New York.

Everett A. King, *Maynard H. Murch & Co.;* Dana F. Baxter, *Hayden, Miller & Co.;* J. A. McCann, *Merrill, Turben & Co.;* William C. Doody, *Merrill, Turben & Co.;* Edward E. Parsons, *Wm. J. Mericka & Co.*

S. M. Eilers, *Hornblower & Weeks;* R. M. Gidney, *Federal Reserve Bank;* E. Lindseth, President of *Cleveland Electric Illuminating Co.;* Paul J. Eakin, *Hornblower & Weeks.*



(Seated): George E Jaffe, *W. P. Quinn & Co.;* John P. Witt, *John P. Witt & Co.;* Corwin L. Liston, *Prescott & Co.;* M. Pennell; N. V. Cole, *Ledogar-Horner Co.;* (standing): M. B. Lewis, *W. P. Quinn & Co.;* P. Klocker, *W. P. Quinn & Co.*

Snapped at Cleveland Traders Dinner

Snapped at Cleveland Traders Dinner

Eleventh Annual Dinner, March 28th, 1947

Paul Yarrow, *Clement, Curtis & Co.*, Chicago; Paul Moreland, *Moreland & Co.*, Detroit; Michael Heaney, *Joseph McManus & Co.*

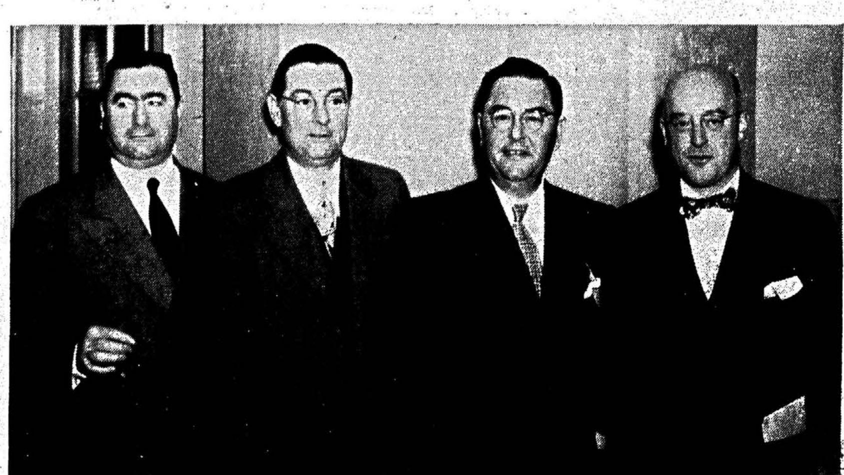
Don W. Plasterer, *Hornblower & Weeks;* Corwin L. Liston, *Prescott & Co.*

Jay L. Quigley, *Quigley & Co.;* Morton A. Cayne, *Cayne, Robbins & Co.;* Richard Gottron, *Gottron, Russell & Co*

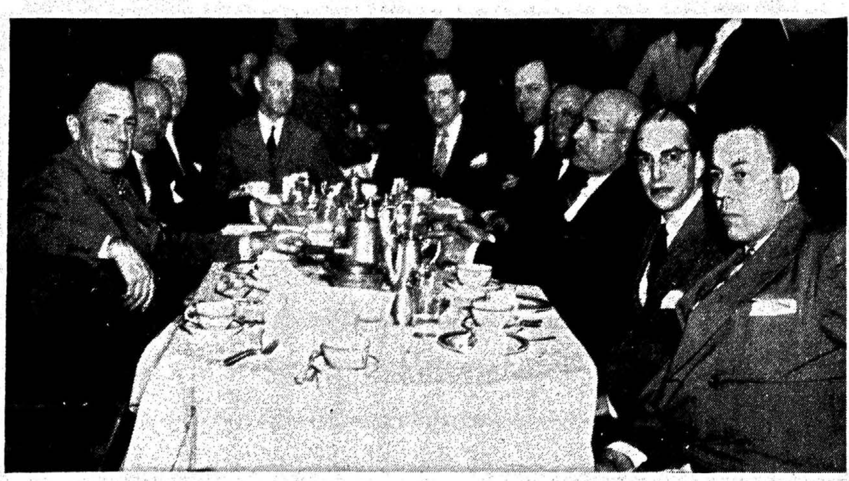
Snapped at Cleveland Traders Dinner

James F. Merkel, Chief of *Ohio Division of Securities; Charles* J. Odenweller, Jr., Regional Administrator of *SEC;* Joseph J. Van Heyde, Secretary of *National Association of Securities Dealers, Inc.*

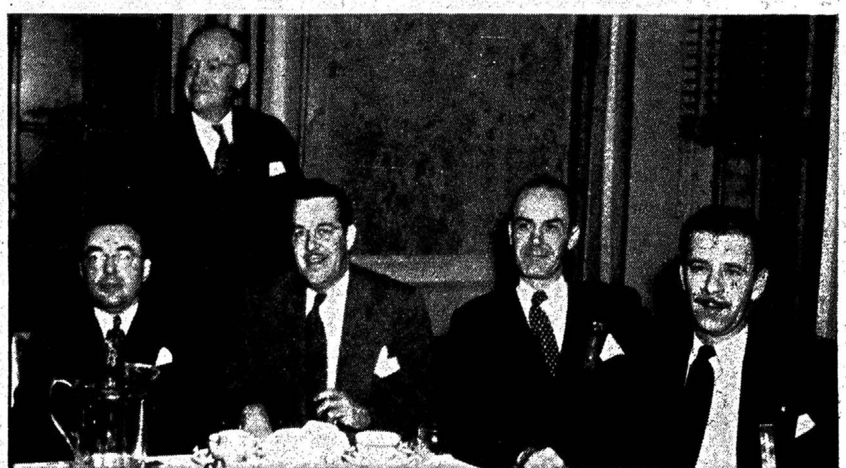
A. B. Walker, *Thomas Steel;* Franklin O. Loveland, *Field, Richards & Co.*, Cincinnati; H. H. Covington, *Harriman Ripley & Co.;* E. H. Keller, *McDonald & Co.;* R. J. Olderman, *Field, Richards & Co.*



Michael J. Heaney, *Joseph McManus & Co.*, New York; Benjamin Van Keegan, *Frank C. Masterson & Co.*, New York; Chester E. de Willers, *C. E. de Willers & Co.*, New York; T. Geoffrey Horsfield, *Wm. J. Mericka & Co.*, New York.



Roderick A. Gillis, *Wood, Gillis & Co.;* Alvin J. Stiger, *Saunders, Stiver & Co.;* L. Fulton, *Glidden & Co.;* George W. Brown, *Saunders, Stiver & Co.;* J. Dugge, *Saunders, Stiver & Co.;* J. Weeks, *Glidden & Co.;* H. D. North, *Ferry Cap & Set Screw;* J. Meyers, *Cleveland Graphite Bronze;* Wallis W. Wood, *Wood, Gillis & Co.;* W. Latter, *Cleveland Graphite Bronze.*



Robert Hail (standing); Earl Finley, *Finley & Co.;* Walter Gray, *Standard & Poor's;* Thomas Melody, *First Boston Corp;* Michael C. Hardony, *Finley & Co.*

Struggle for Middle East Oil

(Continued from first page)

from oil alone to becoming a tremendous political conflict between Russia and other powers. But it is the oil interests who stand to gain most from a victory over the Russians in the Near East. Finding most doors to the oil world closed against her, Russia has begun to penetrate oil-rich territories abutting her own doorstep. The 50-year agreement made a year or so ago with Iran may be safely said to be the forerunner of a series of other Russian episodes. And spearheading the opposition to the Russians will be the Standard Oil and British companies as well as the Royal Dutch Shell oil company.

Russia's Growing Power in Near East

Making no secret of her desires nor sugarcoating her intentions, and having forged firm alliances with her East-European neighbors, Russia's power in the Near East is steadily growing.

Directly opposing Russia's maneuvers for unilateral action in the Near East, and impelled by a desire to appease King Ibn Saud and the Arabs, America is expected to play a strong hand in the game of power politics, in which such devices as the Middle East Pipe Line concession, affording special facilities through Palestine to the American Trans-Arabia Pipe Line Co., is a dominating factor.

In order to better understand Russia's motives in her battle for the Near East it may be well to find out what really started Russia on her expansionistic urges.

After the 16th century the corrupt Turkish and Persian empires became easy prey to Russia and Great Britain, who were angling for commercial routes, oil and other resources. When the British East India Co. licked the Portuguese in 1618 for the pearl fisheries of Ormuz, by establishing themselves at Bandas Abbas and Ormuz, the British began to exercise a dominating influence over Southern Persia and have retained that hold ever since.

British and American Penetration

William Knox D'Arcy, an enterprising Australian, obtained in 1901 from the Shah of Persia a 60-year monopoly for the exploitation of oil in all Persia excepting the northern province bordering on the Caspian Sea. D'Arcy subsequently went to London and organized shortly before World War I the Anglo-Persian Oil Co., at first a private company, later financed by the Bank of England, which bought 56% control in the company owning the rich oil fields near the head of the Persian Gulf.

The Anglo-Persian Oil Co. built a large refinery at Abadan, at the delta of the Tigris-Euphrates rivers, and pipe lines connecting the refinery with the principal oil fields about 100 miles to the northeast. As the profits to Britain grew so large, Persia tried to cancel the 60-year agreement in 1933, with the result that the Shah of Persia, Mahomet Reza Pahlevi, who changed Persia's name to Iran, managed to secure a larger share of the spoils of what since then has been called the Anglo-Iranian Oil Co. This company produced nearly 60 million barrels of crude oil, employed 65,000 men and paid out more than $20 million annually to Persian labor.

In view of these British advantages in Iran it becomes clearer now why Russia moved heaven and earth to grab the still unexpoited oil regions in the north of Iran. It was however not the present Soviet regime that had started Russia on her moves for expansion. For that we have to go back to the days of Peter the Great, who started the Russians on their imperialistic escapades, first westward to the Baltic, thence eastward across the Siberian plains to the Pacific, and finally southward to the Black and Caspian Seas, and beyond to the Mediterranean and the Persian Gulf. Succeeding at the Black Sea, at Azov, Astrakhan, Derbent and Baku, Russia's desire to dominate Constantinople, the Bosporus Straits and Dardanelles presented the more ambitious of her plans.

After World War I the Middle East situation radically changed. With Germany out of the running —her *Drang Nach Osten* dream having gone up in smoke—the Ottoman Empire having disappeared, and with France taking a back seat except of course, for her mandates over Syria and Lebanon, Russia seemed too much occupied with problems closer at home to concern herself at that time with what was happening beyond her borders.

Left after World War I in a dominant position, and desirous to protect her overland route and strategic life lines through the Suez to India, England moved heaven and earth to procure oil concessions in the Middle East, at a time when she accepted mandates over the Tigris-Euphrates regions and Iraq. Hence the Iraq Petroleum Co. came into being in 1927, truly a mumbo jumbo concoction of international hue and complex, in which French, American, Dutch Shell and British capital participated to the extent of 21.25% each. To market this Mosul oil, a pipe line was laid from Kirkuk to the Mediterranean from Haifa to Tripoli, with refineries at Abadan and Haifa, which proved of incalculable value to the Allies in World War II.

Ending of Anglo-American Rivalry

During World War II the oil rivalry between Great Britain and America dried up somewhat and a well understood spirit of cooperation prevailed, with the result that American private companies managed to secure valuable concession at Bahrein, on the west coast of the Persian Gulf and in Saudi Arabia. Former Secretary Ickes even proposed building a pipe line from these fields to Egypt or Palestine, and suggested a very excellent agreement between Britain and the United States for the development and marketing of their resources. If this agreement had been ratified by the United States, it might have helped to stave off Russia's demands for oil concessions and ease her suspicions. This agreement was also opposed by powerful American companies who saw in it a move to decrease prices and reduce their profits.

The result is that in this present hectic world, in which power politics influences international affairs, the Middle East area has become a breeding ground for suspicion, upon which attenion will be focused during the Moscow Conference. With British, American, Dutch and French on the one side and Russia on the other, and with Greece's fate in the balance, they will battle for position and first place.

To provide a clearer picture of what Russia and the other powers are angling for, a glimpse at the following table gives the 1943 oil production in million barrels of 42 gallons each, in the Middle Eastern area in relation to the other vital oil areas of the world.

Area	Millions of Barrels
U. S. A.	1,503
Central & South America	283
Russia	200
Netherland Indies	20
Persia (Iran)	74
Iraq	27
Bahrein, Arabia	11
Egypt	9
Total Middle East Production	121
All other countries' total production	53

Wallace E. Pratt, economic geologist of the Standard Oil Co. of New Jersey, estimated a probable oil reserve of the Middle East at 180 billion barrels, compared with 100 billion barrels for the United States, and 110 billion for Soviet Russia.

In these international oil rivalries the British sought to eliminate the French, so that we may expect France to lodge a formal protest at the Moscow Conference, to ask Britain and the United States for full explanation of the oil agreement made in 1927, to which France was also a signatory.

Having been a partner in the British-French - American - Dutch Iraq Petroleum Co., by which all signatories were to receive equal opportunity to participate in any future petroleum ventures in the Middle East area, France is certain to interrogate Britain and America about the future of oil in the territory of the former Ottoman Empire.

With British power and prestige in the Near East greatly undermined, Britain might be quite willing now to enter into a partnership with America with regard to the partitioning of Middle Eastern oil. There is however one obstacle in this so-called American-British entendre and that is that Britain's sterling bloc on the foreign exchange of the Middle East is not going to be so conducive toward securing American sentiment in favor of such a British-American oil partnership.

Parrying for First Place

All the big powers now parrying for first place in the Near East are fully aware that Iran and Arabia may become bigger oil producers than the USA or the Soviet Union.

Saudi Arabia—with her 5.25 million nomadic people, 610,000 square miles of oases and deserts and twice the size of Texas—has vast reservoirs of oil, estimated at 20 billion barrels. The Texas Co. and the Standard Oil Co. of California bought a concession from King Ibn Saud in 1933, to exploit his country's rich oil resources. Since 1943 that country's oil production has gone up by leaps and bounds and it now produces 73 million barrels annually. Its prospects have become so good that plans were made the other day for the construction of the world's largest pipeline, 30-inch in diameter, 1200 miles long, and running from Dharan northwestward through Transjordania to a Syrian port on the Mediterranean. It will have 300,000 barrels daily capacity, and will save at least 3500 miles on westward shipments.

When this pipe line of the Trans-Arabian Pipe Line Co. is completed in 1950, Saudi Arabia's oil production will be at least 110 million barrels annually. It will rank fifth in world oil production, with the United States attaining a production of 1,711 million, Venezuela 323 million, Russia 149, and Iran 128 million barrels. And, incidentally, Ibn Saud will get 23 cents royalty on each barrel of Arabian oil produced.

To the United States this Arabian oil will not only mean a supply base for her foreign markets, but it will also fill the gap between America's oil supply and consumption, while in final analysis it may secure an adequate reserve of oil in case of war or other emergency in that area.

Russian Suspicions

While it is highly speculative at this juncture to appraise what this Near Eastern oil will mean to Soviet Russia, the fact remains that Russia is mighty suspicious of having Britain and America operate so close now to her own doorstep. Russia regards this penetration as a conspiracy, something that will surely become evident in Russia's attitude at the Moscow conference.

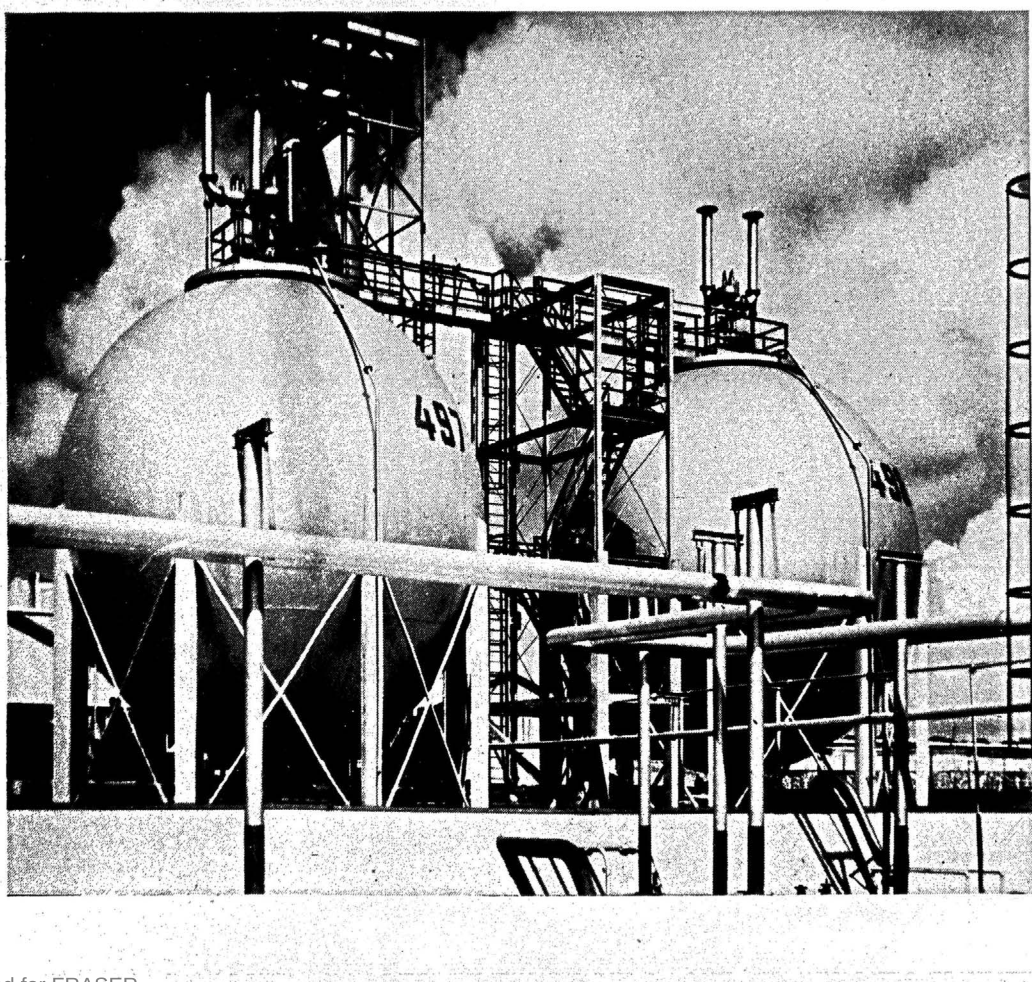
With Russia aspiring to become a great industrial nation and her desire to enlarge her mercantile and naval fleet, it becomes increasingly clear why Russia is angling for Near East oil resources in this strategic and economically-exploitable combustible area. As for her ultimate objectives, Russia still desires direct control of the Dardanelles and the Straits. She poses a direct threat to Greece, Turkey, and British domination of eastern Mediterranean lines. Russia's penetration into southern Iran and her control of a railway cutting that country from north to south, places Russia actually across the British life line to India. This would also divide British-controlled Iran from the British-controlled Mosul oil fields. And now that Russia is pressing down through Iraq to the Persian Gulf, she will in time outflank Britain's Mediterranean route.

Hence all determined attempts on the part of Russia to extend her sphere of influence into any other Arab lands, will become a threat to world balance of power and to peace.

There will be another bone of contention brought forth at the Moscow conference, and that is the question regarding the existence of the Russian Society for the Research and Exploitation of the Oil Fields of Northern Iran. This society seems to follow the pattern laid down by Russia in Eastern Europe, where Soviet and Rumanian and Soviet and Hungarian companies have been formed, over the loud protests of Washington and London, whose agreements are a direct challenge to the interests of American business.

It is to be expected that the question will be posed in Moscow whether such companies constitute a closed door to private capital investment from other nations in these countries, especially since there has been a decided trend on the part of American companies toward increased participation in foreign oil operations and an increasing community of interests in such operations by subsidiaries and affiliates of American domestic oil companies.

It becomes evident therefore from the foregoing that the Near Eastern oil area is destined to become the theatre for one of the most explosive world situations, which will bear close watching in years to come.



Government Responsible for High Prices

(Continued from first page)

whose income do not increase as rapidly as do prices. Pensioners and other fixed income recipients, government employees, white collar workers, etc., have been in this general category. One effect is a growing volume of resistance by these groups to higher prices. Temporarily this resistance may be obscured as overall demand remains high. But in time, it will be reflected in a reduced level of total demand.

Similiarly, business firms encounter difficulties when prices rise sharply. Depreciation reserves based upon original cost, prove to be inadequate to replace plant and equipment. In some cases, this creates the need for new borrowing which in turn may feed the prevailing inflation. At the same time, industry finds a growing proportion of its profits or working capital tied up in inventories valued at higher prices. This too, may lead to an increase in borrowing. During the period of price rise, inventory profits may be made but these are rapidly cancelled out when prices decline. In light of this background, the wide interest in price policy and price changes is understandable.

Realism Needed

Much of the current discussion seems unrealistic in terms of what can be accomplished within the framework of our existing institutional arrangements. It should be useful, therefore, to preface this discussion with a review of some elementary economics.

Prices perform a dual role in our economy: They determine the volume of supplies and they also determine how these supplies shall be allocated among buyers. Rising prices act to increase supplies and to cut off the least insistent demands. Declining prices have the reverse tendency. Through this price mechanism a point is reached where supply and demand are in balance at the prevailing price. When demand is very strong in relationship to supply, the result usually is higher prices. When supply is large in relationship to demand, this usually leads to lower prices. The important point to be remembered is that both functions are important. Thus, if profits are high, a price increase may not be required to obtain greater supplies. But the increase may be required in order to allocate the limited supplies among buyers.

If demand is greater than supply and the price system does not allocate supplies, then one of the following alternatives must be adopted. It must be a case of first come, first served, or some system of rationing, allocation or priorities must be adopted, or special influence must be exerted in order to obtain supplies. As we saw in 1946, when price is not permitted to do its job, all three of these alternatives will be adopted. It is well to remember that price is merely an objective, impartial device to divide available supplies. Those persons who desire the product most intensively, will pay the higher price. Those whose needs are less intense, will fail to obtain as much of the product as they would be willing to buy at lower prices. Sometimes it is said that under such a system only the rich will obtain the avaliable supply of goods. While that may be true for a few special luxury products, it certainly is not true when it comes to the necessaries of life of semi-luxuries. The basic fact is that for most products it is vital that mass markets be reached if available supplies are to be sold.

As you know, in many segments of the economy this supply-demand-price system operates more efficiently in theory than it does in practice. However, in the organized commodity markets such as we have for cotton and wheat and for perishable foods such as vegetables and meats, it would be difficult, if not impossible to prevent price rises in most instances under conditions where large insistent demand here and abroad, exceeds available supplies. As a recent U. S. Department of Commerce study notes, "The most rapid as well as by far the largest increases, occurred in farm products and foods where pricing was on a day to day basis and where no single seller had anything to gain by taking a lower price if it were possible to sell higher." These demand-supply forces have been fully operative for food in particular, with consequences I shall note later. At this point, I merely want to recall to you the resistance to dollar a pound meat and butter that developed last fall and the prompt adjustment of prices to that resistance. Recently, a similar development has been witnessed in connection with bacon and pork prices.

Discretion With Manufactured Products

For manufactured products, on the other hand, the producer can make a deliberate decision, **not** to raise prices much, to keep them unchanged, or to cut them regardless of the fact that demand is temporarily in excess of supply. Under shortage conditions such as those prevailing currently in many lines, such a decision will necessarily mean that many consumers who would be willing to pay the prevailing price and even a higher price will not be able to obtain the product. Inevitably, some of these potential customers will bid above the established price determined by the producer to obtain the product. Automobiles furnish an interesting illustration, particularly in the used car market for new cars. However, many customers are able to satisfy their desire at a price lower than that which they would have to pay in a free market.

Industrial Price Policy

With this excursion into theory behind us, I would like to turn now to the question of industrial price policy. Much of the current discussion overemphasizes considerably what industry can do to reverse the recent price spiral. A few figures will give the necessary background for the perspective which is so sadly lacking in much of this discussion. During 1946, approximately 70% of the rise in living costs was due to the rise in food prices, and 13.5% was attributable to the rise in clothing prices. Approximately half of the total increase in living costs was due to the rise in meat prices (30.2%), and the prices of dairy products (20.1%). These are not the areas of industrial administered prices. These price increases have not been attributable to a conspiracy or collusive actions by big business, cartels, or other favorite whipping boys. Then main factors have been the 26% rise in farm prices and the removal of subsidies which resulted in an increase of about 10% in the food index and about 4% in the total index for consumers' prices. It should be noted that from August 1939 to date, farm prices have risen about 178% while industrial prices have risen only 59%.

(Continued on page 34)

Govt. Responsible for High Prices

(Continued from page 33)

Only one-sixth of the increase in living costs in 1946 was attributable to non-food and non-clothing prices. However, this proportion understates the full significance of the rises in industrial prices because recent increases have not yet been fully reflected in retail prices. But even after allowing for this factor, it seems clear that the extent of any reduction in living costs will depend primarily upon what happens to food and clothing prices rather than upon industrial price policy. The latter will be a contributing factor. But under present conditions, I doubt whether it can be decisive.

Although it is popular to blame businessmen for the recent price increases, they are not responsible for many of the factors which have caused this rise.

Thus, as I have indicated, they are not responsible for rise in food prices which has been the main factor in the rise in living costs.

They are not responsible for the higher freight rates which must be paid because of higher wages or for the many other price increases which have been attributable to higher wages.

DISTRIBUTION OF CHANGES IN CONSUMERS' PRICE INDEX
December, 1945-December, 1946; December, 1945-January, 1947

	Percent Contributions by Groups to Increase in Index		Point Contributions by Groups to Increase in Index	
	Dec.'45-Dec.'46	Dec.'45-Jan.'47	Dec.'45-Dec.'46	Dec.'45-Jan.'47
All Items	100.0	100.0	23.4	23.2
Food	70.4	68.0	16.5	15.8
Cereal & Bakery Products	9.5	9.9	2.2	2.3
Meats, Fish & Poultry	30.2	30.4	7.1	7.1
Dairy Products	20.1	16.6	4.7	3.9
Eggs	.6	—1.1	.1	—.3
Fruits & Vegetables	2.2	3.3	.5	.8
Beverages	1.1	1.7	.3	.4
Fats & Oils	5.0	5.0	1.2	1.2
Sugar & Sweets	1.7	2.2	.4	.5
Clothing	13.5	14.4	3.2	3.3
Rent	.6	.6	a.1	.2
Fuel	1.7	2.2	.4	.5
Housefurnishings	3.4	3.9	.8	.9
Miscellaneous	10.8	11.0	2.5	2.6

a — Rent for December, 1946, based on data for September, 1946.
SOURCE—Based upon data of the U. S. Bureau of Labor Statistics.

They are not responsible for the huge volume of credit inflation created during the war years. **This is the primary source of inflation and explains the tremendous pressure which has been exerted for upward movements in the price structure.**

They are not responsible for the foreign policy of our government which has led to large purchases of grains, which purchases in turn have forced those prices to record high levels and have created serious new distortions in our economy.

Although businessmen are not responsible for the foregoing actions, they cannot escape responsibility for what happens in their own baliwick. Large demands have made possible substantial price increases for many raw materials and finished products. And prices have accordingly been raised. The first quarter earnings statements which will be forthcoming shortly, will reveal that many products have been priced very liberally. In this sector of the economy, businessmen can do something. **They can stop raising prices to obtain windfall profits, and where present levels yield windfall profits, they can reduce prices.**

Government Policy Responsible

Nevertheless, while business has contributed to the price spiral, **the fundamental fact is that this spiral flows directly from government policy, past and present.** I refer particularly to the inflation of bank credit and money supply, the large wage increases forced by the government in 1946, and our agricultural price policy. One would think that the government would welcome a decline in food prices. Instead, what do we find? When price declines have developed in recent months, the government has rushed in to limit them. Illustrations include eggs, turkeys, and dairy products. These actions have been taken despite the fact that farm incomes have been at record levels. Total agricultural income in 1946 was estimated at $14.7 billion, or more than 10 times as great as the $1.3 billion in 1939, and substantially above the prewar peak of $11.8 billion in 1919. Certainly it may be questioned, too, whether the recent operations in the grain markets have been conducted in a manner to prevent new fears of a price spiral and new distortions in the price structure. Of particular importance is the uncertainty as to the probable magnitude of these programs.

Increase of Farm Income

According to the U. S. Department of Agriculture, farm income has increased considerably as compared with a year ago. Thus, in a recent release it was pointed out that:

"Farmers are getting more from cash sales than at this time last year; but much less from government payments. Total receipts during the first quarter of 1947 will be about $5.7 billion, 25% more than last year. Receipts from marketings are up about 30%. Volume of sales is a little larger; but **most of the increase in receipts is the result of higher prices which average 25% above the first quarter of 1946.** On the other hand, government payments to farmers during the first three months of 1947 probably will total only about $100 million, a decline of 60% from last year when production payments were being made on sales of dairy products, beef cattle, sheep and lambs.

"First-quarter cash receipts from the sale of livestock and products will be about $3.7 billion, 45% more than last year. Prices will average 35% higher. Prices of meat animals will be about 45% above the first quarter of 1946, and receipts will be up 55%. Both cash receipts and prices for dairy products will be about 40% greater than last year. The increase in dairy receipts however, is only about 25% if allowance is made for dairy production payments in 1946. Cash receipts from crops in the first quarter may total about $1.8 billion, or 8% above 1946. Prices are about 15% higher. Receipts from food grains are about 35% greater, largely as a result of higher prices. Receipts from tobacco are almost 40% above the first quarter of 1946, mostly because of heavier marketings." (Scource: United States Department of Agriculture, Bureau of Agricultural Economics, "The Farm Income Situation," February 1947, Released March 16, 1947.)

In some quarters, fear is expressed that a price decline will cause a slackening of production and will induce a business depression. I fail to see how this would apply if farm prices were to reverse part of the increase recorded during the past year. Certainly, a reversal of part of the price increase previously described would promote a healthier economy than we now have.

Many businessmen have been reluctant to reduce prices while demand for their products is so large. Moreover, there is great uncertainty concerning future costs, particularly wage costs. Higher wages are being demanded to compensate for higher food costs, not higher industrial prices. Lower prices for industrial products will not reduce living costs enough to eliminate the demands for higher wages. To the extent that industrial prices can be lowered, it would be helpful, but it will not be decisive. The main relief must come from lower food prices. However, higher industrial prices along with greater volume have contributed to the larger profits reported during the last quarter of 1946 and currently being earned. These higher profits are being used by labor to prove that industry can raise wages to compensate for the higher living costs due to higher food prices.

This claim by labor seems plausible. However, where profits are large and industry is faced with the alternative of a wage increase or price decrease, it seems clear that **the economy will be best served by instituting the price decrease.** There are several reasons for this. To the extent that wage increases make it possible for workers to continue to pay today's high food prices, farm prices will continue to stay high and other groups in the economy will continue to suffer.

A wage increase can benefit only a small part of the population. A price decrease, on the other hand, benefits everyone—particularly if the demand for farm products is weakened so that they also decline.

Wage Rises Contagious

As a result of the national wage patterns developed during the past few years, wage increases in key industries quickly spread to other companies and other industries whether or not they can afford to pay more without raising prices. On the other hand, as Dr. Moulton of the Brookings Institution has pointed out, a price decrease doesn't have the same "contagious" effect as wage increases. The question is shall we **raise** the price of labor or **lower** the price of goods? Wage increases raise costs. Price decreases may lead to lower costs.

Finally, it must be noted that it is easier to reverse a price decrease than it is to reverse a wage increase. The former represents a more flexible instrument of industrial policy. Of course, in some instances it may be possible to grant a moderate wage increase and at the same time to reduce prices. Where wage inequities exist, this would seem to be a desirable policy. In other cases, the main emphasis should be upon price reductions. The importance of coordinating industrial relations and price policy also must be considered. It doesn't help the industrial relations department in its negotiations, if during wage negotiations, price increases are announced in anticipation of the failure to hold wage increases to moderate proportions.

Numerous arguments have been advanced concerning the desirability or lack of desirability of cutting prices under today's circumstances. The main arguments advanced may be summarized as follows:

1. Disadvantages to an industry or company.

(a) The producer would be foregoing income and to some extent speculators would be the beneficiaries where supplies are short. In some cases, a price reduction for such products might hamper production.

(b) During bad times, the company suffers the loss, why should it not reap the profit in periods of shortage?

(c) A distribution problem will be created because supply is less than demand at that price.

(d) High profits attract new capital and provide the incentive for expansion in capacity.

2. Advantages to an industry or company.

(a) Build up good will.

(b) Secure the economies of steady high level production. Where higher prices can be sustained only temporarily, a reduction, when it takes place, may cause consumers to withhold purchases in anticipation of still lower prices. At the existing or lower level producer is assured of a longer period of capacity demand.

(c) Steady demand at lower prices over a longer period of time also will reduce likelihood of **inventory losses.** After allowing for this factor **total profit** for **total period** will probably be higher.

(d) Reduced pressure for wage increases which would result in **increase in level of long term costs.**

(e) Fewer new competitors will be attracted into the field. (This is not too significant in industries requiring large capital investment.)

(f) Price reductions under boom conditions will not be interpreted as being deflationary.

On balance, the advantages of reducing prices seem to outweigh the disadvantages.

In recent weeks, considerable publicity has been given to the price reductions placed in effect by Ford Motor Company and International Harvester. An examination of the financial pages of the newspapers reveals that price reductions have also begun to appear for other "hard goods." Recently, a refrigerator company announced a reduction in the prices of two of its higher priced units. One large company cut the price of portable radios by 20% while numerous price reductions have been reported for off-brand radios. Similarly, price reductions have been reported for off-brand electric irons and electric freezers. The Pullman Company announced a reduction of 15% in the price of boxcars. An examination of the advertisements for the resale of 1946 and 1947 automobiles shows a steady reduction in the premiums requested over dealers' list prices.

Not the least important of the recent price reductions was the announcement that extra changes have been reduced for several steel products, particularly plates, shapes, bars, sheets, and hot rolled strip. These reductions were attributable to "technological improvements." While not too much attention has been given to this announcement because the amounts involved were small, the fact remains that this is the first such price reduction announced by the steel industry. In light of the large demand for steel products, this reduction is real news. It indicates that the steel industry recognizes that prices may be reduced as well as increased. I consider it to be a very favorable sign.

How Prices Are to Be Reduced

The question may be raised, if prices are to be reduced, what is the best form for this reduction to take? Several alternatives may be noted. First, the prices for existing models could be reduced. Many firms are reluctant to undertake this action because of the adverse psychological effect upon previous buyers and an unwillingness to disturb confidence in the prevailing price structure with the consequent withholding of purchases by consumers in anticipation of still lower prices.

A second alternative is the production of new lower priced models such as we have recently seen for radios, ball point pens, etc. This is a logical development since many low priced lines disappeared during the war and their return is desirable to increase the scope of choice available to the consumer. In this connection, however, it is important to keep in mind that many consumers are reluctant to buy very cheap items as the experience in the bargain basements of many department stores has recently demonstrated.

A third alternative is to eliminate the extra gadgets and in this way reduce the price to the consumer. In effect, this means the sale of a different bundle of goods and services than that now being sold. The obvious illustration is found in the automobile industry where "full line forcing" has been characteristic during the past year. The price of many cars can be lowered significantly if the customer is not forced to buy heaters, simonizing, radios, and the numerous other accessories and services with which he has been saddled.

A fourth alternative is to improve quality, and thus add to the service life of goods which continue to be sold at the same price. The net effect of this approach is to cut the real cost to the consumer.

Underlying any attempt to cut prices, is the necessity to reexamine costs to see where they can be cut and to resist increases in costs which make it necessary to raise prices. During the war, there developed a "cost plus reasonable profit" complex under OPA regulations and government procurement practices. Prices set since the end of the war appear to have allowed for various contingencies including labor difficulties, material shortages, rising material prices, etc. In some cases these contingencies have developed; in other cases they have not. **Industry should reexamine the allowances for these contingencies in light of 1947 realities rather than 1945-46 fears. These savings in costs should be passed on to the consumer in the form of lower prices.**

In industries where demand is much greater than the available supply, price reductions will not mean an increase in the total volume of sales. But there are other industries where demand is either in line with supply or where supply is beginning to exceed demand. In such cases it would seem desirable to experiment with price reductions of varying magnitudes in different sections of the country in order to determine the extent to which new demand can be tapped by such price reductions and in order to dispose of supplies before they become too burdensome.

Each company will encounter different problems. My observation has been that uniform policies cannot be recommended, because companies, industries and products differ widely in their characteristics. In some industries each of the methods of price reductions outlined above might be adopted. But there will be many other cases where as a practical matter only one of these methods can be adopted. Each company and industry must be studied within its own environment if the most effective results are to be attained.

In conclusion, I would like to emphasize again that government policy rather than industrial price policy is responsible for the present high level of prices. While reductions in industrial prices can contribute to a reversal of this trend, the trend of farm prices will be the decisive factor. Most authorities agree that lower food prices are probable later this year. The extent of any decline will be influenced by the magnitude of our foreign commitments and by the actions taken by Government to support the present abnormally high farm prices. Lower farm prices will go far to eliminate the unbalanced price structure which is a major threat to the continuation of high level employment and production.

"Demand Performance" and the Stock Market

(Continued from first page)

to distinguish between "demand" in the economic sense of "desire plus ability-to-pay," and plain old-fashioned "need" which the world has always had with it ("God must love the poor, He made so many of them," Lincoln), seems to have been overlooked. It is, therefore, a major objective of this study to demonstrate how necessary is such a distinction between economic Demand and social Need.

As the prime argument in support of the bullish stock market outlook is the certainty of great prosperity accompanying all-out production of durable goods to satisfy the "limitless demand," our attention will be directed specifically to an examination of the structure of that "demand." For illustrative purposes in this study, certain assumptions which are patently questionable, but which are made as a concession to the Bull Market viewpoint, seem in order.

(1) That the unprecedentedly high liquid assets position of individuals in the Spring of 1946 still obtains.

(2) That those liquid assets will be 100% available for purchases of durable goods.

(3) That the total number of spending units (i.e., families plus individuals) is 46,000,000: i.e., the indicated base for the 1946 Liquid Assets Survey of the Bureau of Agricultural Economics of the Department of Agriculture.

(4) That all doubts on costs, prices, etc., should be resolved in favor of the Bull Market Economist.

(5) That it is possible to have insulated deflationary changes in parts of the economy (e.g., 10% drop in prices of non-durables) without adversely affecting the remainder.

(6) That the fact of the United States becoming heir to the British Empire's world policing job with its concomitant implications of vastly increased taxes—thus a lower American standard of living—may be safely ignored or deprecated.

Before making a detailed inquiry into the nature of mass market "demand," it will be necessary to determine the amount of goods and services which that "demand" must absorb, according to the Bull Market Economists. The authoritative and comprehensive estimate of the production of goods and services in 1947, contained in the report submitted by the President to the Eightieth Congress, may be used for this purpose. According to that report, the conclusion reached by the President's Council of Economic Advisers projects an overall increase of about 5% for the entire year of 1947 over the 1946 fourth quarter rate. Since the report did not contemplate any significant change in the level of employment, the anticipated 5% expansion in total production is apparently expected to be derived from an increase in the productivity of labor. The table below presents the pertinent figures, and includes our postulation of the probable detailed rate of total expenditures.

Such a postulation of the likely nature and scope of business activity during 1947 in our view fairly states that present perspective of the Bull Market Economist. Before proceeding further, it should be noted that we do not agree with the postulated breakdown of consumer expenditures either in nature or amount. Chief among our many reasons for taking issue with that breakdown is the serious distortion that such a division of expenditures effects in the historical relationship between the three types of spending: i.e., for services, for non-durables, and for durable goods. This brings us to the heart of our difference with the Bull Market Economist: that is, over the nature of the accumulated "demand" for durable goods which is reputedly so great as to constitute not only the all-powerful corrective for whatever maladjustments may appear in the economy during 1947, but will add impetus to its upward surge as well.

In this connection, an interesting insight into the validity of the "demand" (i.e., desire, plus ability-to-pay) of the mass purchasers is had when the individual "spending unit" is given another name, the name by which we generally know it: the "family." In this sense are also included those individuals with sufficient separate resources to qualify. Most families have a "family head" who is a very real person as contrasted with the Economist's "spending unit," which is a technical term with no known material counterpart. If we designate this family head as the "Economic Man," the concept of the "spending unit" takes on flesh. The Economic Man's counterpart used by Bull and Bear Economists alike is the Statistical Man, born of Economists' labored averaging of innumerable figures, indices, and chart correlation data.

To determine how capable the Economic Man is of purchasing the durable goods of the Bull Market Economists, a novel procedure is adopted. Rather than employ the professional economist's practice of postulating gross national income and carrying through the "Disposable Income" a telephone book number for the Statistical Man (who does not exist) to contend with, a new approach involving the assumption of standards of living recognizable to all, is used. In other words, instead of coming from the sky down, we propose to work from the ground up. In the table below, two representative families in the New York metropolitan area, headed up by two typical economic men, are shown. Each has a different standard of living. In the construction of the expenses which they must incur in order to maintain that standard of living, our "leaning-over-backwards" attitude to favor the Bullish view is continued by making the assumption that each of the two family heads is able to make all purchases of goods and services in the lowest-cost markets.

Case No. 1 is lower-middle class, and No. 2 medium-middle class; Economic Man No. 1 comprises 15% of the United States market for all goods, and Economic Man No. 2, 5%. Their relative significance is much greater however. As shown subsequently in the table and discussion on Liquid Assets, No. 1 is approximately in the top part of 85% of the entire purchasing power group in the United States; No. 2 is about in the middle of the remaining 15%.

As indicated in the column

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THE ECONOMIC MAN

Cases—Man, Wife, 2 Children—	Rent	Food	Clothes	Medical & Dental	Car	Misc.	Taxes	Finance Chgs., etc.	Total	% Change
No. 1—Ratio to total income	17%	34%	9%	7%	7%	20%	6%			
a—Has 10-year-old car	5 rooms @									
b—Lives in Brooklyn	$50 Mo.	$100 Mo.		$20 Mo.	$20 Mo.	$60 Mo.				
Annual	$600	$1,200	$300	$240	$240	$720	$200		$3,500	
No. 2—Ratio to total income	16%	21%	8%	8%	5%	33%	9%			
a—Has 10-year-old car	5 rooms @									
b—Lives in Westchester	$80 Mo.	$110 Mo.		$40 Mo.	$25 Mo.	$170 Mo.				
Annual	$960	$1,320	$500	$480	$300	$2,040	$560		$6,160	
No. 1—Ratio to total income	6%	22%	6%	5%	3%	13%	9%	36%		
a—Buys new car @ $1,300 (fin.)	Maint. &							House $78		
b—Buys 5-room house @ $10,000 (fin.)	Heat per							Car 72		
c—Buys wash. mach., misc. ap. (fin.)	Mo. $25							Misc. 11		
								per mo.		
Annual	$300	$1,200	$300	$240	$180	$720	$510	$1,930	$5,380	53%
No. 2—Ratio to total income	5%	16%	6%	6%	2%	25%	11%	28%		
a—Buys new car @ $1,300 (financed)	Maint. &							House $98		
b—Buys 6-room house @ $13,000 (fin.)	Heat per							Car 72		
c—Buys wash mach., misc. ap. (fin.)	Mo. $35							Misc. 17		
								Per mo.		
Annual	$400	$1,320	$500	$480	$180	*$2,040	$850	$2,250	$8,020	30%

NOTES:
1. Both get $300 allowed on old car.
2. Both make down-payments on house: No. 1, $2,000; No. 2, $3,000.
3. Both probably buy furniture, save some money, etc. (not ded. here).

*Maid	$20
Commutation and lunches	40
Entertainment	40
Furniture and fixtures	10
Insurance	20
Miscell. (laundry, utilities)	40
Per month	$170

GROSS NATIONAL PRODUCT AND EXPENDITURES—1947

		Dollar Billions
Gross national product (1)		215.0
Less Government expenditures (2)		43.0
		172.0
Less private capital formation (3)—		
Construction	10.0	
Producers' durable equipment	11.0	
Net change in business inventory	6.5	
Net exports of goods and services	5.5	
Total private capital formation		33.0
		139.0
Consumer expenditures (4)—		
Services	38.0	
Non-durable goods (5)	75.0	
Durable goods (6)	26.0	
		139.0

(1) Estimate based on fourth quarter 1946 plus 5% (present estimate of increase in productivity).
(2) Estimate on basis of current legislative indications.
(3) Projection of 1946 fourth quarter.
(4) Indicated goods and services to be consumed. Breakdown based on third quarter, 1946.
(5) Reduced 10% for projected decline.
(6) Increased to offset decline in (5).

"Demand Performance" and the Stock Market

(Continued from page 35)

headed "% Change," in order for each Economic Man to buy (i.e., finance the purchase of) a house, car, washing machine and refrigerator, No. 1, must experience a 53% increase in annual income, No. 2 a 30% gain. Since, as the discussion on Liquid Assets will show, there are not enough resources to permit these purchases to be made out of savings or their equivalent, the severity of the impact on current income of purchasing all of the standard durables is readily apparent. Even if the purchase of either the house or the car is foregone, the drain on income is still very great. In another section, the relevancy of this fact to the ready market for the various durables is more finely delineated.

At this juncture, it may be well to state in unequivocal terms the authors' views on the Bull Market Economist's approach to the division of national expenditures and income. He uses the principle of "average" or mean estimates in all calculations. This results in a heavy weighting of "average" individual income, savings, and expenditures with the excess amounts of the top few in each income class. The resultant distortion is evident when actual field checks on such individuals are made and the median or "typical" individual (who in the aggregate *is* the mass market) is found to have much lower income and savings than is generally believed. The degree of this distortion was pointed up by the Department of Agriculture's Field Study of Liquid Assets, made last Spring. In the subsequent discussion, the material contained in that study is drawn upon extensively in support of our view that measuring real "demand" in the mass market involves an appraisal of the actual ability-to-pay of millions of individual real live family units, not of the "average" spending unit, the faceless statistic of most of the professional Economists.

In the table below, we have attempted to put in a single compilation what we consider to be the most revealing of the data on the nature of the liquid assets and purchasing ability of the mass market.

BUYING POWER AND LIQUID ASSETS OF THE ECONOMIC MAN

	Income			Liquid Assets		
Income Classes	% of Total	Mean Aver.	Median	% of Total	Mean Aver.	Median
Under $1,000	20%	$600	$600	7%	$570	$20
1,000 — 1,999	27%	1,550	1,500	14%	880	230
2,000 — 2,999	23%	2,670	2,400	17%	1,350	470
3,000 — 3,999	15%	3,540	3,300	16%	1,850	900
4,000 — 4,999	7%	4,590	4,300	10%	2,600	1,450
5,000 — 7.499	5%	6,060	5,500	13%	4,580	2,700
7,500 — Over	3%	13,000	10,000	23%	15,830	7,270
All classes	100%	$2,620	$2,020	100%	$1,748	$430

Income Classes	Total No. of Spend. Units	Total Median Income	Total Median Savings
Under $1,000	9,200,000	$5,520,000,000	$18,400,000
1,000 — 1,999	12,400,000	18,600,000,000	2,852,000,000
2,000 — 2,999	10,600,000	25,440,000,000	4,982,000,000
3,000 — 3,999	6,900,000	22,770,000,000	6,210,000,000
4,000 — 4,999	3,200,000	13,760,000,000	4,640,000,000
5,000 — 7,499	2,300,000	12,650,000,000	6,210,000,000
7,500 — Over	1,400,000	14,000,000,000	10,178,000,000
All classes	46,000,000	$112,640,000,000	$35,090,400,000

The function of the table is to show the marked difference that exists between "average" income and "average" liquid assets owned, and that which exists with the typical family head, or our Economic Man. As noted at the outset, for illustrative purposes we are assuming that there are 46,000,000 spending units, of which about 37,500,000 are family heads. The typical family head and typical individual has, as the table shows, $2,020 in income, and $430 in liquid assets, as contrasted with the "average" spending unit's income of $2,620 and liquid assets of $1,748. Since the purpose in presenting the foregoing statistics on liquid assets is to permit measurement of the ability of the Economic Man to purchase durable goods, certain facts of significance should be noted from the compilation on the typical Economic Man:

(1) That 15% control 46% of the liquid assets.

(2) That it is only within this 15% group that a sufficient accumulation of liquid assets exists to permit either outright purchase of, or large down payments on, one or more of the four standard durables used above (i.e., a house, a car, a refrigerator, or a washing machine).

(3) For this 15% group to figure significantly in the market for durables would necessitate making the dubious assumption that at least half are now without (a) a car, (b) a house, (c) refrigerator, (d) washing machine. As, in 1946, 59% of all homes and farms had electric washing machines (17,200,000) and 68% electric refrigerators (19,700,000), 62% of the 46,000,000 economic men had automobiles (25,000,000), 90% had homes (i.e., dwelling units) (41,300,000), grounds for supporting such a view are obviously meagre. It is revealing to note that each month from May to December, 1946, has witnessed a steady decline in the value of new dwelling units started. (From $84,100,000 to $40,400,000, a drop in rate of 52%).

(4) That within the 85% group, which accounts for 37,500,000 family heads, the median income and savings figures are $1,850 and $363 respectively. It is apparent that purchasers in this group of either a new car or a new house would be confined only to those in a savings category quite exceptional to that of the typical family head.

Validity of Using Median Figures

As a check on the validity of using median (i.e., typical) instead of mean (i.e., average) figures, reference to the Liquid Assets survey is again made. To the direct question on whether they intended to purchase cars, 84% of the "spending units" (i.e., family heads and individuals) answered "No"; on purchasing a house, 83% answered "No." Only 8% said they definitely would buy a car, and 6% a house. This actual field check on consumer plans, it can be seen, almost exactly squares with the conclusions that can be drawn from our study of median, i.e., typical, "spending units," (namely, that only one-half of the top 15% can even afford to purchase durables).

As long ago as the Spring of 1946, the representative family head and individual realized, therefore, that the postwar car and house had been priced out of his pocket's reach. Only the well-heeled individual in the upper 15% had (and may still have) the wherewithal, although not necessarily the desire, to buy postwar "hard goods." Unfortunately, the desires of this well-heeled individual are easily filled. The number of cars he can buy (at $1,100 in early 1946, equivalent to a price of about $1,500 now) totals 2,800,000, about 74% of this year's expected production of 3,800,000. The $5,020 he wants to spend for a house will not buy any house being built today. The standard six-room frame house cost about $13,000 to build in January, 1947, and probably more now—completely out of reach of many even in that lush upper 15% group. As regards housing in 1945, 7% of dwelling units were unoccupied (of which 78% were habitable). Median (i.e., typical) rental for 3.6 rooms was $16.53; in cities, $26.91 was typical for 3.7 rooms. This contrasts with a monthly cash-out expenditure for the standard six-room frame house of $133 (amortization, interest, taxes, heat, maintenance).

Outlook for Durables

At the very least, we believe that an impartial analysis of the structure of the "limitless demand" of the Bull Market Economist argues for the employment of considerable caution in projecting the consumption of durable goods in 1947. At the most, such an examination would seem to indicate that so optimistic have been the estimates of demand that the inevitable readjustment of production, wholesale, and retail price levels to the firm demand that actually exists would be so sharp as to bring on a crisis of major proportions in the economy. Some concept of the possible nature of that crisis toward which the economy appears to be heading is indicated by the estimated figures of production for durables by various industry leaders.

The electrical appliance industry, according to Ralph H. Cordiner, Vice-President of General Electric, quoted in the "Sun," Feb. 25, 1947: "expects to produce between 3,000,000 and 4,200,000 refrigerators — between 2,500,000 and 4,000,000 washers." If maximum production and consumption

1947 CONSUMER DURABLES—PRODUCTION AND CONSUMPTION

	Number	Unit Retail Price	Billions Cost	12-Mos.	Cash Outlay
Housing units	950,000	$13,000	$12.3	$4.1	33%
Automobiles	4,000,000	1,500	6.0	4.8	80
Refrigerators	4,200,000	200	.8	.6	80
Washing machines	4,000,000	125	.5	.3	80
			$19.6	$9.8	50%

is attained in these two categories alone, it would represent a 23% increase in the ownership of electric washing machines, and 21% increase in electric refrigerators. While the relative increase over 1946 in the number of cars (estimated at 55%), and houses (58%), which projected 1947 output may achieve, will not effect the same ratio change in ownership, it is the "dollar and cents" consideration with which are most concerned. In the short table below is shown the amount of "demand" that must now be existing in order to absorb the anticipated production of just these four durables.

The impact of large-scale purchases of the four durables upon savings of the family heads can be appreciated from the above table. It would require 70% of the total savings of the 85% group to make the normal 12 months' cash outlay out of accumulated liquid assets. Even if it were taken for granted, as it is in the above table, that credit agencies would permit the financing of these purchases, it is clear that only a fraction of the projected production can be safely absorbed by basic buying power. A more reasonable interpretation of the above table, when it is taken in conjunction with the preceding table showing liquid assets and buying power of the Economic Man, would be that perhaps 50% of 1947 production of the four durables could be absorbed without being unduly optimistic. Even this figure rests upon the somewhat shaky premise that the well-heeled 15%—that is, those Economic Men in the income classes of $4,000 a year and above—who have the ability-to-pay, also have the desire to buy. The shakiness of this premise stems from the fact that it is just in this 15% group that there can be found most of the owners of the latest cars, most modern houses, the newest refrigerators and washing machines. It obviously would take some unusual measure of optimism to predict that 50% of this group—that is, some 3,500,000 families and individuals—are willing to swap their houses, cars, etc., which have been purchased at price levels some 25%-50% below current ranges, for similar articles whose quality may be definitely inferior, and is certainly untested (especially new houses), at substantial increases in original cost.

Another facet of demand measurement that appears to have been almost entirely ignored is the pressing weight of income taxes upon the Economic Man. In compiling living cost indices, the professional Economist tends to pass over this heavy drain on current income. Yet for our two typical families, such taxes represented 6% and 9% respectively of total income *before durables financing*, 9% and 11% *after durables financing*—reflecting the inexorable increases in taxes that accompany gains in income.

The issue between the Bull Market Economists and the Bear Market Economists (i.e., at least two of the latter) may therefore be described as one revolving around the proper interpretation of the term "demand." As we have presented the opposing views, it is felt that the statement of the Bull Market Economists' case has been fairly made. No attempt has been made to inject into this survey the views of the more rabidly bearish economists, of which there are a number, since it is felt that their commentary would have begged the question by denying the major premise of continued high-level production. Nevertheless, for a fuller appreciation of the strength of the Bear Market Economist's position, it is well to remember that if any but the most optimistic estimates of national income materialize, the impact upon sound demand will be much more severe than has been outlined above.

The too-free use of "average" figures in calculating the nature of individual purchasing power ("demand") in the mass market is, in our opinion, the fundamental reason why the prosperity prophesied to follow upon "unprecedented consumption" of durable goods will have been proven to be a chimera. Instead of durable goods actually being purchased, a very large percentage of production is now and will continue to go into manufacturers', wholesalers', and retailers' inventories. This, in our opinion, is taking place because the current insistent demand of spending within the top 15% is creating a general illusion of firm and insatiable markets. For example, 460,000 houses in the $10,000-$13,000 range, needing only minor additions, are *now* available. Presumably they are in addition to the 950,000 housing units to be built this year. Mr. Morgan L. Fitch, President of the National Association of Real Estate Boards (New York "Times," March 2, 1947), is of the opinion that "the need for 4- and 5-room homes in the $10,000 price range largely has been met and that builders must concentrate on production of a home of good value at $7,500 or less." Meanwhile, what happens to the above inventory of $10,000-$13,000 homes now on the shelf? Beyond that demand of the top 15%, as we believe our analysis proves, there is a vacuum. When the thin layer of effective demand has been exhausted and the illusion becomes apparent, the need for converting inventories into cash will become too great for the marginal entrepreneur to resist. Then will begin an era of price-cutting which will not suffer by comparison with the precipitous slashes that occurred in the fur, jewelry, and luxury goods markets in the Fall of 1946.

This downward spiral in prices will not be "insulated" by any means. Its effect will be felt throughout the economy and will probably be patterned after its 1921 and 1937 predecessors. Although World War I's postwar 1920-1921 experience was all-pervasive in its consequences, the running time was relatively short, 20 months. As World War II's prospective postwar contraction in general business has yet to begin and its causation is materially different, no predictions as to its length can safely be made at this time.

In one respect do we find ourselves in whole-hearted agreement with the Bull Market Economists: that is, that one of the associative characteristics of the American economy operating at prosperity levels is the production and consumption of durable goods at an ever-expanding level. However, while the producion of durables may remain high, their consumption is something else again, as most articles are already priced out of their mass market. Since it is our belief that the eventual readjustment in prices of durables will be so much the sharper for having been deferred, all signs point to a recession, beginning sometime in 1947, and at the latest, by early 1948, which has the potentiality of developing later into a depression of great magnitude. In terms of the Federal Reserve Board Index of Production, this initial development can mean a decline to at least 140. In terms of the Dow Jones Industrial Averages, this would mean an initial drop to at least the 120-130 area.

To Sum Up

In this discussion concerning the nature of the demand for durable goods, we believe the following points have been established:

(1) Eighty-five per cent of the typical family heads and single individuals have insufficient income to finance the purchase of durables at present price levels.

(2) Eighty-five per cent of the typical family heads and single individuals have insufficient savings to purchase, or to aid materially in financing the purchase of, durables.

(3) Current record production of durables in the face of diminishing effective demand portends a continuance of the rise in the rate of inventory accumulation.

(4) The vacuum between real mass market demand and the present level of consumption is being concealed by the current rate of capital formation, extensive use of consumer credit and meeting of the deferred demand of the top 7½% of the "spending units."

(5) The time when the extent of this vacuum will be thoroughly explored is not far off as evidence accumulates daily that supply in an ever-widening number of fields is rapidly overtaking effective demand.

(6) The overtaking of demand by supply has the greatest significance for the economy because of the present historically high level of prices.

(7) A major realignment of the economy is in the offing. In view of the extent of the distortion between the price level, production, and effective demand, this realignment presages a general price collapse resulting in sharply reduced production. The consequent large-scale unemployment will further weaken effective demand, setting in motion a deflationary spiral whose eventual limits cannot at this time be foreseen.

Since the point at issue between the Bull Market Economists and the writers consists in a fundamental difference of opinion as to the meaning of the word "demand," in closing it would be appropriate to quote from Webster the *economic* definition of that controversial and loosely used term: *"Demand—Desire to purchase a commodity, accompanied by means of payment."*

SEC Reverses NASD Ruling in Herrick, Waddell Case

(Continued from page 5)

choose between the services rendered by that firm and what is offered him by others."

The full text of the SEC decision follows:

SECURITIES AND EXCHANGE COMMISSION
Philadelphia

SECURITIES EXCHANGE ACT OF 1934
Release No. 3935.

FINDINGS AND OPINION
In the Matter of

APPLICATION OF HERRICK, WADDELL & CO., INC.

for review of disciplinary action by the National Association of Secuities Dealers, Inc.

(Complaint No. 19 of Dist. No. 11)

(Securities Exchange Act of 1934 —Section 15A)

NATIONAL SECURITIES ASSOCIATION

REVIEW OF DISCIPLINARY PROCEEDINGS

Setting Aside Action of Association

Where national association disciplined a member for violation of its rules on the basis of evidence insufficient to support its findings of violation and an erroneous application of its rules to that evidence, action of association *set aside* and record remanded to association for such reconsideration and further proceedings not inconsistent with Commission's opinion as it should deem appropriate.

APPEARANCES:

Spence, Hotchkiss, Parker and Duryee, *Ernest Angell* of counsel, of New York City, for Herrick, Waddell & Co., Inc.

Baker, Hostetler and Patterson, *Stephen C. Thayer* of counsel, of Cleveland, Ohio, for National Association of Securities Dealers, Inc.

This is a proceeding pursuant to Sections 15A (g) and (h) of the Securities Exchange Act of 1934, to review disciplinary action by the National Association of Securities Dealers, Inc. ("NASD"), a registered association of securities dealers, against one of its members, Herrick, Waddell & Co., Inc., a registered broker-dealer.

On January 22, 1945, the Business Conduct Committee of District No. 11 of the NASD (embracing the District of Columbia and the States of Maryland, North Carolina, Virginia and West Virginia), issued a complaint against the Washington, D. C. branch of Herrick, Waddell charging it with violation of the NASD's Rules of Fair Practice and alleging that in 39 transactions during July, 1944 it made sales as principal to customers "at prices which were not fair in view of all relevant circumstances and in a manner inconsistent with high standards of commercial honor and just and equitable principles of trade." Hearings were held before the District Committee and on July 27, 1945, it issued an opinion in which it concluded that the prices charged by Herrick, Waddell "in each and every one of the 39 transactions . . . were not reasonably related to the market" and that the firm's conduct in those transactions "constituted a violation of Section 4 of Article III of the Rules, and a violation of Section 1 of Article III of the Rules as it is interpreted by the Board of Governors." On the basis of these conclusions the District Committee censured the firm and directed that it pay part of the costs of the proceedings in the amount of $250.

An appeal was taken by Herrick, Waddell from the decision of the District Committee to the Board of Governors of the NASD. After taking further testimony the Board of Governors (four members participating, one member having disqualified himself) issued an opinion on Jan. 26, 1946, the full text of which is as follows:

"The members of the Board of Governors being equally divided in opinion as to the merits of the case and unable for that reason to agree upon a determination, the action taken by the District Business Conduct Committee for District No. 11 is affirmed."

Herrick, Waddell brought this proceeding before us for review of the action of the NASD. Briefs were filed and we heard oral argument.

Prior to the institution of the disciplinary proceedings above described, similar proceedings had been instituted on October 9, 1944, by District Business Conduct Committee No. 13 (embracing the States of Connecticut, New Jersey and New York) against the New York office of Herrick, Waddell. Those proceedings are not before us for review but they form part of the present record. There the Committee had questioned the mark-ups in 18 transactions reported by the New York office of Herrick Waddell. Hearings were held by the Committee, which issued its decision on January 16, 1945, exonerating the firm. When subsequently an appeal to the Board of Governors was taken by Herrick, Waddell from the adverse decision of District Committee No. 11, the Board of Governors, upon its own motion, undertook to review also the New York decision, and the New York proceedings were consolidated with the appeal. On the day the Board issued its opinion, quoted above, affirming the action of District Committee No. 11, the same Board issued a similarly worded opinion in the New York case affirming the action of the District Committee therein. Thus the Board, without elaborating its opinions or indicating wherein its members were unable to agree, upheld both Committee decisions, although they reach opposite results on substantially similar facts.[1]

The case which arose in the New York District is not now before us for review since it was decided in favor of Herrick, Waddell by the NASD and our jurisdiction under the statute is limited to cases in which disciplinary action is taken.

There is no dispute about the basic facts and no claim that the penalty ordered is excessive if a violation has occurred. The sole issue is whether the NASD's rules governing the amount of mark-up a member firm may take in the sale of a security to a customer have been violated.[2] To decide this issue we must determine whether the NASD properly interpreted the rules in the light of the facts presented and whether its decision is supported by the evidence.[3]

1. Applicable Standards

Article III of the NASD's Rules of Fair Practice provides in pertinent part as follows:

"1. A member, in the conduct of his business, shall observe high standards of commercial honor and just and equitable principles of trade.

* * *

"4. In 'over-the-counter' transactions, whether in 'listed' or 'unlisted' securities, if a member buys for his own account from his customer, or sells for his own account to his customer, he shall buy or sell at a price which is fair, taking into consideration all relevant circumstances including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit; and if he acts as agent for his customer in any such transaction, he shall not charge his customer more than a fair commission or service charge, taking into consideration all relevant circumstances including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market therefor."

In the Fall of 1943 the Board of Governors of the NASD issued a series of letters interpreting Section 1 of Article III of the Rules of Fair Practice. These letters, commonly known as the "5% letters," set forth the results of a survey of the pricing policies of members of the Association which showed that 71% of all reported transactions were effected at mark-ups of not over 5%, and announced the Board's interpretation of Section 1 as follows:

"It shall be deemed conduct inconsistent with just and equitable principles of trade for a member to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security."[4]

The letters concluded with the statement that the District Business Conduct Committees had been instructed to "enforce Section 1 of Article III of the Rules of Fair Practice as above interpreted, having in mind the percentage of profit on which 71% of the transactions above referred to were effected."

The 5% letters were challenged by the institution of a proceeding before this Commission by a group of dealers in which it was asserted that the letters in effect constituted a rule of the NASD promulgated in violation of the statute and the Association's rules which require that the adoption of new rules have the consent of the members of the NASD and the approval of this Commission, and it was requested that the alleged rule be abrogated.

We analyzed these contentions at length in an opinion in which we found that the letters constituted simply an interpretation of the NASD's rules, a proper form of comment by the Board of Governors, and did not amount to the adoption of a fixed rule governing mark-ups.[5] Our opinion was careful to point out that in passing on the fairness of prices charged there are other factors besides the percentage mark-up which must be considered. We stated (at p. 11): "Determinations by the committees and by the Board on review must be based on a consideration of all pertinent factors, of which the percentage of mark-up is only one." We also emphasized that in our opinion the mere introduction of evidence of mark-ups in excess of 5% would not be sufficient to establish a *prima facie* case of violation of the NASD's rule, and we expressed the view that if the NASD based a finding against a member solely on the ground that a presumption of wrong-doing arose from charging a mark-up of over 5%, it would be our duty to set aside such determination upon review.

2. The Evidence Adduced in the NASD Proceedings

In the hearings before District Committee No. 11 on the charges filed against Herrick, Waddell the NASD introduced a schedule of transactions reported by Herrick, Waddell setting forth information respecting 50 consecutive transactions in which the firm purported to act as principal in purchasing securities from or selling securities to customers; evidence of current market prices of securities involved; and a statement of the amount of mark-up or spread taken by the firm in each of the 39 transactions questioned. In addition it introduced an exhibit, reproduced as Appendix A to this opinion, which summarized the spreads reported by Herrick, Waddell, and 16 other NASD member firms in the District of Columbia who reported "principal" transactions in response to an NASD questionnaire. This exhibit showed that the percent of gross profit received by Herrick. Waddell in the 39 questioned transactions ranged from 4.2% to 11.4% of cost price and that of the 50 transactions reported by that firm 29, or 58%, involved mark-ups in excess of 5%. In comparison, of 525 transactions reported by the 16 other firms, only 7.3% involved mark-ups over cost of more than 5%. The evidence also showed that 22% of Herrick, Waddell's transactions were at mark-ups over cost of between 4% and 5%, as against 19.8% for the rest of the District, and that 20% of Herrick, Waddell's transactions were at mark-ups over cost of 4% or under, as against 72.9% for the other member firms.

Herrick, Waddell objected to the adequacy of the proof presented against it, and introduced evidence of what it asserted to be "relevant circumstances" bearing upon the propriety of the mark-ups in question. Its evidence may be summarized as follows:

Herrick, Waddell was organized in 1937. Its principal office is in New York City, and it has branch offices in nine cities in the United States. The firm is a member of the NASD and of the Washington, D. C., Stock Exchange. It deals principally with customers whose average holdings are estimated at about $10,000 and the average purchase transaction is approximately $1,200. It is estimated that 75% of the purchases by customers arise from personal conferences between the firm's salesmen and customers at the latter's offices or homes, and the balance from correspondence or telephone calls. Institutional purchases amount to less than one-half of 1% of its total volume of business. A substantial proportion of the firm's business is in listed securities. It has participated in only six underwritings in the five years before these proceedings and rarely takes a position in securities in which it deals. In most purchases by customers the firm purports to act as principal, executing customer purchase orders in a so-called "riskless" transaction in which the firm purchases the security only after it has received the order from the customer and then bills the security to the customer at a stated mark-up.[6] A schedule of mark-ups is maintained by the firm and all transactions are reviewed by the manager and the firm's New York office to verify that the mark-up charged the customer does not exceed that permitted under the schedule. The firm has twice voluntarily reduced its schedule of maximum price spreads. At the time of the transactions in question, its schedules called for a maximum spread of the lesser of 10% or three points.[7] Sales of securities by customers are generally handled without charge or at a slight commission on an agency basis.

Herrick, Waddell provides what it describes as an "individualized" investment service for its customers. Its main office prepares for new customers an analysis of all their security holdings, and all accounts are reviewed periodically by the branch manager and the salesmen. An investment committee composed of senior officers of the firm passes on all securities recommended to customers by salesmen and an active list is maintained of from 60 to 90 recommended securities, from which about 90% of its purchases by customers are made. Every transaction is reviewed by the branch manager with a view to its appropriateness to the customer's account. Information on all securities recommended by the firm is kept current in bulletins distributed to the salesmen. It is estimated that over $95,000 a year, or 29% of total expenses, exclusive of commissions to brokers and salesmen's commissions, is attributable to investment analysis, supervision and research.

In 1942 the firm introduced a program for disclosing to the customer the amount of the firm's mark-up in every transaction in which the firm acts as "principal." Its general practice is for the salesman to inform the customer at the time an order is given that the firm is acting as "principal" and to explain the nature and consequences of its status as such and also to advise that the customer will be charged a mark-up over the cost of the security to the firm. The salesman also discusses the current price of the security and what the mark-up

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1 The failure of the Board of Governors to elaborate its opinions or to indicate wherein it was unable to reach a decision in the two cases makes it necessary for us to rely entirely on the opinion of the District Committee in reviewing this proceeding. *Cf. Lawrence R. Leeby*, ______ S. E. C. ______ (1947) Securities Exchange Act Release No. 3898.

2 In this opinion, unless the context indicates otherwise, we use the term "mark-up" to refer to the spread between prevailing market and sales price to the public. However, it should be noted that the evidence in this case with regard to the spreads of dealers other than Herrick, Waddell contains information only as to their spread between cost and sales price, with no indication whether such dealers' costs were the equivalent of prevailing market prices. In the record and briefs, the term "mark-up" has also been used to refer to such spreads. In the case of Herrick, Waddell, who engaged in simultaneous or "riskless" transactions, its cost in the transactions involved in this proceeding was substantially the same as the prevailing market price.

3 Section 15A (h) (1) provides:

"In a proceeding to review disciplinary action taken by a registered securities association against a member thereof, if the Commission, after appropriate notice and opportunity for hearing, upon consideration of the record before the association and such other evidence as it may deem relevant, shall (A) find that such member has engaged in such acts or practices, or has omitted such act, as the association has found him to have engaged in or omitted, and (B) shall determine that such acts or practices, or omission to act, are in violation of such rules of the association as have been designated in the determination of the association, the Commission shall by order dismiss the proceeding, unless it appears to the Commission that such action should be modified in accordance with paragraph (2) of this subsection. The Commission shall likewise determine whether the acts or practices prohibited, or the omission of any act required, by any such rule constitute conduct inconsistent with just and equitable principles of trade, and shall so declare. If it appears to the Commission that the evidence does not warrant the finding required in clause (A) or if the Commission shall determine that such acts or practices as are found to have been engaged in are not prohibited by the designated rule or rules of the association, or that such act as is found to have been omitted is not required by such designated rule or rules, the Commission shall by order set aside the action of the association."

4 Letter of NASD to its members dated Oct. 25, 1943.

5 *In the Matter of the Rules of the National Association of Securities Dealers, Inc.*, ______ S. E. C. ______ (1944), Securities Exchange Act Release No. 3623.

6 No question was raised by the NASD as to whether Herrick, Waddell in fact acted as principal in the questioned transactions under the doctrine expressed by us in the case of *Oxford Company, Inc.*, Securities Exchange Act Release No. 3769 (1946). Although the question is not in issue here, we note that the evidence introduced by Herrick, Waddell (at p. 6 *infra*) tends to indicate that the firm's customers understood and consented to the firm's acting as principal. However, we do not undertake to decide this question in this review proceeding.

7 The record shows that since the transactions in question, Herrick, Waddell has again reduced its schedule of spreads with a maximum now of 9% on transactions under $1,000 or 8% on transactions over $1,000, but not more than 3 points.

will be, but no specific price is fixed, the customer being informed that the price to him will depend upon the market price at the time the firm purchases the security. When an order is placed, the security is purchased by the firm to fill the order as promptly as possible and the transaction is confirmed to the customer by a confirmation which sets forth whether the security is listed, that the firm is acting as principal, and the firm's mark-up on the transaction stated in points to the nearest ⅛ of a point. Herrick, Waddell states that it was a pioneer in the adoption of this disclosure practice.

The firm's salesmen receive commissions of from 50 to 60% of the firm's mark-up. The highest salaries paid in any year were $12,000 to each of two officers.[8] The firm's operations over the six-year period, 1939-1944, including underwriting activities which produced profits of $69,000, showed a deficit, after Federal taxes, of $1,320.68. Dividends were paid on the firm's 6% preferred stock during the first three and one-half years of the six-year period, but no dividends have ever been paid on the common stock.

3. Contentions of Herrick, Waddell

The first contention of Herrick, Waddell is that the NASD rule is no broader than a prohibition against fraud, and that disclosure obviates fraud. Secondly, on the assumption that the rule does go farther and encompasses activity which while not fraudulent may still violate fair trade practices, it asserts that the District Committee failed to introduce evidence respecting or to give proper weight to other "relevant circumstances" as required by the rules. It contends that, in arriving at a decision on the reasonableness of the prices charged, the Committee failed to consider all aspects of the firm's business and relations with customers, including the special advisory service rendered customers; its limited underwriting activities and general abstinence from taking a position in securities, factors assertedly tending to provide more free and unbiased advice to customers; the small size of the average transaction handled by the firm; the comparatively slow turnover in customers' accounts; the cost of doing business with widely dispersed customers; and the low net profit of the firm over a peroid of years despite moderate salaries. It also contends that the Committee erred in treating the firm's disclosure practice including disclosure of its mark-ups as "immaterial" rather than as an element bearing on the fairness of mark-ups based on such prior disclosure to and agreement by the customer.

4. Discussion and Conclusions

Our examination of the record in this case leads us to conclude that the NASD's findings are not supported by the evidence taken before it and that the NASD did not properly interpret or apply its rules governing mark-ups. We agree with the NASD, in answer to Herrick, Waddell's first contention, that its rules go beyond fraud. But we cannot agree with the method followed by the NASD in reaching its conclusion that Herrick, Waddell's conduct was contrary to just and equitable principles of trade. Not only did the NASD's presentation of its case and the District Committee's opinion both follow the underlying theory, which we disapproved in our opinion on the "5% letters," that mark-ups in excess of those customarily charged are in themselves conclusive proof of violation of the NASD's rules, but in doing so they relied upon insufficient evidence respecting customary mark-ups.

To establish a standard respecting the amount of mark-up which was reasonable in the Washington, D. C., area, the NASD relied upon its exhibit containing data submitted by Herrick, Waddell and the 16 competitor members in the area who reported principal transactions. As noted, this exhibit set forth the amount of mark-up over *cost* to the reporting members other than Herrick, Waddell, but neither the exhibit nor the Committee's opinion indicated whether cost to the other reporting members also approximated the *prevailing market price* at the time of the purchases by their customers. In the case of Herrick, Waddell nearly all purchases were made after receiving the customer's order and the evidence shows that the firm's cost was substantially the same as the prevailing market and the spread between cost and price to the customer approximately the mark-up over prevailing market price. However, there is no evidence as to whether or not the other reporting members in the District of Columbia maintained a position in securities purchased by customers or whether their mark-up over their cost involved a comparable or greater or smaller mark-up over prevailing market price than Herrick, Waddell's. Since mark-up over prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions, the evidence presented before the NASD did not provide a standard as to amount of mark-ups charged which was sufficiently clear to constitute a proper basis for a finding that any of Herrick, Waddell's mark-ups were unreasonable.

But even aside from this deficiency the evidence was clearly insufficient to support the finding made by the NASD that Herrick, Waddell's mark-ups were unreasonable in "each and every one of the 39 transactions" questioned. In all but three of those transactions, the mark-ups taken by Herrick, Waddell were within the range of spreads charged by the other reporting firms, and in the three exceeding that range the mark-ups were not greatly in excess.[9] While a greater percentage of Herrick, Waddell's transactions involved mark-ups in the higher ranges reported than did those of its competitors, this fact alone does not warrant the conclusion that Herrick, Waddell's mark-ups were unreasonable in all 39 transactions.[10] We have been unable to find any evidence in the record which cures these inadequacies in the NASD's case, and accordingly conclude that the NASD's findings are not supported by the evidence.[11]

Moreover, as noted above, Section 4 of Article III of the rules requires the NASD to determine whether the prices charged were "fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit. . . ." It does not appear from the opinions of the Committee and Board of Governors that the factors were given appropriate consideration in arriving at their determination.

It is important to note that this case is not based on any charge of fraud such as was involved in *Charles Hughes & Company* v. *Securities and Exchange Commission*, 139 F. 2d 434 (C.C.A. 2, 1943) and *William J. Stelmack Corp.*, 11 S.E.C. 601 (1942). In those and similar cases we have held that in transactions between dealers and members of the public there is an implied representation that the price at which the dealer sells a security is a price which is reasonably related to the prevailing market price and that any variance therefrom, without full disclosure of the variance, is a material and fraudulent misrepresentation.[12] In the instant case, however, the record contains evidence, not controverted by the NASD that in all of the transactions which are the subject of the charges there was prior disclosure of the capacity in which Herrick, Waddell purported to act and of its mark-up over contemporaneous cost. There is, therefore, no question of fraud; the issue is solely one of the reasonableness of the mark-up under all the circumstances and, more broadly, one of business ethics. And, while an undisclosed mark-up which is not so excessive as to constitute fraud might nevertheless violate business ethics, it does not follow that the same mark-up, accompanied by full disclosure, is always a violation of business ethics. Accordingly, properly to determine whether the NASD rules have been violated requires a consideration not only of the size of the mark-up but of all pertinent circumstances, including disclosure, bearing on its reasonableness and on the ethics of the transactions. The record as a whole indicates that such consideration was not given by the District Committee in this case.

We are, of course, in accord with any efforts of the NASD to establish for its members and secure their conformance to a high standard of business ethics, and we are fully aware of the difficulties involved in the successful accomplishment of those tasks. But any efforts in that direction must be made with due regard to the rights of individual members. The District Committee here stated that its findings were made "in the light of all the circumstances in this case" but this statement is not borne out by the remainder of the opinion. The opinion labelled the evidence of pertinent circumstances introduced by Herrick, Waddell as "defenses" and treated it in a summary manner. It gave no weight to the estimates introduced by the firm of the percentage of its total expenses allocated to investment service and research, stating, without any analysis to support such conclusion, that "an inevitable part" of the alleged research expense was "directly attributable to sales effort rather than to investment research work." Instead of directing itself to the issue whether in view of these and the other circumstances developed by Herrick, Waddell's evidence the prices charged conformed to the NASD's standards of ethics, the Committee's opinion merely stated that these factors in the firm's business did not afford "justification" for charging prices "not reasonably related to the market." This statement in itself indicates the Committee's conclusion that the mark-ups *per se* were unreasonable and unethical and that the additional evidence was merely to be considered as possible "justification" for mark-ups. The evidence respecting the disclosure made by Herrick, Waddell to its customers of the profit taken was given no consideration whatever, the opinion stating that "disclosure is immaterial to the question whether the Association rules have been violated."

A District Committee, composed of active competitors of an accused firm and engaged in the delicate task of policing their own industry under the statutory scheme established in Section 15A must apply its experience and knowledge to the evidence before it. In doing so, we recognize that the industry may properly protect itself against the so-called "high cost" or "submarginal" producer, whose excessive cost of doing business results from inefficiency or unduly high overhead and compels his charging unreasonably high prices to show a profit. However, where it can be demonstrated that higher costs are due to special services performed by the member for the customer, and that in all other respects, i. e., salaries, overhead, commissions, and net profits, the firm is operated conservatively, it should be concluded that prices which exceed those charged by competitors not rendering such special services are not in violation of the NASD's rules if the excess bears a reasonable relation to the cost of the special services.[13]

We do not mean to say that where evidence is introduced to show that a member's mark-ups over prevailing prices have greatly exceeded those customary in the vicinity, the NASD has the obligation to explore all aspects of such member's business to ascertain whether such mark-ups can possibly be warranted by special circumstances.[14] But, even in such cases, if the member offers evidence of relevant circumstances, the NASD must give such evidence proper consideration in determining whether there has been a violation of its rules. And where, as in this case, it does not appear that the mark-ups are in themselves clearly and substantially in excess of those customary in the vicinity, the NASD has the affirmative duty of exploring the questioned transactions and all pertinent circumstances before reaching any conclusion on the reasonableness of the mark-ups. In such examination the fact that the member has disclosed the amount of his mark-up to the customer is not only material but is of considerable importance. When a securities firm rendering more than the customary service discloses to its customer the mark-up it will make on the transaction, the customer is enabled better to choose between the services rendered by that firm and what is offered him by others. Such disclosure aids the customer to negotiate intelligently with the firm and thereby tends to remove unfairness which might otherwise be involved in the relationship between such firm and customer. As we have indicated, the question involved here is essentially one of business ethics. And disclosure itself is an indicium of fair dealing and is therefore pertinent to any question of ethical conduct.

The presence in the instant case of disclosure of the amount of mark-up as well as the other facts and circumstances pertaining to the business of Herrick, Waddell, including the unusual type of business which the firm claimed, the special investment advice which it allegedly supplied, and the fact that it described these features to its customers in negotiating with them over the mark-up to be taken in each transaction, should therefore have been given consideration by the NASD in arriving at its determination whether the accused firm's mark-ups violated its rules.[15]

In summary, we have found that the evidence does not support the present findings of the NASD. Although the NASD found the mark-up in "each and every one of the 39 transactions" unreasonable, the evidence shows that many of the transactions were well within the range reported by other firms. And we have indicated a substantial deficiency in the evidence introduced relating to the transactions of such other firms.

We have also found that the NASD failed to give proper weight as required by its rules, to the evidence of surrounding circumstances in the record. The presentation of the NASD's case and its opinion indicate that primary, if not entire emphasis was placed on the amount of mark up taken, although its rules require that all pertinent circumstances be considered in determining whether a given mark up is proper. In making such determination, the type of business engaged in by the accused firm, the nature of its customers, the services performed, and the type of disclosure made are all relevant considerations.

We have considered whether or not we should take additional evidence ourselves on the matters on which the present record is deficient and undertake correctly to apply the rules of the NASD to the facts established by such augmented record. We have concluded that it is more in keeping with the legislative scheme for supervised industry self regulation embodied in Section 15A that the NASD itself undertake to cure the inadequacy of the evidence presented by it and the errors made in relating the evidence to its rules as interpreted by it. This we view as a preferable procedure from the point of view of both the NASD, which is attempting to develop industry standards and Herrick, Waddell, who will thereby have a voice in any efforts by the NASD to develop and apply to it a standard of industry conduct without losing the right to have this Commission pass upon the correctness of such standard and of any disciplinary action which the NASD may take against it. We shall accordingly set aside the NASD's action in this

8 The two officers also received extra compensation in 1940, 1941 and 1943, primarily out of special underwriting profits in those years.

9 Herrick, Waddell claimed that its highest mark-up (11.4% in one transaction) was charged through an oversight. The NASD did not challenge this explanation.

We do not mean to say that mark-ups are proper merely because they fall withing the range of those taken by other firms in the vicinity, for that range may itself include mark-ups which are violative of fair practice standards. But in determining here whether the evidence introduced supports the NASD's conclusions, it is appropriate to compare the range of Herrick, Waddell's transactions with those of the other reporting members.

10 The danger of giving conclusive weight to the use of percentages in comparing Herrick, Waddell's small sampling (50 transactions) with the results of the larger sampling combined from 16 other firms (525 transactions) is emphasized by the fact that numerically 5 of Herrick, Waddell's transactions were at mark-ups of 8-10 percent (10% of the transactions) and that 5 transactions out of the 525 were at spreads of 8-10 percent (1% of the transactions). But the latter 5 are distributed in an undisclosed way among 16 firms, and do not preclude the possibility that at least one of the 16 had a distribution curve similar to that of Herrick, Waddell.

11 The evidence does not disclose the basis for selecting the 39 out of the 50 transactions reported. Our opinion is not to be construed as saying that the NASD cannot condemn a general course of conduct evidenced by a number of transactions, but if that is the theory of the case, it must *a fortiori* give careful consideration to evidence of the general conduct of respondent's business. See pp. 10-11 *infra.*

12 See also: *Duker & Duker*, 6 S.E.C. 386 (1939); *Trost & Co., Inc.*, 12 S.E.C. 531 (1942); *Lawrence R. Leeby*, 13 S.E.C. 499 (1943).

13 The NASD has suggested that if a firm furnishes an unusual type of investment advisory service its charges for such services should be segregated and it should qualify with the Commission as an investment advisor. Section 202 (a) (11) (C) of the Investment Advisers Act of 1940 exempts from registration "any broker or dealer whose performance of such services is solely incidental to the conduct of his business as a broker or dealer and who receives no special compensation therefor"; The question whether Herrick, Waddell comes within this exemption is not an issue in this proceeding and we deem it unnecessary and inappropriate on the basis of the present record to express any views on that question here.

14 *Cf. Sherman Gleason*, ______ S. E. C. ______ (1944), Securities Exchange Act Release No. 3550.

15 In its brief and argument before us, the NASD contended that the disclosure of mark-up made by Herrick, Waddell was inadequate because it disclosed merely the point profit taken rather than the amount of its profit stated in dollars and cents. This contention would not appear to be well taken in view of the NASD's failure to inquire into the adequacy of the disclosure and its disposition of disclosure as "immaterial" to its inquiry. We agree, however, that when disclosure is inquired into as a material factor in measuring reasonableness of mark-up, the extent of the disclosure is properly given consideration. And we agree, too, that disclosure in dollars and cents would in most cases be more helpful to customers than disclosure merely in points.

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SEC Reverses NASD Ruling in Herrick, Waddell Case

(Continued from page 39)

case and remand the record to the NASD for such reconsideration of the case and such further steps consistent with this opinion as it deems appropriate.

An appropriate order will issue. By the Commission (Chairman Caffrey and Commissioners McConnaughey and McEntire, Commissioner Hanrahan concurring in result).

ORVAL L. DUBOIS, Secretary.

(Seal)

APPENDIX A

Exhibit Introduced by NASD in Disciplinary Proceedings Showing Percentage Mark-ups Over Cost Reported by Certain Member Firms in Response to NASD Questionnaire in July, 1944

	District of Columbia Including Herrick, Waddell & Co., Inc.	Herrick, Waddell & Co., Inc.	District of Clumbia Excluding Herrick, Waddell & Co., Inc.
Number of Schedues filed	17		
Number reporting "no transactions"	6		
Total	23		
Total computable transactions	575	50	525
Per cent of Mark-up—			
1% and under	19.7	4.0	21.0
Over 1% not over 2%	15.1	---	16.6
Over 2% not over 3%	15.3	6.0	16.2
Over 3% not over 4%	18.3	10.0	19.1
Over 4% not over 5%	20.0	22.0	19.8
Over 5% not over 6%	4.9	10.0	4.4
Over 6% but under 8%	4.5	32.0	1.9
8% under 10%	1.7	10.0	1.0
10% and above	0.5	6.0	---

Statement of Herrick, Waddell & Co., Inc.

The following statement was issued by Herrick, Waddell Co., Inc., following the release of the foregoing SEC decision:

"The Securities and Exchange Commission yesterday (Friday, March 28) issued an opinion and order, on an appeal laid before it by Herrick, Waddell & Co., Inc., of New York, setting aside the action of the National Association of Securities Dealers in a complaint brought against that firm by the Association in January, 1945. The issues raised by this case have been hotly disputed within the securities industry for several years. The principal issues have been the amount of profit mark-up and the disclosure of that mark-up in securities transactions.

"Barrett Herrick, President of Herrick, Waddell & Co., Inc., said that the Securities and Exchange Commission in its decision vindicating his firm in its controversy with the Association, has upheld the principle long advocated and practiced by that firm, that full disclosure should be made to a purchaser of securities of the prevailing market price and of any addition made by the selling firm for its services to the customer.

"'This issue of full disclosure', said Mr. Herrick, 'has sharply divided the ranks of the Association and of its board of governors for several years, and the decision of the Commission will go far to support those firms who have insisted that a proper regard for the interests of purchasers of securities requires full disclosure of mark-up as one of the many important facts concerning any security. I believe that the entire securities industry will welcome this decision as settling an issue which has been hotly disputed for at least four years.

"'The Commission's decision pointed out that the reasonableness of a profit mark-up depends not only upon the amount by which that mark-up exceeds the market cost prevailing at the time the security is sold to the customer, but also upon all relevant circumstances, which necessarily include the amount and nature of services rendered to the investor. The evidence showed,' Mr. Herrick observed, 'that our charges were fully justified by our investment service to customers.'"

"In its opinion the Securities and Exchange Commission said in part:

"* * * the fact that the member has disclosed the amount of his mark-up to the customer is not only material but is of considerable importance. When a securities firm rendering more than the customary service discloses to its customer the mark-up it will make on the transaction, the customer is enabled better to choose between the services rendered by that firm and what is offered him by others. Such disclosure aids the customer to negotiate intelligently with the firm and thereby tends to remove unfairness which might otherwise be involved in the relationship between such firm and customer. As we have indicated, the question involved here is essentially one of business ethics. And disclosure itself is an indicium of fair dealing and is therefore pertinent to any question of ethical conduct.

"Mr. Herrick stated further that his firm is in full sympathy with the National Association in the latter's attempt to bring about progressive reduction in the charges made to securities customers, especially in the rates and amounts of mark-ups added to prevailing market prices for any special services rendered, such as his firm provides. He said that the firm has effectively demonstrated its sympathy with this constructive program by making three reductions on its own initiative in these charges during the past five years."

H. A. McDonald to Be Honored At Dinner

DETROIT, MICH.—Harry A. McDonald, Detroit securities broker recently appointed Commissioner of the United States Securities and Exchange Commission, will be honored by his associates of the Detroit Stock Exchange and their guests from the financial community at a dinner to be held at the Hotel Statler on April 9, according to an announcement by Milton A. Manley, President of the Exchange.

"This appointment of one of our members is a signal honor to the brokerage profession in Detroit which has always been in the forefront of the fight for higher standards of commercial honor and has labored unselfishly in behalf of the investing public by promoting observance of Federal and State securities laws," said Mr. Manley.

It is expected that prominent officials of the Securities and Exchange Commission and of the Michigan Corporation and Securities Commission will be present to join the partners, officers and senior executives of the city's brokerage and investment banking firms in extending good wishes and pledges of cooperation to Mr. McDonald, who will soon leave for Philadelphia to take up his official duties.

The Labor Government's Failures

(Continued from page 7)

opposite mock at us as exploiters, rack renters and profiteers. It ought not to be forgotten, nor grinned at, that Conservative majorities in both Houses of Parliament in one single afternoon, offered all they had and all that they were worth.

Britain saved herself at that time. Perhaps it may be argued, in the light of history, that she saved the world. But what is so particularly odious and mean, and what has caused this deep schism in our island life, is that this sacrifice so nobly made for victory—not only for our own survival and self-preservation but for the victory of the world cause of freedom—should be used and exploited for party purposes and for the institution of a system of Socialism abhorrrent to the mass of the nation, destructive of the free life we have known here so long, and paralyzing to our native enterprise and energy. Advantage has been taken of the generous impulses of the nation and they have been used for the opposite purpose for which they were given. Rarely has there been such a distortion of trust or breach of ordinary British fair play. It is that malversation of wartime sacrifices, that "fraud on the power" which has riven the nation in twain and rendered it incapable, while the abuse continues, of overcoming and surmounting its many problems and difficulties.

Britain's Lower Level of Existence

I have hitherto dealt with what I call the psychological aspect. I now come to the material things by which we live—a lower level, but still essential for the continuance of existence. I will first deal with bread and coal. I shall be told, "You complained of too much regulation. You, Mr. Churchill, complained of too much regulation about bread, and you also complained of too little regulation about coal. Where do you stand upon control of these two fundamental supplies?" It may be asked—it is a perfectly fair question and I give hon. Members opposite an opportunity to cheer it—"Have you any central theme of thought in these matters, or are you merely taking points off a harassed Government as difficulties arise?" I will answer that question as bluntly as I have put it, but it will take a little while. There was no need for a bread shortage and there was no need for the breakdown in coal. I assert that the shortages which have caused us so much trouble and misfortune, both in bread and coal, are merely marginal and could have been provided against by reasonable foresight and prudence.

Of course, now that the crisis has come, all kinds of emergency measures may be necessary, but if we look back to a year ago, it would have been possible though not easy—many things are not easy nowadays—to maintain sufficient supplies to avoid the disasters which have come upon us. First, take bread. The whole of this process of costly and vexatious rationing, to which even in the crisis of the U-boat war we never had to resort, has only saved so far 290,000 tons of wheat out of a total consumption of perhaps 2,-500,000 tons a year. Why, then, did Sir Ben Smith give away 200,-000 tons of our agreed allocation in April, 1946? Why did the Lord President, in May, waive our claims to another 250,000 tons of foreign wheat which His Majesty's Government had been convinced, and the Food Ministry had been convinced, our people needed? Here were 450,-000 tons that we could have had for our under-nourished people which were whistled down the wind last year for reasons which have never been properly explained to Parliament.

Compassion, charity and generosity are noble virtues, but the Government should be just before they are generous. There is no virtue or wisdom in so far undermining the physical strength of our population that we ourselves have to join the ranks of those who were broken by the war and cease to have the power to help the world even to make the British wheels go round. There are international bodies of great power and force nowadays, and undoubtedly they wil continue. We do not get very well treated on these international bodies, anyhow. We do not seem to be able to stand up for ourselves, for our own rights and our needs. Of course, when the new British Food Minister says that we are on the whole better nourished than ever before, not much sympathy can be expected from international bodies dealing with a number of countries who are not at all backward in making their claims and dilating upon their woes. Let me repeat what the Chancellor of the Duchy of Lancaster is reported to have said the other day:

"Already in this country the people are probably enjoying the highest standard of living in the world. We are not even suffering from as many shortages as people would imagine."

What chance have we got before these international committees of making our case for the hard-working people of this island, when it is given away beforehand by the Minister? I affirm here this afternoon that the British people today are under-nourished. They are less well fed—[Interuption.] I have never heard much anger expressed, in my long experience, from the Left Wing and Radical quarters about anything which got more food to the people. It has always been a point they championed. But now the Government's Socialist policy comes first and the welfare of the people comes second. I say that our people are less well fed in this victorious but precariously balanced island, with its magnificent but at the same time delicate and ramshackle structure of wealth-producing apparatus than are the populations of Holland, Belgium and Denmark. They are three countries which have just emerged from long years of Prussian German Nazi rule.

Food Issue

I say there was no need for bread rationing with all its inconveniencies and the additions to our clerical staffs and paper forms so dear to the hearts of the party opposite. I say there was no need for all this inconvenience if we had not needlessly and wrongfully given up the basic share to which our condition entitled us, which our ships could carry, and which our money, albeit borrowed, could last year and this year at any rate buy.

I challenge the Government directly and in detail, on this food issue. We are frequently informed that 2,400 calories is the minimum daily amount to maintain a human being in a state of health. It was only a few weeks ago that we were told in this House by the Parliamentary Secretary to the Ministry of Food—who is in her place and whose authoritarian demeanour would inspire all, if her agreeable personality did not somewhat discourage it—that our rations gave us less than 1,400 calories, and that from food bought on points, another 200 calories could be derived. 1,600 calories in all. Yet the Chancellor of the Duchy—he has gone—I did not mean to knock him out so quickly. The Chancellor of the Duchy was challenged because the Germans only got, as was said, 1,550 calories. He explained that this was merely the basic ration, and that two-thirds of the Germans were getting rations varying from 2,550 calories to 3,990 calories. I hope it is true. I would not begrudge anybody the food they can get, but how do the statements correspond with the arguments which are used to make us content with the diet which, without having committed great crimes in the world, our nation has now to receive?

We are told, of course, that our people get another 1,300 calories from foods outside the rationed types. Well, I should like to know where. To get 1,300 calories each, persons would have to eat 5 lb. of potatoes or 8 lb. of cabbage every day, and which of us, I should like to know, except perhaps the President of the Board of Trade, would do that even if we could buy such quantities of vegetables and could afford to pay the price which is being charged for them? I am quite prepared to take my share of whatever the British nation subjects itself to, but not necessarily to contemplate receiving with composure the consequences of the mismanagement of the right hon. Gentleman and his colleagues. I repeat that the British people are under-nourished today. This lethargy in work and falling-off in individual output to which attention has been drawn from every quarter of the House, is only partly due to Socialist teachings. It is mainly due to a shortfall in the necessary calories in respect especially of the heavy manual workers. All this is quite apart from the dreary, dull monotony of diet which directly affects incentive. Let us put up a fight for John Bull's food anyhow—[Hon. Members: "Hear, hear."] He will make the sacrifices if he is called upon to do so, but to run him down as low as this is a scandal and a shame.

The whole business of purchasing food and other commodities the State, that is to say the Government officials and Ministers involved, have already shown a lack of foresight and judgment which plainly reveals their incapacity as compared with private traders competing with one another, animated by the profit motive, and corrected constantly by the fear of loss and by the continual elimination of the inefficient. That is a general principle. I say that the wanton and partisan—this is only an incident, but I cannot omit it here—destruction of the Liverpool Cotton Exchange will be for ever held against the distinguished record of the President of the Board of Trade as an act of folly and of pedantry, amounting to little less than bad citizenship.

Coal

Now I turn from bread to coal—[Hon. Members: "Where is the Minister?"] I am sorry that the Minister of Fuel and Power is not here. I intend to devote an important section of argument to the matter for which he is responsible. I cannot, however, consider that the Business of the House should be frustrated by the evidently calculated absence of the Minister concerned in any particular matter which it is necessary to raise. I will address myself to the Prime Minister as far as possible in this matter.

Here in the case of coal the argument is much clearer than in that of bread. The saving produced by all this stoppage of industry, with its measureless reactions upon our means of earning our livelihood in future years, and averting financial catastrophe, has been very small. What does it amount to? The only figure we had was given to us by the Prime Minister. He said there was a saving of 550,000 tons at the electrical generating stations. That is much less than a single day's output of the mines. How much should I add for the other direct saying: two, three, four days' output? The Government have not told us. Perhaps I should say it is four days—five at the very most. That is all we have saved by the whole of the inconveniences and hardship inflicted on the domestic consumer and the stoppage of industry, leading, mind you, to a rise in unemployment only just short of the previous high peak of unemployment, the last time a Socialist Government was in office in 1930.

It is no pleasure to me to hit the Minister of Fuel and Power now that he is down—I do not know whether he is out or not, but he is certainly not here. I must, however, mark his total lack of foresight. The misleading statements which he made repeatedly are so notorious that I will not trouble the House by quoting them, though I have them here. They have certainly robbed him—I say this seriously to the Prime Minister—of the credence and confidence of the public. Everyone knows he is a very straight, honorable man in private life, but no one will believe his statements about the coal situation in future, and no statement that he makes will receive the slightest attention. It is a matter which certainly should be considered, and which perhaps explains his absence from our Debate this afternoon. He failed to persuade the Cabinet in good time or else they failed to persuade him—I cannot tell, naturally—but he failed to persuade the Cabinet of the calamities which would come upon us, if we ran short of the few odd millions of marginal coal which should be kept as a sacred reserve, as what is called the distributional minimum or, in the "Digest," distributive stock.

There were produced in the year 1946 189 million tons of coal. If we had had only 4 million or 5 million tons more, we could have got through without this disaster, and with something in hand. Five million tons extra, and we should have come through this hard, hazardous winter without a breakdown. The plainest warnings were given. It is remarkable, looking back, how often the figure of 5 million tons of coal was mentioned. Belatedly, the Minister of Fuel and Power himself realized it—"What stands between us and success this winter?" he asked on September 26 of last year. "A matter of 5,000,000 tons of coal." On that coal, he said, depended the salvation of this country. And Mr. Horner—Comrade Horner—speaking at a coal production conference at Edinburgh on October 6 said:

"For each 5 million tons of coal of which the industry might be short, there will be a consequential loss of employment to more than 1,000,000 people."

There was certainly not any lack of warning from that quarter. Five million tons of coal. Why, the Government allowed its Minister of Fuel or its President of the Board of Trade to export 9 million tons, no doubt with very good reason, in this same year. No doubt the reasons were good but, nevertheless, 9 million tons of coal were exported in bunkering or otherwise during the year, and of 5 of these 9 millions kept at home, or 5 millions imported in good time, would have saved us from a breakdown in the whole of our productive industry which will cost us directly tens of millions and, indirectly, hundreds of millions in the productive energies of our people.

It is no new topic. We watched the coal position vigilantly every year of the war. We took the necessary difficult decisions each year in good time. In January or February you must always make sure that you will be able, by the winter, to build up your stocks to the normal 18 million tons of coal or thereabouts, so that you do not drop below the distributional minimum on account of any extra winter consumption. All through the war, we succeeded in keeping this reserve intact. The President of the Board of Trade stated in his comprehensive speech two days ago, that during the war we had steadily reduced our stocks. That is quite untrue.

The President of the Board of Trade (Sir Stafford Cripps) *indicated dissent.*

Mr. Churchill: It is no good the right hon. and learned Gentleman shaking his head; he cannot alter his own "Statistical Digest," or what he calls his own "Statistical Digest," by shaking his head. Our so-called distributive stocks, parcelled out throughout the whole country for the daily consumption, in the winter of 1944, were larger than those in 1939. In the intervening years between 1939 and 1944 they were larger still. Why then, did he say to the House that we had eaten into, or worn down our reserve of coal during the war? It is quite inaccurate. The right hon. and learned Gentleman two days ago, with a great deal of emphasis, lifted up this book which I hold in my hand, and charged hon. Members that they had probably never read it or would not recognize it. He took it as a book for which he should have the credit—"Socialism gets things done"—as if he had published this book, brought it out. Why, this very return, this "Digest," was brought into being at my wish, in the autumn of 1940, but, of course, in the war the figures could not be published. What the right hon. and learned Gentleman has done is to claim the parentage and the credit—if credit there be for such an obvious act, as to make it public.

However, while he has made it public, and lectured hon. Members of this House on not studying it with more attention, there are some facts in it which have at any rate escaped his omniscient eye. The first one is that there was no inroading of stocks under all the cruel, hard necessities of the war. The figures can be found on page 20. For the first time, in the dawn of 1945, the National Government of those days saw the red light. We have a record of what happened at the turn on that year. The usual coal scrutiny was made, as it ought to be made by the responsible Ministers at the head of the Government, 10 months before the event. It was reported to me that we should have in April—April is the key month, because then we turn from the winter expenditure to the summer scale in the coal year—only 10 million tons instead of the normal 12 million tons which we had always considered the minimum, and therefore it would be difficult to build up to more than 16 million tons by the end of October. Look at that—January, 1945. Those were very rough days. The Von Rundstedt offensive which had been launched in the Ardennes was still in progress. We were preparing to cross the Rhine. Everything was being strained for that. Nevertheless, at that moment, rather than fall below the minimum precautionary coal reserve, I sent a minute, being well advised, to the Minister of Fuel and Power—my right hon. and gallant Friend the Member for Pembroke (Major Lloyd-George) the bearer of a famous name—stopping all further commitments to export coal, even to the Armies, without my express permission.

Seriousness of Coal Shortage

It is a very serious thing to run short of coal in this island when a matter of five million tons can save it. It can ruin the whole of one's war making capacity. What happened after I left office I do not know. By the winter of 1945 the Socialist Government had only built up our distributive stock to 13.8 million tons. Fortunately for them, industry was changing over and had not got fully into its stride. The winter was mild, so we got through to the spring without any major dislocation. That was a period for which we were jointly responsible. There was the National Government, followed by the Conservative Government at the beginning, and the right hon. Gentlemen opposite at the end. What happened then? In April, 1946, the so-called distributive stocks were down to less than seven million tons—smaller than they had ever been in this century. Surely, then the danger must have been glaring.

The National Government had taken extraordinary measures when our stocks dropped to 10 million tons; it was a very strong measure to check the supply of fuel to the Army when we were pushing a great operation. It is true we can always rely on them having a little up their sleeves. The quartermaster spirit is not lacking in the ranks of the British Army, but still the position was very serious. We took these extraordinary measures when the stocks dropped to 10 million tons. The present Government, however, who have been so busy with so many important intellectual exercises, do not seem to have taken any care, although the stocks dropped to seven million tons. For a year it must have been obvious that, without exceptional measures, we should never reach the desired 18 million tons by the autumn. That was the time when the Government should have realized what impended. That is the time when they should have taken steps to meet the otherwise inevitable catastrophe—a catastrophe which would have happened, whatever the weather. The weather has added to the misery and discomfort of all our people, but it has not altered the march of economic events in a decisive fashion.

Why did not the Government do anything? I ask the Prime Minister to let us know tonight. We were not at war then. All our enemies were conquered. The seas were opened. I am told there is more tonnage afloat now than there ever has been. A little ordinary forethought and a little planning, would have made sure that the necessary minimum of stocks in reserve were not lacking. I cannot understand the answer to this question. Why did the Government not buy more coal? If they could not get it in any other way, why did they not buy it? I am assured that it could have been bought. Five million tons would have done it, and more than done it. It might have cost £8 million or £9 million, but if we did not want it, we could have sold it again. We should have wanted it as it turned out, and we should not have sold it again.

Planning Utopia

Here are these gentlemen who are all so clever and eager to make an earthly Paradise, where all the work does itself, where all we have to do is to soak the rich—if any can be found—and hire more officials for control, if there are any unemployed. They had forgotten this elementary precaution. They were so busy planning Utopia, so ardent to score off their party opponents that they forgot their duty, they gave away our bread, and forgot our coal. If five million tons of coal had been bought in the last 12 months, in America or South Africa, it would not have stopped this hard winter but, at least, we would have had the means to come through it without a collapse. It is not a very good advertisement for Socialist planning. In fact, a frightful injury, easily avoidable, has been inflicted upon the wage-earning masses and the unhappy middle class, which will lead to worse privation in the future. That is one of the justifications for the Amendment which I am moving.

Consumption of Electric Power

Before I leave the subject of coal, there is one other fact upon which I must correct the President of the Board of Trade. On Monday I asked whether the rise in the consumption of electricity had not been offset by the corresponding reduction in the domestic consumption of coal. The right hon. and learned Gentleman's answer was:

"No Sir. The right hon. Gentleman is quite wrong. There has not been a corresponding reduction at all." — [Official Report March 10, 1947; Vol. 434, c. 981.]

According to this "Statistical Digest," of which we share the parentage, in 1938, the last prewar year, the domestic consumers got 45,500,000 tons of coal. In 1946, they got only 31 million tons of coal—a drop of nearly a third. In the same period the consumption of coal for electricity works increased by about 11 million tons, from 15 million to 26 million tons. But of this, as the Secretary of State for the Dominions informed us in another place, only about one-third is to be reckoned against the domestic consumer. Thus, whereas the domestic consumer was cut by 14,500,000 tons of coal, and as his or her—the housewives come into this—increased use of electricity corresponded to less than four million tons, there was a net reduction of 10 million tons in 1946 as compared with 1938, which is the last prewar year. The population has not diminished. The ordinary people still feel the difference between heat and cold. They still have to use fuel sometimes to cook their dinner. Why, then should there be this severe reduction in the supply of coal? I venture to think that the right hon. and learned Gentleman should study more carefully than he evidently has found time to do, with so much on his hands, this Digest which he commended so ceremoniously to us the other day.

So much for bread and coal. I think I have answered that question—that the government could have avoided both these shortages by taking reasonable precautions, and that any other government which has ever sat on the benches opposite would, in the normal working of its affairs, have had the foresight to take these quite manageable measures in good time and not lead us where we are today.

About Housing

I must say a word about housing. I am sorry that the Minister of Health is not here, and still more sorry for the cause. We are glad to know he is improving in health. We shall all be very glad to have him back here, in order to bring home to him the position in which we stand. The destruction wrought by the enemy by the bombing of our homes raised the building and repair of our houses to the very first urgency after food and fuel. In nearly two years, in spite of all the regulations, penalties and paper forms, we built fewer permanent houses than were built every two months under private enterprise and Tory government before the war. Remarkable. In those two years when it was really Operation No. I, fewer permanent houses were built than were built in the ordinary course of affairs, under private enterprise and a Tory government before the war. [Hon. Members: "What about after the last war?"] I thought it was coming. We shall, no doubt, be reminded of Dr. Addison, now Lord Addison, K. G. We must, no doubt, be reminded of his failure after the previous war. It is quite true that he was a great failure; and he was dismissed by Mr. Lloyd George, with lively Labor approbation. It is no part of my duty to defend Lord Addison today. But the need of rehousing then, was not comparable with what it is at the present time, because the cessation of building was not so complete and prolonged, and millions of houses had not been damaged or destroyed by bombing. Besides, everyone should live and learn.

We improved a lot of things in the war which has just finished, from the mistakes made in the 1914-18 war. Certainly we ought to have rectified a lot of the mistakes made in the last peace, in the one which has now come to us. I am sure it would have been possible, with energy, ingenuity and good will, for the Minister responsible to set in motion again the vast, flexible, complete system of house building, both by private enterprise and by local authorities, which in the years before the recent war, was producing houses of a good kind for letting or sale, at a rate four times as rapid as that of which the government can boast, today after two years of peace and nearly 20 months of office. Socialist propaganda and trade union prejudice have attained a remarkable result in Lord Quibell's case. Here was a Socialist peer, a former and much respected colleague of ours, who tried to stimulate house building by a system of bonuses for the builders, through the number of bricks laid per hour. The builders liked this system, and responded to it. Up went the production rate. Well, we all know what happened to Lord Quibell's scheme. And this is typical of what is happening all over the country.

National Expenditure

I turn to the national expenditure of money and manpower. I will mention only a certain number of items which might demand the attention of the House of Commons. First of all, instead of leaving the Germans to manage their own affairs and helping them as much as we could, as Christian men, while stopping rearmament, we are spending £120 million a year on trying to solve their problems when we cannot solve our own, in trying to teach them all to hate the Nazis and only succeeding in teaching them to hate us. Then there is Palestine: £82 million since the Socialist Government came into power squandered in Palestine, and 100,000 Englishmen now kept away from their homes and work, for the sake of a senseless squalid war with the Jews in order to give Palestine to the Arabs, or God knows who. "Scuttle," everywhere, is the order of the day—Egypt, India, Burma. One thing at all costs we must preserve: the right to get ourselves world-mocked and world-hated over Palestine, at a cost of £82 million. Then there is all this silliness, amounting almost to lunacy, about the spending of the American Loan. I must say, I thought it was to be used to re-equip our factories and plants, and to give us the essential food while we got on our feet again. But apparently far less than one-tenth—I am not going into smaller fractions—was spent on re-equipment, and all the rest is subject to further decision.

Then there is the story about the dried eggs. Half the foreign exchange spent on dried eggs last year, if devoted to bringing in maize, would have given twice as much real nourishment to the British people, and there would have been the chickens as well. But no. The maize must go to the delightful people in Yugoslavia and Albania, who murdered 44 of our sailors a few weeks ago. Indeed, some of it may have gone to the Poles and Czechs who, I understand, are offering to export eggs and poultry to us. Then there are the Poles in this country. I would have had them all parked out suitably in Germany, far from the Russian or Polish lines, within six months of the end of the German war. It never occurred to me that anything else but that would have been done. Now they are with us

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The Labor Government's Failures

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here, eating, I am told, in many cases, better rations than we are allowed to have ourselves. I am sorry for these men; they are brave men who have defended their country's cause. But presently the Government will have a bitter quarrel with them; a quarrel which has begun already. Surely, it would have been wiser, in principle at any rate, to have 180,000 Poles in Germany and 180,000 more Englishmen at home? Then, of course, we are told it might have offended Russia. His Majesty's Government have been very successful in not offending Russia. Perhaps they will allow me to offer my congratulations on that.

At the present time we have the pleasure of being administered by 460,000 more civil servants—double the size of the pre-war Army—than we had before the war began, at a cost calculated at £150 million a year. The Socialist ideal is to reduce us to one vast Wormwood Scrubbery. I do not wish to exaggerate it, because it is quite true that at Wormwood Scrubbs there is only one official to every four prisoners, whereas up to the present we have the advantage of only one official to look after every eight wage earners or producers. There is nothing like getting the facts accurately. I am looking at the expenditure of the year. I hope the Chancellor of the Exchequer will be following this discussion, for I am sure he cannot be entirely blind to some of the tendencies which I am indicating.

We come now to the Minister of Defence. As I say, I was glad not to have heard his quite unexpected performance yesterday. I have a regard for him, and I also think that a Minister of Defence should stand a little aloof from party and Parliamentary disputes. [Hon Members: "Why?"] Because he is supposed to run the Services, in which all parties take an interest from one point of view or another. Of course, I doubt whether he has improved his prestige and authority by the exhibition he made of himself last night.

I am bound to say, I hope the Service Estimates will be examined by the House with great care. Quite apart from the fighting strengths which have to be maintained—which I am not arguing today—I fear a very great degree of non-effective padding has been introduced into all three Services under a lax and incompetent political control. I should like to know, as the result of a searching inquiry, whether, for instance, in the Navy there is not a much smaller proportion of men afloat to men ashore, or of men afloat to the money we pay, than has ever been known before. I should like to see some figures on that. I should like to know whether in the case of the Air Force, there is not an ever-increasing ground-staff compared with those who fly; and in the case of the Army, whether the proportion of fighting men—which is, after all, the end and object of military forces—is not getting continually smaller. It is the old story I have often told of the teeth and the tail. At the moment, I believe, the teeth are falling out and the tail is growing ever longer and fatter. Surely, the Chancellor of the Exchequer and the House of Commons as a whole should take some interest in this aspect.

I suspect, moreover, that the military, naval, and the Air Force chiefs, for whom I have the greatest regard, are not sufficiently controlled in these financial aspects by the present Government. The control by Parliamentary Ministers of the Services is more important in time of peace than in time of war, when military views necessarily predominate. We have weak or absentee Ministers in all three Service Departments. All three heads have been changed in a year. There are new Ministers now. There is a new Minister of Defence, if he would not absorb himself entirely in politics. Nevertheless, it is the duty of the House of Commons to make sure that strict Parliamentary and financial control should prevent waste, and overcharge to the public. It is doubly important now to reduce redundant non-effectives — quite apart from strategic issues—when so many of our troops are abroad and, consequently, affect our limited foreign exchange.

There are two great topics with which I ought, certainly, to deal, agriculture and finance; but I cannot trespass too long upon the indulgence of the House. [Hon. Members: "Go on."] The first of these topics was dealt with last night by my right hon. Friend the Member for Saffron Walden (Mr. R. A. Butler); and we shall explore, or ask to be allowed to explore, most thoroughly in the near future, the very grave situation in home-grown foods, and future plans for growing them. As to finance, I shall follow the example of the Chancellor of the Exchequer, and reserve what I have to say on that dominating subject until the Budget, which is now not far distant.

Destroying Free Markets

The French have a saying, "Drive Nature away, and she will return at the gallop." Destroy the free market, and you create a black market; you overwhelm the people with laws and regulations, and you induce a general disrespect of law; you guillotine legislation in the House of Commons, and pass masses of Orders in Council. You may decree that a builder who builds a house without a license is liable to seven years' penal servitude, but you will find that juries will not convict him. You may try to destroy wealth, and find that all you have done is to increase poverty. In their class warfare, the Government have no right to appeal to the spirit of Dunkirk.

I read with interest, and not without surprise, paragraph 9 of the White Paper. The House, no doubt, has it in mind. The point that struck me was this:

"Our methods of economic planning must have regard to our special economic conditions. Our present industrial system is the result of well over a century's steady growth, and is of a very complex nature. The decisions which determine production are dispersed among thousands of organizations and individuals. The public is accustomed to a wide range of choice and quality in what it buys. Above all, our national existence depends upon imports, which means that the goods we export in return must compete with the rest of the world in price, quality and design, and that our industry must adapt itself rapidly to changes in world markets."

The Leader of the Liberal Party must have been very pleased at this. It carries us back to the old days of Adam Smith and John Stuart Mill. It carries us back to the periods when the laws of supply and demand had some validity, and when the qualities of free enterprise, hard work, thrift, contrivance, and good housekeeping were said to be the sources of national wealth. This paragraph 9 of the Government White Paper might have been conceived by Mr. Gladstone or Mr. Bright. It might have been in the clearcut language of Herbert Henry Asquith, in the days when the calm lamp of Liberal wisdom shed its refulgent gleam upon a happier world. I wonder who was the civil servant who wrote this for his Socialist masters? Out of the 2,000,000 we have at present, he should be the last one to be sacked? What is the meaning of this death-bed confession? It is the recognition that the life of this island people of 47 million, cannot be maintained under the Socialist system. It is a confession that not only have we been deeply injured by all the Government's neglects and mismanagement of our ordinary daily affairs, but that the Socialist dream or the Socialist nightmare — which you will—for which so much of our great prosperity has been sacrificed, is false and foolish, and that it would not enable our present numbers of people to inhabit this island or maintain the standard of life to which we have hitherto attained. Why, then, with a situation so complex, throw a series of nationalizing spanners into this indispensable system, which is the "steady growth of well over a century"? Why do it wantonly at a time when external facts are so adverse, and all the resources so scarce?

Inefficiency of Government

Let me put this case in more general terms. In most cases, management by private enterprise is not only more efficient, but far less costly to the wage-earners, than management by the huge official staffs now quartered upon the producers. Let every man now ask himself this: Is it the interest of the wage-earners to serve an all-powerful employer—the State—or to deal with private employers, who, though more efficient in business, are in a far weaker position as masters? Is it the interest of the housewife to queue up before officials at public distribution centres, as Socialism logically involves, or to go as a customer to a private shopkeeper, whose livelihood depends on giving good and friendly service to his customers? Of course, the State must have its plan and its policy. The first object of this plan should be to liberate and encourage the natural, native energies, genius and contrivance of our race, which, by a prodigy, have built up this vast population in our small island, and built up a standard of living which, before the war, was the envy of every country in Europe. The first object then, is to liberate these energies; the second stage is to guide and aid all the forces that these native energies generate into the right channels. The Government have begun the wrong way round. They have started with control for control's sake on the theory of leveling down to the weakest and least productive types, and thus they have cramped and fettered the life-thrust of British society. I have assembled and cited all these examples of the foolish misdeeds of the Government as an explanation and justification of why we have no confidence in them, and why we regard their continuance in office as a growing national disaster.

If I turn to the future, it is only for a moment. In considering the future, one is on much less certain ground, first of all, because we do not know all the facts, and it is foolish to prophesy unless they are known, and, secondly, because it is always difficult to strike the true note between giving a necessary warning and spreading despondency and alarm. I do not wish to emphasize unduly the various degrees and forms in which the crisis will present itself to us in the next 12 months. In the White Paper, the Government have certainly gone a long way in indicating some of our principal dangers and have not shrunk from confessing that much of what they have been teaching all these years to the wage-earning masses is false, or that the great hopes they encouraged and the promises they made at the General Election are falser still.

Cannot Save Country With Class Warfare

One thing appears to me to be perfectly clear. The Government cannot save the country and carry on the class warfare and a Socialist program of nationization at the same time. They must choose between the two. Either they must go down in a measureless crash with their party flags nailed stoutly to the mast, and carry our country down too, or they must make an effort by dropping their Socialist legislation, by freeing industry and enterprise from the trammels in which they have entangled them, and by restoring, at the earliest date, the outraged sense of national unity, to get out of the troubles in which we are. That is their choice, and their only choice. We have not the power to control their decision. The choice is theirs, but on it our fate depends. Whatever they decide, we shall do our best to minimize the evils they have wrought. We shall inculcate obedience to their decrees wherever these affect the national safety or well-being, even though we dissociate ourselves from all responsibility for the ruin now facing the land.

We do not desire a Coalition. We do not grudge the Ministers their offices, and certainly not their cares. Nevertheless, we must earnestly hope that the Prime Minister and his principal colleagues will take the right turning at this grave moment in British history. The speech which the right hon. Gentleman made at Hanley to win party cheers on 15th February was ominous. It was not up to the level of events, nor was it worthy of the hour. I trust that tonight, he will have the courage to strike a truer note of national leadership, and one more worthy of his wartime record in both the wars.

I have two convictions in my heart. One is that, somehow or other, we shall survive, though for a time at a lower level than hitherto. The late Lord Fisher used to say "Britain never succumbs." The second is that things are going to get worse before they are better. Before the glowing promises, by which the wearied and unthinking people were seduced at the General Election, have been atoned for, all of us, wherever we sit, will have much to endure. We are bound to give the warning while the time remains. It is right to arouse our people to the peril in which they stand. Only when they realize fully the decline and descent psychological, social, financial and economic, into which we have fallen, and, in part, been thrust, since our glorious victory, will those forces arise in the land in which redemption and recovery can be found.

Robt. Fischer With Fahnestock in Chicago

CHICAGO, ILL. — Robert J. Fischer, formerly a partner of Russell, Brewster & Co., is now associated with Fahnestock & Co. as manager of the Chicago office, 135 South La Salle Street, it is announced.

Prominent in LaSalle Street business circles since 1914, Mr. Fischer is a former member of the governing committee of the Chicago Stock Exchange, a former chairman of the Chicago Association of Stock Exchange Firms and was for several years a partner of Frazier Jelke & Co. in charge of the Chicago office.

Says Buyers Are on Hand-to-Mouth Basis

(Continued from page 4)

is reported due to car shortages, both in movement of finished goods out and raw materials in.

"All in all, inventories have been considerably reduced and better balanced in the last few months.

Buying Policy

"Short-term commitments are the order of the day. Many purchasing agents are on a 'hand-to-mouth' basis in buying readily available materials. One to three months is the predominant purchasing policy. Lengthy commitments are dictated by the lead time of some vendors' production scheduled. In line with inventory policy, forward commitments are generally made only to protect current rates of production.

Specific Commodity Changes

"Many purchasing agents report offers of scarce commodities by brokers at excessive prices. Steel and plywood are prominently mentioned. Buyers are urged to resists this speculative influence on prices by purchasing only from regular and established sources of supply.

"Copper, lead and paper led the field in price advance. Abrasives, ammonia, brass, carbide, construction materials, grain, fats, lubricants, textiles, cast iron and steel scrap are all higher.

"Gasoline may be scarce and higher this Summer as stocks are very low for this time of year.

"Caustic soda still tight—coke in short supply—electrical heavy goods still on long delivery schedules.

"Lumber steady to easing—aluminum sheets and coils improving in supply. Silver is lower—Polystyrene lower—some pipe deliveries better.

"Several industrial expansion projects are reported held up because of high costs for labor and material. One area reports high priced housing is now overbuilt.

Employment

"March continued the February upward trend. Skilled labor is scarce in many sections. Unskilled male help is more plentiful, but female workers are in short supply. Some temporary layoffs have been made because of car shortages and railroad embargoes. Less turnover reported—less absenteeism. Recent quick settlement of rubber and petroleum strikes may indicate there will be no big labor upset this Spring.

Canada

"Business is reported at a high level, with tendency to increase. Employment same as last month. Prices are higher, with considerable pressure on the Government to accelerate decontrol. Buying policy generally from one to three months. Business is very good in Canada."

Emil Schram Named Outstanding "Hoosier"

Emil Schram, President of the New York Stock Exchange, has been named the "outstanding Hoosier of the year" by the Sons of Indiana for his role "in directing attention to the need of broad, free markets in the nation," it has been announced. Mr. Schram, the organization said, will receive a citation praising his "vigorous campaign to awaken the country to the prime need for defending and supporting our way of living built on individual initiative," at the annual dinner of the group on April 11.

Price and Production Policies Need Revision

(Continued from page 13)

Price and production policies typical of the recent past—and of the present day—are a threat to our economy. They arouse fears, prevent stability, generate panics, and ultimately result in the elimination of the equities gained by some in the boom periods. They affect adversely the worker, smaller manufacturer and middle class. Unfortunately for the development of a rational price and production program, our large corporate and financial interests have been increasingly insulated from the devastating effects of bad price and production policies. They have been responsible policies. They have been most responsible for them but have been least affected by the havoc they create. These dominant economic groups have been perched securely on top without subjecting themselves severely to self criticism. That is one major reason for feeling pessimistic about our long-run success in meeting these issues.

Export Drive Merely Postpones Reckoning

Many are now seeking to postpone the day of reckoning by urging huge exports and loans abroad to sustain volume. This proposal will not balance national income and expenditures on a permanent basis. Such loans and aid abroad are imperative and our real responsibility. But such a policy will only breed its own problems, as we learned in 1929. We may even sustain large public expenditures for internal expansion. But they cannot alone correct a major imbalance in our national income and expenditure statement caused by present price and production policies. The economic trends essential for full employment must be operative if such aids as the above can be effective.

Organized labor recognizes the critical importance of these policies on the course of our economy. Its own programs and policies are conditioned by industry's behavior. If price and production programs are adverse to the national, and the worker's best interest, the trade-union is bound to seek protection for its following. Wage policies are shaped by the workers' experiences in our economy, and the results of the operation of their policies. The more uneven the course of our economy, the greater the likelihood that unions will concentrate their efforts on protecting workers against economic abuse. Security then becomes the key to policy. On the other hand, prices and production policies which advance a stable, progressive, full employment economy will always tend to promote cooperative trade-union policies. Trade union economic policies can be most effective in aiding our economy when price and production policies are correct. It is because trade-unions can only affect those by exhorting management to make changes that the trade-union activities can have only a secondary influence. They can be the critics rather than the managers of our economy.

Price policies cannot be considered by themselves. Consumer costs are determined not only by the price of goods but also by the goods from which he can select. If industry is only producing highly expensive goods with many frills and additions, such as our current car models and dress styles, the economic effect is most depressing. Such goods eliminate various strata of buyers and absorb an excessive proportion of the national income on a limited volume. The quantitive demand for goods is reduced with a consequent reduction in the standard of living. Even though the dollar volume remains as high for the moment, such a situation favors excessive mark-ups and profit margins and tends to accentuate the trend toward economic contraction. In our credit economy, it is likely to result in an over-extension of credit. Moreover, the failure to provide goods for the lower income groups restricts the expansionist tendencies in our community, and limits the potentialities for large scale, and more economic, production and new markets.

Prices and Production Must Be Jointly Considered

The policies affecting the goods to be produced are therefore just as significant in determining the course of our economy as the prices themselves. Another policy, namely the level of production employed in determining the break-even point, is as vital in fixing the ultimate price as the mark-ups and financial charges which are added to the calculated costs. Both price and production policies must be considered jointly, therefore, in reviewing industry's price problems.

The market-determined price generally results from the free interplay of "the demands of buyers and sellers where the number of buyers and sellers is so great that such individual policy decisions can exercise no more than an infinite similar effect." Fewer and fewer prices now belong to this category. Many factors have contributed to the diminishing significance of the market-determined price, usually associated with production schedules which expand with rising profit and contract with losses. Most significant is the growing importance of manufactured goods as against agricultural products. Secondly, more and more industries are based on large scale capital investments producing complicated and differential products which reduce the number of active competitors in many fields. Thirdly, business customs and conventions have minimized the number of prices; these include among others "price lines" and uniform national or regional prices. Finally, many legislative developments since 1933 have discouraged market-determined prices. Beginning with the NRA codes sponsored by trade-associations, business has promoted the State Fair Trade, and Price Maintenance Acts; the Miller Tydings Enabling Act and the Robinson Patman Act. Finally the OPA set ceilings on goods to limit the inflationary possibilities on a shortage economy.

Since so many prices are now consciously influenced in varying degrees by producers, it is important to examine the policies affecting businessmen and comment on their influence on the development of this country. Foremost among these policies is the businessmen's aversion to price competition. Markets, he reasons, are not captured permanently through price reductions. Businessmen do not consider price changes as the most effective method of broadening their individual markets. Price cuts lead to retaliation and provide no protection of markets. The consumer who is attracted by price cuts is not a fixed customer. He is likely to transfer his purchases to lower priced competitors. Price wars are costly and destructive, and feared by producers who maintain heavy capital for production. Trade associations have discouraged price competition. They exalt the stabilized price even on a regional or national basis. If adjustments have to be made, businessmen prefer, and some state laws require, that it be in the form of concessions which may assume one of a hundred or more forms other than outright price cuts.

The significance of this trend away from price competition cannot be overlooked. First, it means that we cannot expect extensive price reductions. Producers of manufactured goods, are reluctant to enter upon such price reductions, except through a general consent to do so. That is why the deliberate efforts of the Ford Manufacturing Co. to secure such reductions on a wholesale scale from suppliers is so well attuned to the times. Unfortunately this company had its knuckles rapped by the General Motors Corp. which subsequently raised prices. We cannot expect widespread automatic downward price adjustments in most industries. At best concessions will be granted largely to the preferred buyers.

Second, high cost producers will tend to be sheltered by the dominant interests to avoid price conflicts. Under such circumstances the weaker elements in an industry become more obedient to the dictates of the powerful, who suffer the continued existence of the weak to prevent publication against their practices. Public morality is less likely to be outraged by the semi-monopolist who does not outrightly drive smaller enterprises out of business. The result is to neutralize the competitive position, and the political independence, of the smaller entrepreneur.

Third, prices are likely to be set to maximize profits rather than to assure an economy of full employment. In times of stress production is likely to be curtailed in preference to cutting prices, thereby aggravating employment.

Benefits of Lower Costs Not Felt

Finally, and very significant from labor's point of view, the benefits of lower costs resulting from technological changes are less likely to percolate freely into the price structure. Consumers are therefore not likely to share as much in these benefits. If labor does not secure higher wages, they redound to management exclusively. Such was the experience of the twenties and for the most part during the thirties. The results were disastrous.

The second policy dominating many significant industries is the substitution of non-price competition. Instead of trying to outbid each other for public favor through price adjustments, an increasing number of industrialists have chosen to express their rivalry in a variety of ways unrelated to prices. The emphasis is on quality, service, performance, brand or other differentiating characteristics of the products. Large businesses prefer this method of competition because they enjoy the resources and prestige necessary to build by such means a secure following, frequently at most attractive prices. Smaller concerns tend to atrophy and their disappearance does not tend to stir up public resentment.

This form of competition has become more and more characteristic of industry and explains the continuous growth in advertising expenditures. The development has great significance for all of us. First, it means, as we have previously indicated, that price reductions are likely to be retarded even if lower costs are attained by individual producers. Second, it discourages price flexibility in response to the ups and downs of the market. The automatic market has largely disappeared. Third, it encourages price leadership, patent pools, rigid licensing, basing points and base price systems, which border on business collusion to restrain competition. Fourth, it increases expenditures on many items which add little to the article's usefulness. Fifth, it encourages emphasis on factors which may be unimportant in determining the utility to the consumer. Sixth, it relies on the consumer's credulity, and his power of judgment which he is not prepared to utilize expertly. Seventh, prices lose their direct relation to cost. Eighth, producers are likely to seek their answer to bad times through production curtailment, rather than price adjustment. Ninth, the economy becomes subject to wider fluctuations as corrective price forces are not as easily invoked or sought early in the down swing of the business cycle.

The third policy dominating much of American industry is emphasis on products directed to the middle and upper strata of the American population. This is a normal corollary of the previous two policies. The emphasis on non-price factors has meant that manufacturers have stressed quality and other similar aspects of the product. They have built up the cost of their products so that the lower income groups are unable to buy them. We have already noted that the emphasis of producers on these products has serious efects on our economy. They absorb excessive proportions of our income on a few commodities; they inhibit the rising standard of living; and discourage expansionist tendencies in our economy.

Low Capacity Break-Even Points

The fourth policy is the tendency to fix the break-even points of production at unusually low levels of capacity. In the prewar period a company like the U. S. Steel Corp. maintained a 43% break-even point during the period of 1929-1943; the automobile industry, 57% for the period 1928-1934.

American industry started its postwar planning with relatively low break-even points in mind. This fact is convincingly illustrated by the replies of some 65 industries to the War Production Board concerning the volume of peacetime operations which would represent capacity production and the break-even level. These estimates were probably higher than those actually employed since the replies were made to determine the allocation of new equipment and certifications for new construction. In any event the overall break-even point reported was 52% for industries with capacity production of some $10 billion. Some break-even points were as low as 20%.

In 1945, it was estimated that the break-even point for our economy was 60%. In the reconversion period the prevalence of bottlenecks which retarded production encouraged management to depress break-even points. At the present time it is probably operating at a break-even point of below 50% of capacity. Low points by industry have been deliberately fostered by a desire, in part, to hedge against future business declines. They reflect a lack of faith in our economic development.

These four basic business policies have had far-reaching economic and social effects. Two will be considered. First, they tend to aggravate the usual tendencies to over-savings in our society. The forces which disturb our economic balances are strengthened. The basic inequality in income normally favors large savings as the proportion of saved income in our country rises progressively with income. The high price margins established and recurrent large profits resulting from the foregoing business policies accentuate these inequalities and raise our savings out of all proportion to the active demand for capital. These industries are particularly serious threats to a stable economy as extensive exploitation of our national and international resources has become less practicable. New territories; imperialism; rising birth rates and other similar factors generated high profit differentials essential to investment. Now we are forced fundamentally, to intensive domestic investment. High profit differentials must now arise from major technological changes which render older processes, products and industries obsolete. Unfortunately business is not aggressively pushing technological changes at a rate fast enough to scrap industries at a scale vast enough to absorb our tremendous savings. As a result, the tendencies toward recession are very strong.

True, at present, many areas where competitive prices prevail tend to exploit shortages in an unconscionable manner. Like most of the textile industry, they have carved huge profits and made a financial killing. They are not even being restrained by the more moderate leaders in their groups. Nevertheless, the correction of these price conditions is already in sight in these industries. But there is little hope, short of the pressure from a recession and possibly increased business sagacity such as was reflected by the Ford Manufacturing Co. and the International Harvester Co., that more reasonable prices will be instituted by the vast range of industries where prices are consciously set.

The second effect is that business tries to adjust production rather than price as demand declines. The effect is to accelerate the forces toward recession and depression. This experience is vivid to all of us who recall business behavior during the thirties. These developments have changed the nature of our price and production problems. But unfortunately the dominant business interests have resisted calling attention to these basic facts. The TNEC hearings and publications presented the situation. But their significance was lost in the hustle and bustle of the war period; the findings were relegated to the academic shelf. Even the professors have done little with them.

Remedial Measures Needed

We are in need of remedial measures quite different from those normally discussed if we are to effect a reorientation of price and production policies to make them more consistent with an economy of full employment.

First, technological advances must be fostered to facilitte economic change and the creation of opportunities for intensive investment. Government aid and leadership in scientific study and compulsory licensing of patents are essential. Savings will have a larger use and be utilized in greater volume. Second, an overrising wage scale can perform two functions. It will provide higher buying power, possibly absorb a larger proportion of the national income and therefore reduce saving, and set up costs which will invite greater technological changes. Third, price and production policies must be frankly open to public scrutiny and review. They are deliberate and consciously formulated; they have definitive effects; they should be subjected to public examination to appraise their economic effects. Are they contributing to full employment at rising living levels? Are their break-even points too high? Are their production policies restrictive? It would therefore be desirable to provide public panels where specific price and production policies would be examined not from the point of view of monopoly but from the point of view of their economic effects. These panels should include among others, representatives of labor and consumer. Finally, we would urge industry to give attention to the idea of price rebates whenever they find their preliminary forecasts of prices and profits had temporarily netted a higher-than-planned policy. These four policies can aid greatly in reconciling price and production policies with the national interest.

Growing Importance of Durable Consumer Goods

(Continued from page 4)

tween the two wars. There was the typical growth curve, steep in the early years and tapering off as the industry approached maturity. In addition there was the effect of changes in national output or income. Since business cars are included the best measure of the latter influence is the gross national product.

In 1923 registrations lagged behind the rapid increase in gross national product. After 1929 there was a similar lag on the down side. Over the whole period, however, the growth curve plus the changes in gross national product appear to be an adequate explanation of the number of cars in use.

Using this formula, registrations in 1939 should have been 26.3 millions. They were 26.1 millions. In 1940 they should have been and were 27.4 millions. In 1941 they should have been and were 29.5 millions.

In 1946 they should been 33 millions. Because many people who wanted cars couldn't get them, the actual registrations last year were only 27.6 millions.

By 1952 a high level of productive employment would call for registrations of 38 millions. More than half of the increase over 1941 would be due simply to the growth in the number of families. The balance would depend on the greatly improved buying power of many of those families plus the more intensive use of automobiles for business as well as personal use.

In comparing that 38 million with the 27.6 million cars registered in 1946, allowance must be made for the fact that many of those cars had been continued in use beyond their normal life because of the impossibility of getting replacements. It is true that the pre-war trend toward longer life was continued if not accelerated during the war. But even on the assumption that the average life of a car is now about 12 years, as against 10 years in 1941, there were five million cars still in use in 1946 which would not have been in use if replacements had been available.

Without those over-age cars, registrations last year were less than 23 millions. Thus, the new production necessary to reach the 38 million by 1952 is about 15 million, over and above the normal replacements over the next several years. Less than half of that demand is the result of the using up of the consumer stock of cars during the war. The balance is split about equally between the growth in families and buying power which has already occurred since 1941 and the further potential growth over the next five years.

Deferred Demand Boom to Be Enormous

The estimate is necessarily rough but it serves to indicate the magnitude of the deferred demand boom. Including the normal replacements of about 2½ million cars per year, the potential demand over the next five years is around 25 to 30 million cars. A five-year output averaging five to six million per year, including only passenger cars for domestic use, is a high figure.

Of course that potential demand depends in part on the maintenance of a high level of productive employment—which in turn is related to the accumulated needs for other goods as well as automobiles. It doesn't mean that that many cars will be sold irrespective of the level of national income and output or irrespective of price.

Looking beyond that deferred demand boom the automobile industry faces a serious problem. Even if the total national output is maintained at a near capacity level, it will take less than 3 million new cars per year to provide replacements and normal growth.

No statistical projection can allow for what the automobile industry may be able to do to expand its market. There is also the possibility that, given sustained high incomes plus the availability of news cars—a combination of conditions which has not existed since 1929—jalopies would be scrapped sooner. Nevertheless the burden of proof is clearly on those who care to argue for an indefinite continuation of the high rate of automobile production that will be reached in the next several years.

If the necessary data were available on other consumer durable goods they would present similar pictures. There would be the backlog of demand resulting in part from the inability to make normal replacements during the war and in part from the desire and ability of consumers to own more than they could before the war. There would be the normal replacement demand varying with the life span of the item. There would be the growth in population plus or minus any increase or decline in the use of these goods.

The conclusions would depend in part on the degree of saturation of particular markets. In general, however, this type of analysis naturally leads to the anticipation of a deferred demand boom followed by a period in which the prospects for maintenance of anything like that high volume appear extremely dubious.

There is another point of view from which the longer-term future looks a little less gloomy. Fortunately the market for durable goods in general offers a more promising future than the market for particular goods. There is no evidence that the consumer has ever run out of ideas as to what he would like to buy with the next dollar.

Percentage of Spending on Durable Goods

The chart shows the percentage of their current incomes which consumers have spent for durable goods over a period of several decades. As you can see there does not appear to be any significant trend. Analysis of that experience, however, does throw some light on the future.

For some time before the first World War durable goods accounted for less than 8% of disposable income after taxes. Up to that time there was no clear-cut evidence that, as the country became richer, a larger segment of income was spent for this purpose.

In the immediate postwar years the ratio was around 10%. The increase might be explained by deferred demands. It was in spite of the 1921 depression.

From 1923 through 1929 the average was over 11%. Since any deficiency of expenditures during the war already had been made up, there must have been other reasons for the jump from 8 to 11%.

One reason was the high level of residential construction. New houses call for new furniture, furnishings and equipment. Moving into a new neighborhood is likely to renew the competitive process known as "keeping up with the Jones."

Another reason was the development of new durable goods which competed for the consumer's dollar. The outstanding example was the automobile, but there were also the radio, the electric refrigerator and other appliances. In part these were substitutes for other durable goods and in part they were net additions.

Another reason was the consumer's attitude—his willingness to spend. What the economist calls the consumption function was relatively high. This reflected consumer confidence in the future—confidence based on a sustained period of prosperity—what was later referred to rather contemptuously as the "New Era psychology." The stock market boom also encouraged spending even though in reality consumers could not add to their aggregate income by selling securities to each other.

Still another reason was the advent of installment selling. People who did not have the price of a durable good paid for it as they used it. This making it easier to buy was more important than the resulting mortgaging of future income which caused so much apprehension in some quarters.

The Depressed Thirties

In the depressed Thirties the percentage of income spent for durable goods dropped back to the ratio prevailing before the first World War. The surprising thing is not that it declined but that the drop was no greater. The life span of a durable good is rather elastic depending on the finances of the consumer. Having acquired a greatly enhanced inventory of those goods he could afford to postpone replacements temporarily in order to meet other needs out of his depleted income.

The influences making for a high rate of outlays in the Twenties were reversed. Residential construction, with all of its collateral demands, was at a low ebb. The depression offered an unfavorable climate for the development and marketing of new goods. It left consumers as well as businessmen acutely aware of future uncertainties and the need for security.

Even as late as 1940 these depression influences were still felt. There were seven million unemployed. The real income per family was still below 1929. The percentage spent for durable goods had recovered somewhat but was not back to the ratio of the Twenties.

During the war the expenditures dropped to a very low level simply because the goods were not available. Today the percentage of current income spent for durable goods is already close to the previous peak. It would be even higher if the goods were available. In fact it is likely to be substantially higher before the end of this year.

This high ratio reflects accumulated demands, resulting both from the deficiency of wartime outlays and the catching up with the growth in population and buying power. The historical record on this chart, however, does not support the possibility of any such ultimate running out of demand as was indicated by the analysis of the automobile market. Expenditures have declined because income declined or because the goods were not available but not because all consumer wants had been satisfied.

This does not mean that the ultimate running out of deferred demands is of no consequence. As in the Twenties and again in the Thirties, the attitude of the consumer will be one of the variables determining how well national output and income are maintained. As his most pressing wants are satisfied it will be easier for the consumer to save. He will be a little less eager to spend. This is significant not because of the possibility of any major change in the ratio of expenditure to income but because small changes in the consumption function can contribute to a decline in income.

But if income could be maintained, in spite of the running out of the most pressing demands, there would be no such drop in total expenditures as is suggested by analysis of the automobile market. Outlays for automobiles, or any other item, may drop but aggregate outlays would not decline so drastically. There will always be other wants which are not satisfied, other markets which are not saturated.

Unfortunately none of us has the imagination to visualize at all clearly the potential markets for durable goods which could be opened up by a sustained period of prosperity. Any attempt to anticipate which developments, which new products will be important five year from now is likely to be wrong oftener than it is right.

Forty-five per cent of the durable goods outlays in the twelve years before the war were for house furnishings and equipment. All the signs point to a large volume of new home building over the next few years. Depending on the evolution of prefabrication, or other means of producing a better house for less money, this activity could exceed in importance and duration the housing boom of the Twenties.

Fifteen percent of the outlays were for recreation and sports equipment. The trend toward more leisure time, as well as a higher standard of living, should expand these markets.

A comparatively small part of the total was for primarily labor-saving devices such as clothes washers, dish washers and ironers. Many of these markets are far from saturated. The scarcity and high cost of domestic service puts a premium on such devices.

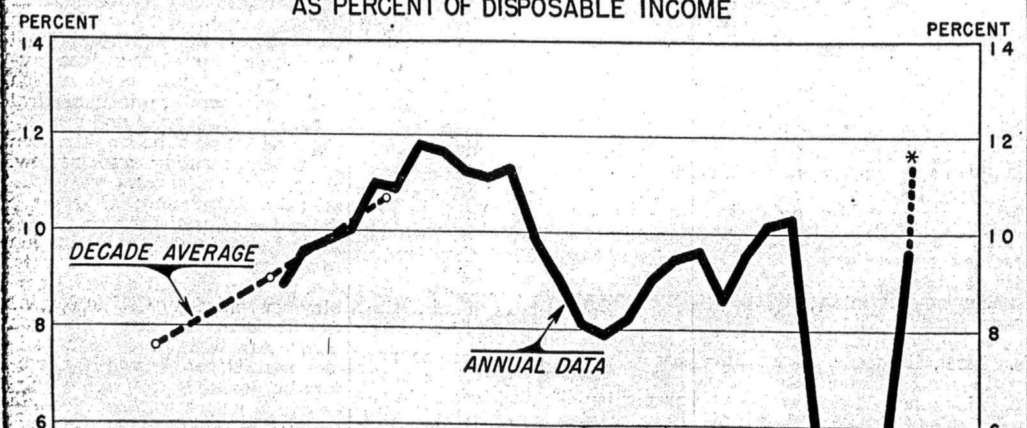
In part the potential is in terms of new products and new markets rather than just more of the same things that were produced before the war. Here any predictions become particularly dangerous. The possibilities can only be illustrated. The market for refrigeration will be supplemented by the market for home freezers. The radio industry can look forward to television.

In brief, the chart involved the circular reasoning so familiar to business analysts. The potential national output is roughly double the 1923 to 1929 average. Out of that output consumers can afford to buy at least twice as many durable goods. Looking beyond the catching up period, this means a vastly increased consumer inventory of such goods, providing a higher standard of living, more comforts and conveniences.

But the market for consumer durable goods is also one of the determinants of the volume of business. For the immediate future there is not much question about that market. The deferred demands and accumulated buying power are taking all that can be produced. Ultimately, however, there will be the problem of maintaining a high level of consumption when the more obvious needs are satisfied.

Analysis of the use and control of consumer credit should be against that background.

CONSUMER EXPENDITURES FOR DURABLE GOODS
AS PERCENT OF DISPOSABLE INCOME



SOURCE: U. S. DEPARTMENT OF COMMERCE, NATIONAL BUREAU OF ECONOMIC RESEARCH. 47-139

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membership or activities, the establishment or maintenance of company dominated unions, and refusal to bargain collectively when a majority of the employes have designated a collective bargaining representative. Commission of an unfair labor practice—by an employer does not constitute a crime nor does it subject him to suit at law. But it does make him liable to proceedings before the National Labor Relations Board and, if found guilty of unfair labor practices to an order directing him to desist from these practices and to make whole, as nearly as can be, the persons injured by his unlawful conduct. But it is only after such an order has been confirmed by a Circuit Court of Appeals that the employer is subject to any penalty for disregard of the Board's order.

The National Labor Relations Act became law in July, 1935 but it did not really become operative until April, 1937, when the Supreme Court unanimously held its provisions to be constitutional. In another case decided at the same time a majority of the Court held that the Act applied not only to what had theretofore been considered interstate commerce, but to all industries, other than agriculture, in which interruption by a labor dispute would in a substantial manner interfere with interstate commerce. These decisions were rendered by the Supreme Court before a single appointee of President Roosevelt sat on that Court.

These decisions upholding the Wagner Act and giving it the broadest possible scope were followed immediately by the greatest wave of union organization we have ever known in this country. Since 1937, union membership has increased from less than 5,000,000 to nearly 15,000,000. The great mass production industries were largely organized at this time. In these industries, however, there was but a short experience with collective bargaining when the war came and interrupted normal developments.

Unions Lose Public Favor

During this period, while union membership and union agreements multiplied, the unions lost favor with public opinion. For this, their own conduct was largely to blame, although by no means all unions were responsible. This was the time of the sit-down strikes and of the attainment of control by Communists in a fairly large number of CIO international unions and of more local unions. In the intense organizational drives of the rival federations into which the labor movement had been split, public interests were disregarded and public opinion flaunted.

Labor paid dearly for this mistake. Labor excesses were an important factor in bringing on the conservative wing in American politics which has been very pronounced since 1938. One of its major consequences has been the enactment in many states, beginning in 1939, of a new type of labor legislation, restrictive of labor unions and their activities in labor disputes. At the same time there has been an all but complete cessation of new labor legislation of the protective type, which until recently was the only legislation to which the term "labor legislation" was applied. The restrictive laws in the states have been very little enforced. In no state other than Wisconsin was there up to last Summer even a single case in which a union has been proceeded against for unfair labor practices. In Wisconsin there have been many cases against labor unions under its Employment Peace Act, but even there many of the provisions which were designed to hit unions have in practice turned out to be additional restrictions upon employers. All actions premised upon illegal closed shop agreements have been against employers. This has been true also of the great majority of cases in which a breach on a union agreement has been charged. State experience indicates that labor legislation of the restrictive type is more of an insult than an injury to organized labor. But just as the employers resented having the Wagner Act forced upon them, so the union workers have felt aggrieved by the restrictive state laws. These laws may to some degree have checked the spread of union organization but, unfortunately, they have not brought labor peace. In nearly every state which has a restrictive labor law the governors in their messages of this year have dealt upon the need for further restrictions, while most of the governors in states without such laws reported that their states had been relatively free from labor troubles.

Since the period, from 1937 to 1941, of the greatest spread of unionism and of union excesses which turned public opinion against the unions, we have been through the trying but glorious days of World War II and the disturbing experience since V-J Day.

During World War II this country had relatively little labor trouble. In the nearly four years of our participation in the war, our direct strike losses totaled only 36,000,000 man days—considerably less than one half of 1% of working time in industrial employments. This was not only a much smaller strike loss than in the prewar years, but relative to our number of workers, the smallest wartime strike loss in any English-speaking country. Many strikes occurred in the United States during the war years. In 1944, there were more strikes than in any other year, including even 1946. But with few exceptions, these were "wildcat" strikes involving few men and, typically, they were settled within a few days. Not a single strike occurred during the war which was authorized by an international union then affiliated with either the AFL or the CIO. Independent unions had a somewhat less good record, but only the coal strikes resulted in any serious interference with war production.

Contrary to a wide-spread impression now prevailing, strikes were not prohibited by any law during the War. Nor did we have compulsory arbitration, as this term is usually understood. The National War Labor Board was vested with authority to decide issues in disputes which management and labor did not themselves settle. But its decisions were merely advisory, with plant seizure as the only possible method of enforcement when the Board's orders were not voluntarily accepted. Plant seizures were resorted to in but few cases and sometimes failed to bring about compliance. But the great majority of the Board's decisions were accepted in good faith by both sides, although they often did not like them. In 21,000 labor disputes cases decided by the War Labor Board, there was defiance by unions in less than 50 cases and by employers in less than 300 cases, the great majority of the latter after V-J Day. More important was the fact that even in war time the great majority of employers and unions settled their own difficulties without resort to the government. As was to be expected from the fact that collective bargaining was so new in these industries, this was less true in the mass production industries than in most other industries.

No Strike Pledge

The strike record during war time, which was on the whole very good, was not due to any legislation or the great wisdom of the National War Labor Board. It is to be attributed to the "No-Strike Pledge," and its faithful observance by the great majority of union leaders and managements. The No-Strike Pledge was a very informal promise of the labor leaders to avoid strikes while the war was in progress and a corollary promise of both management and labor to abide by decisions of the War Labor Board on issues which the parties were unable to settle. The No-Strike Pledge was not kept 100% on either side. It was, however, observed remarkably well on both sides. Typically, labor felt aggrieved because the Board refused to allow as large wage increases as it felt entitled to and as it could have gotten but for the existence of wage controls. On the other side, many managements felt aggrieved because the Board often settled disputes over demands for the closed shop by directing union maintenance of membership during the life of the contract. With few exceptions both sides abided by the Board's decisions. Thanks to the patriotism displayed by them, we got through the trying war period with a minimum of interruption of war production through strikes.

Wartime restraints, however, were productive of much discontent and produced many frictions, which were an important factor in bringing on the serious strikes which plagued this country during the first ten months following V-J Day. Almost as soon as the shooting stopped and at the insistence of both labor and management, the government returned responsibility for the settlement of labor disputes to the parties directly involved. After Aug. 18, 1945, the War Labor Board merely cleaned up its old cases and it went out of existence on Dec. 31, 1945. Wage control was withdrawn except where price increases were sought simultaneously. Labor and management were strictly on their own and, it was hoped, that they would settle their differences through collective bargaining.

Strikes in Mass Production Industries

In many industries they did so, without strikes. But in the mass production industries as well as other establishments where unionism was new very serious strikes developed. From V-J Day through February, 1946, strike losses increased every month. In February they were at a peak of 23,000,000 man days—nearly 4% of working time and three times as great a loss as in the entire year of 1944, the worst year we have ever had for number of strikes. Since February a year ago the trend of strike losses has been downward. It remained very high for three more months. Since early June, 1946 the total of the strike losses has not been so very alarming. Since then we have had only two nation-wide strikes, the maritime strikes of September and October and the second coal strike of John L. Lewis in November. Only in two months of this period was the strike loss as great as 5,000,000 man days, contrasted with above 10,000,000 in each of the first five months of 1946. During the last three months, strike losses have been less than in normal prewar years.

Considering the entire year of 1946, the strike record was by far the worst of any year. Direct strike losses totaled 113,000,000 man-days—three times the combined total of the four war years. There were fewer strikes in this year than in 1945 or several earlier years. But the strikes of 1946 involved more workers and lasted longer. 29 strikes each of which involved more than 10,000 workers accounted for above 75% of the strike loss. These were nearly all in the mass production industries, plus the coal and maritime strikes. In nearly all of the post V-J Day strikes demands for wage increases were the primary issue. Union security figured as an issue (even as a minor one) in less than 5% of all the strikes, compared with above 50% in the prewar years. Of the 4,700 strikes in 1946, only 19 are recorded as jurisdictional strikes. In very few of them was there even a claim of contract violation. The serious strikes of the postwar period have developed after contracts expired and have concerned disagreements over wage rates.

Each side insists that the other was to blame for these strikes Very probably, the old adage, that it takes two to make a quarrel is closer to the truth in most cases than to exclusively blame either. A small number of strikes may have been due to Communists within the unions, as the party line changed when Russia was no longer in danger. A much more potent cause was the belief of many workers that wages had been kept down unduly during the war and that profits were so high that very substantial increases could easily be granted. Even more important in this connection was the steady upward climb in the cost of living. On part of management there was an understandable, but unfortunate hesitancy to promptly grant reasonable wage increases that were clearly called for. There was also a feeling that the time was opportune for a showdown with the unions, to regain management rights lost during the war. Both sides had asked for the restoration of free collective bargaining But to many union leaders that meant, "Give us what we want, or else." And to many managements it meant the right to say "no," without possibility of review by anyone. This may have been free collective bargaining, but clearly was not genuine collective bargaining.

Responsibility for Strikes

Responsibility for the strikes after V-J Day must be shared by the government and the public. The government's policies were uncertain and frequently changed. We had no less than three radically differing wage policies in the first six monhts following the close of the war. Largely dropping wage controls while retaining price controls was most illogical. The press, by giving undue publicity to strikes, tended to produce a situation in which we always seemed to be in a crisis. As was said at the time by a keen observer: "We could make some progress toward better labor relations, if somebody was not always saying that we are in a crisis, alarming the public and magnifying differences." Public opinion, because hysterical, uninformed, and partisan, was a far less effective force for industrial peace than it could and ought to have been.

There is little in the record of the postwar labor troubles of which any one can be proud. But no good can be served in harping upon past shortcomings. With all of the bad strikes we had in 1946, it was nevertheless the year of the greatest peacetime production we have ever known. The 113,000,000 man-days lost through strikes in this worst year represented only $1\frac{1}{2}$% of all working time and less than half of the loss estimated by the National Safety Council as the cost of industrial accidents in this year. The 4,700 strikes during 1936 are to be compared with a total of above 50,000 union agreements in effect in the United States. There were ten agreements reached without strikes for every strike. Many important industries have had few, if any, strikes since V-J Day. Among them are building construction, textiles, men's and women's clothing, rubber, paper, and shoes. The postwar strikes occurred mainly in industries in which collective bargaining was new when the war came and in which there was but little collective bargaining during the war. That serious trouble developed in these industries might almost be said to have been natural.

Recent Strike Trend Downward

The best part of the postwar record is that the trend of strikes has been downward now for more than a year. During the last three months strikes have been at a low point. However faulty the government's handling of this problem may have been in the first period following V-J Day, it has become much more sure and consistent in the most recent period. The government's course of action in the railroad strike of last Spring and the coal strike of last Fall could scarcely have been improved upon for vigor and effectiveness. These potentially most serious strikes were settled without any real damage to our economy and without any yielding to the strikers. But the principal credit for the greatly improved strike picture belongs to the managements and to the unions which have worked out compromise settlements without strikes of the troublesome second-round wage increase demands. When these demands were first presented they seemed likely to produce another wave of strikes comparable to that which followed the presentation of the first-round wage increase demands. But in industry after industry compromises have been worked out, representing settlements, without strikes, which are eminently reasonable and fair to both sides. Through this process, it has been possible to make adjustments to the peculiar situation presented in particular plants, avoiding the unfairness of the $18\frac{1}{2}$ cents per hour increase, across the board and in all plants, which finally became the pattern of the first-round wage increases.

Unfortunately, not all industries to date have worked out such reasonable compromise settlements. In the great mass production industries of rubber, automobiles, and steel there is still a serious possibility of bad strikes ere many months. The same holds true for the railroads, the telephone industry, and, as always, coal. When in the steel industry, on expiration of the contracts in January, it was extended by mutual agreement until the end of April, to allow further time for negotiations, this was generally regarded as an assurance that there will be no steel strike this year. Similar action in relation to the Chrysler contract was viewed as an indication that there will be no automobile strike. To date, however, no compromises have been agreed to in either the steel or automobile industries and the rubber workers are due to go on strike within a few days against the four major rubber companies, unless there is a last minute settlement. Such last minute settlements are exceedingly common in labor disputes and the situation is by no means hopeless. The fact that these are the industries in which occurred the greatest of the strikes after V-J Day, however, is not reassuring. Similarly, it must be deemed a cause of concern that to date the employers in steel and automobiles are reported not to have made any counter wage offers. If settlements are effected in the critical industries mentioned, 1947 may well prove one of the best years we have ever had. But the danger of bad strikes in these industries is still very real.

New Legislation Questionable

What Congress does or does not do will have very little influence upon the chances of avoiding this danger. The long time effects of many of the proposals now under consideration in the Congress are debatable. I have opinions about them, but do not claim to have

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the answers. That some changes in the present legislation may have value in the development of improved labor relations, I readily concede. To make the obligations of the National Labor Relations Act two-sided, instead of one-sided, is clearly desirable. So is the writing into the law of the employers' freedom of speech which is guaranteed by the constitution. Opposition of the unions to requirements to insure the honest handling of union funds and of democratic procedures within unions, I have long regarded as short-sighted and most unwise. Jurisdictional disputes are so unfair to employers that I favor experimentation with governmental machinery for their settlement. If the power of seizure in labor disputes which threaten our entire economy can be safeguarded so as to prevent the serious threat to the continuance of our system of free enterprise which such power carries with it, authority to that effect may appropriately be given the President. Like everybody else who has spoken on the subject, I favor strengthening of the Conciliation Service and believe that, instead of the reduced appropriations proposed by the House Committee, appropriations for this purpose should be increased. There is still other additional legislation which has some promise of being helpful.

My general view, however, is that satisfactory labor relations cannot be developed by law. I do not see the solution of our labor difficulties in politics and have no faith in increased governmental restrictions and authority in this field. Some new legislation may be helpful to get employers over the feeling which is now so widespread that they are the underdogs and that the law is unfair to them. There is danger, however, that this feeling may be shifted to the workers, with the inevitable consequence that there will be a drive ere long for further restrictions upon management, which will reach fruition on the next swing of the political pendulum. Even as now proposed, many of the restrictions intended to operate against unions are likely to prove further restrictions upon the freedom of action of managements. The final net result of reliance upon legislation to solve labor problems may well be, as Cyrus Ching of the United States Rubber Company has often warned, that both labor and management will be bound hand and foot and that the government will dictate all aspects of labor relations, which is pretty much the same thing as the end of our system of free enterprise. When strikes threaten to stop our entire economy the government needs must act. In such emergencies, the government must act to end these strikes by all means within its power. But I would heed the Maxim of Disraeli, "Never expose the impotence of democratic government." I would reserve governmental intervention, going beyond mediation and voluntary arbitration, to real emergencies and not dull the effectiveness of what the government needs must do in crises by too frequent use.

Tests of New Legislation

Good tests of sound new legislation at this time seem to me to be these: Clearly every change in the present law which puts labor in a less favorable position than it was before the Wagner Act was enacted needs to be most carefully scrutinized and generally should be avoided. It is manifestly unfair to impose restrictions upon labor unions which do not apply to corporations, which represents combinations of capital intrinsically much the same as labor organizations. Further shifts of authority from the states to the national government should be reviewed with suspicion. That is why I have said nothing about Federal legislation against acts of violence and such clearly unlawful conduct as mass picketing. Such conduct is unlawful in every state and I believe that we can get effective law enforcement only if public opinion insists upon local and state officials doing their sworn duty, to impartially and vigorously enforce the law during labor disputes, as well as at other times.

Prospects of Industrial Peace

But all this represents something of a departure from the principal subject I am discussing, the prospects for industrial peace in 1947. Whatever may be the long time effects of what Congress may do by way of additional labor relations legislation, it is quite clear that it can have only indirect effects upon the disputes which may result in strikes within the next few months. It is very doubtful whether Congress will act by the time many of these disputes reach the critical stage. Even more important is the fact that the legislation Congress is likely to pass is concerned with issues and matters other than those involved in the pending disputes. The issues in these disputes center around wage demands, not the closed shop, industry-wide bargaining, jurisdictional disputes, or the unionization of foremen. Prohibiting the closed shop in the industries in which it now exists, in most of which there have been few strikes, will not lessen the danger of strikes in the near future in the rubber, steel, automobile, and telephone industries in which the closed shop is almost unknown. Similarly, the demand for the prohibition of industry-wide bargaining comes not from industries which are now bargaining on that basis but from industries which have never had industry-wide bargaining and in which it is not now a major issue.

Conversely, I also do not believe that what Congress may do by way of additional labor relations legislation will have the effect of bringing on another strike wave, as some of the opponents of this legislation are predicting. Should the downward trend of strikes be reversed after Congress acts, it is inevitable that the proponents and supporters of the legislation will be charged with this result. But even in that event, the true causes of the strikes are likely to be much more deep seated than any legislation that Congress may pass.

Major strikes ere long in the industries in which there was so much trouble last year, it seems to me, will be avoided only if labor and management in these industries arrive at compromise settlements, particularly upon the central issue of wages. Neither labor or management is a push-over in these industries, and neither is it at all likely to yield its present position completely. Even if compulsory arbitration were instituted, the final determination is almost certain to be a compromise. The real question is whether such a compromise can be worked out by the parties or must be dictated by government. This presents a test for collective bargaining—whether collective bargaining can be made to work in these industries in which it is still very new.

Making collective bargaining work in such a way that it will preserve industrial peace is not any easy matter. As the bad experience in some industries, notably coal, in which there long has been collective bargaining, illustrates, collective bargaining is not a guarantee against strikes. But world experience, I believe, has demonstrated that the best hope for industrial peace lies in agreement between labor and management.

Collective bargaining involves more than negotiation or even the conclusion of union agreements. It involves the parties learning to live together and making adjustments to their mutual advantage. This is something that the government cannot do for them—something which law, at the most, can encourage but of itself never accomplish.

Developing genuine collective bargaining in industries in which it has not heretofore prevailed is not an easy matter. Management, unaccustomed to dealing with unions, will be alarmed about encroachments upon management rights. Union leaders who have thought and talked of management as if it had horns will find it difficult to reverse themselves.

Outsiders can only make suggestions which labor and management, earnestly seeking to get along with each other, may find helpful. One such suggestion is the old French saying: "When the other fellow acts unreasonably, look inward." But the inward look must be more than a look of self righteousness. Rather it needs to be, as Charles Luckman has said, a look of "humility" without which "there is no hope that either side will bring to the bargaining table those qualities of sanity, moderation, and tolerance which are indispensable for the survival of democracy in industry."

Sympathetic Understanding of Parties

Besides such an inward look of humility, there is needed for improvement in labor relations, a sympathetic understanding of the problems of the other fellow. There is today and has long been a wide gap between the thinking of labor and management. Unfortunately, we even lack appreciation of the fact that there is such a pronounced difference in basic patterns of thought. Many managements do not understand unions and all too often do not try to understand them. On the part of the many unions and their leaders there is very inadequate appreciation of the problems facing management and all too often indifference as to how union policies may affect the survival of a company or industry.

It is false, as asserted by the Communists, that the interests of labor and capital are completely antagonistic and irreconcilable. It is also false, as often stated by management partisans, that the interest of the workers, the stockholders, and management are in all respects identical. Labor and management have common interests in everything that pertains to production. But their interests are not identical on questions concerning the distribution of the joint product. Quarrels over the distribution of production are as old as is production itself. These quarrels will not be adjusted solely by preaching identity of interests. But neither is their hope of peace in class warfare or its constant preachment.

It is frank recognition both of common and divergent interests that there lies hope for reconciliation. Prof. E. Wight Bakke, Director of the Labor-Management Center of Yale University, sees the principle of "mutual survival" as the key to the development of satisfactory relations between managements and unions. Unions will be militant and unreasonable so long as they believe that the employers are seeking to undermine them. Managements will fight unions to the death so long as they believe that the unions are seeking to overthrow the system of free enterprise which has made our economy the strongest ever developed.

Managements need to get over their longing for the "good old days" when there were no unions. When managements seek to destroy unions, they are certain to bring to the top the rabble rousers and the most extreme elements among the union men. Giving status and security to the union is not a guarantee of no further labor trouble but a *sine qua non* in getting along with union.

On the part of labor, a first essential is to convince management and the public that the unions are not revolutionary and do not seek to destroy the American way of life. Unions cannot expect management to deal other than in a spirit of hostility with them, so long as their leaders and their publications are constantly villifying management and stirring up grievances and magnifying them. The prosperity of the workers is dependent upon the prosperity of the company, even though large profits are not a certain guarantee of high wages. And the rights of workers as human beings, democracy in the shop, can be attained and safeguarded without destroying the rights of management and its abilty to successfully conduct the enterprise.

Caution Against Extremists

Both labor and management need to cease taking the advice of the extremists in their ranks. It just does not make sense to follow the leadership of industrialists who have made a mess of their labor-relations and to reject the advice of other industrialists who get along well with unions. On the part of unions, it is high time that they realize that responsibility goes with power. Unions must recognize that they have grown up and act accordingly. On the part of both labor and management, there must be, not merely free, but genuine, collective bargaining—an attitude of tolerance and understanding, an earnest desire to make collective bargaining work, a willingness to explore possibilities for adjustment with an open mind and to make accommodations enabling the other fellow to live and function in accordance with the basic concents of our American democracy and of our American system of free enterprise.

Responsibilities of Public as Neutrals

While expressing my views on what labor and management can do to improve labor relations, I do not want to overlook the responsibility of those of us who are neutrals. We have talked a lot about the rights of the public, but very little about the duties of the public. But in our legal system, every right carries with it a corresponding duty and that applies to the public as well as to the parties directly involved in labor controversies.

A first duty of all neutrals is to be truly neutral. That is impossible if we form judgments on insufficient information and align ourselves with one party or the other, as we are prone to do. It is only when we are certain of all the facts that we can have an intelligent opinion or in any manner contribute to the settlement of a controversy. Generally, neutrals not in official positions can do but little directly towards settling labor disputes. But informed public opinion is a very potent force and can contribute a great deal toward improved labor relations.

The government, as the representatives of the entire public, has important responsibilities in the development of improved labor relations. It is its responsibility to establish minimum standards for the protection of the weak and the unorganized. In all the discussion of new labor legislation, the fact that much of our legislation for the protection of the children in industry and of the lowest paid and weakest of our adults has become meaningless, has been entirely overlooked. Protecting the employer against unreasonable portal-to-portal pay suits is a legitimate amendment to the Fair Labor Standards Act but clearly the present standard of 40 cents per hour in employments in interstate commerce also needs to be changed.

Government can make an important contribution to the improvement of collective bargaining by making available to the parties the latest relevant date. It can do much toward the peaceful settlement of labor disputes by way of impartial mediation and arbitration—and I note here that the Advisory Labor-Management Committee has extended deserved praise for recent improvements in the organization and functioning of the United States Conciliation Service. The government also has the responsibility for maintaining law and order in strikes, which in our governmental system is an executive duty and primarily a state function. When great emergencies arise the government, as I have suggested, must go beyond such measures and, through the exercise of all its powers and with the support of public opinion, end strikes which are really a serious menace to our entire economy.

This program assigns a very important role to government in relation to labor disputes. But it leaves the major responsibility, where it should be, upon labor and management. Governmental determination of labor relations problems represents a departure from our American ideal of self government in industry. In some situations it is necessary, but all of us, I feel sure, much prefer adjustment through the democratic processes of collective bargaining.

Collective bargaining has worked reasonably well in many industries even during the early months of the postwar period, when there were so many great strikes. It did not function in other industries, but in most of these industries there had been little experience with the institution. We cannot be sure that these industries will be able to make collective bargaining work in the public interest as it has in so many other industries. But I see no cause for despair. I believe that if left alone, labor and management in these industries will be able to solve their own problems, with the minimum of governmental intervention we all desire.

John W. Clarke Has Resumed in Chicago

CHICAGO, ILL.—After four years in the Army and the Department of State in Washington, John W. Clarke, President of John W. Clarke, Inc., announces the resumption of the firm's investment banking business on April 1. The firm has moved back into its prewar quarters in the Field Building, Chicago, and will continue to specialize in underwritings, particularly public revenue bond financing.

Lt. Col. J. W. Clarke

During Mr. Clarke's service in the Army, he served with Fifth Army in Africa and Italy in military government work. In the State Department he was in charge of the liquidation of surplus in six countries, including Canada.

With Fabian & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — James B. Blair has been added to the staff of Fabian & Company, 9500 Santa Monica Boulevard.

Should Have No Fear of National Debt

(Continued from page 15)

tional debt because the nation includes the individuals to whom the debt is owed. To count only the *obligations* and to disregard the *creditors* is no more reasonable than to do the opposite and count the ownership of government bonds while disregarding the obligations of the government. That would lead to the more unusual but no more erroneous notion that national debt enriches the nation!

The phrase *"we owe it to ourselves"* is frequently repeated nowadays in mocking tones by those who point out that the "we" does not consist of the same people as the "ourselves." This is true. We must not ignore the effects of national debt on the distribution of wealth between different members of the nation. But we must not let these voices distract us from the first thing we must do if we are to deal intelligently with this as with other real effects of national debt. The first thing is still to get rid of the false idea that national debt is a subtraction from national wealth in the same way as private debt is a subtraction from a private individual's wealth.

Internal and External Debt

If an individual wants to repay debt he must make a cut in his consumption (or investment). There is a real sacrifice. But the repayment of national debt does not destroy any productive machinery or labor power so that no real sacrifice is involved. This is just because we owe the national debt to ourselves.

That national debt can be repaid without any real sacrifice will not appear so surprising if it is borne in mind that incurring national debt does not have the benefits in the first place that private borrowing has. An individual who incurs private debt by borrowing from others can consume more than he is producing. He has a temporary increase in his consumption possibilities when he borrows and conversely he has to pull in his belt when he repays. The nation does not have to pull in its belt when it repays a national debt to its own citizens because it is unable to let out its belt when it borrows.

International and Interpersonal Debt

This harmlessness-cum-impotence is not true of borrowing by a nation from other nations. *International* borrowing is really analogous to private or interpersonal borrowing because, like interpersonal borrowing, it is *from others.* The borrowing does increase available consumption, the debt does indicate a measure of poverty or subtraction from national wealth, and the repayment of the debt is a real burden that involves a decrease in available consumption. But the national debt of the United States does not consist of obligations to other nations and so the analogy with interpersonal debt does not hold. International debt, like interpersonal debt, if allowed to grow too big, may indeed be compared to a man-eating tiger. But internally held national debt has no such potency either in borrowing or in repayment. It is another kind of animal, a tabby cat whose greatest danger lies in the panic that may arise from its being mistaken for a tiger.

The Interest Burden

Many people who recognize the difference between internal debt which we owe to ourselves and external debt which is owed to others, are nevertheless intensely concerned about the burden of *interest payments* on the national debt. They have made careful studies of the possible growth of these interest payments in relation to the national income, and shown that even if the government keeps on incurring more and more debt (which may possibly be necessary to keep the total rate of money demand in the economy from falling to depression levels) the interest payments would not increase in proportion to the national income. The national income is likely to grow faster. (Indeed it is only if the fear of debt scares the government into failing to maintain prosperity that the interest payments are likely to grow in proportion to the shrunken national income.)

Although such calculations are interesting they are useful only to allay the fears of those who think of the interest payments as if they were paid to others—like the interest on interpersonal or international debt—even though they can see through the confusion in the case of the national debt itself. But the interest payments, like the debt itself, also stay within the nation and do not impoverish it any more than they enrich it.

This peculiar half-confusion, which logically is even less defensible than the complete acceptance of the analogy with interpersonal debt, seems to be based on the feeling, especially difficult to dispel, that while it is undesirable to get into debt it is doubly deplorable to borrow money to pay interest on past debt.

If it were really impermissible to do this the interest money would have to be raised by taxation and the taxes might be very burdensome. But since it is possible to borrow to pay interest, taxes need never be imposed if they would do harm. They should be imposed only if there is some other good reason for them quite apart from ~~the~~ need for money by the government to pay the interest.

At this point we must observe a silent development of the utmost importance. In eliminating the imaginary evils that are conjured up by the improper treatment of national debt as if it were owed to others we have completely destroyed the basis for "sound finance." We can no longer have any respect for the precept, which is appropriate for external debt but irrelevant for internal debt, that we should always try to avoid it. Once the irrelevance of the analogy is uncovered there is no reason left for the precept. With this basic financial precept gone we need some other criterion to take its place as a guide to public financial policy.

"Functional Finance"

The new criterion is ready to hand. It prescribes such a regulation of government spending in relation to its taxing that the resultant total rate of spending in the economy, public plus private spending, will be maintained at the level necessary for *prosperity.* A higher rate of spending must be avoided because it would result in inflation and a lower rate of spending must be avoided because it would result in depression. It was primarily because this prosperity could not be maintained by the old rule that the new rule had to be worked out. The theory of it was first completed by the late Lord Keynes. The new rule is called *Functional Finance* because, by freeing our financial policy from the budget-balancing tradition (which is based on nothing but the great false analogy) it sets our financial machinery free to serve the basic *function* of maintaining prosperity.

The True Burden of National Debt

We can now turn from the imaginary to the *real* burden of national debt. If there is a large debt a great deal of interest will be paid on it. The recipients of the interest payments will spend a large part of them. If there is already the required total rate of spending in the economy this extra spending will have to be offset if excessive spending and inflation are to be avoided. This generally means more taxes. It is in these extra taxes that the evil is to be found.

The taxes themselves do not directly impoverish the nation. Even they do not constitute a subtraction from the amount of goods available for the people to consume. They merely prevent higher prices being paid for the same goods in inflation. The evil lies only in the possibility that the additional taxes may be bad taxes. They may aggravate the inequality of distribution by taxing the poor while the rich are getting richer from the receipts of the interest payments on government debt. They may be taxes which interfere with the proper working of the economy, stifling enterprise and initiative. They may be taxes which are avoided and result in illegality and black markets. They may be bad in many ways.

The obvious answer is to have taxes which would improve the distribution of wealth rather than worsen it and which would help rather than hinder the working of the economic mechanism—in a word, to have good taxes and not bad taxes. But this is not easy. When all the good taxes which are desirable on their own account have already been imposed, still more taxes might be needed to offset the inflationary effects of the interest payments on the national debt, and then it would be desirable to have even bad taxes provided they were not worse than inflation. And a tax has to be very bad indeed to be worse than inflation.

So we have this dilemma. After the postwar boom it may be necessary for the government to keep on spending more than it collects in taxes in order to prevent depression. If it borrows the extra money this will increase the national debt. The increase in national debt will increase the interest payments and these will increase the spending by those who receive them. As these expenditures keep on growing, the government will have to increase its taxes in order to prevent excessive spending and inflation, and additional taxes may have bad effects. We must either suffer unemployment or else be prepared to endure the bad effects of such taxes in the future.

The Evils of Prosperity

As between these two horns of the dilemma there can be no doubt that the damage from unemployment is very many times greater than the possible harm from such contingent future taxes. But even these ill effects are not really attributable to the growth of national debt. They are rather the effect of *prosperity* in a capitalistic economy, whether this prosperity is brought about by a policy which involves a great national debt or whether prosperity comes about in any other way.

The maintenance of prosperity involves a growing national debt only to the degree that there is insufficient private investment and the gap is filled by government deficits. Prosperity without government deficits is possible only if private investment is great enough to prevent this gap from appearing. If private investment should be great enough the growth of national debt would be avoided but in its place there would be an equal growth of *private debt.* In place of the increase in the ownership of government bonds there would be an increase in the ownership of shares in the private businesses and corporations which undertake this investment. In place of the interest payments on national debt there would be dividend payments on these shares. In place of increased spending out of the interest payments there would be increased spending out of the dividend payments. We would have exactly the same problem. More taxes would be needed to prevent inflation, and there would be exactly the same contingent evils from the bad effects of bad taxes. The evil would even be larger because the rate of dividend payments is greater than the rate of interest on government debt so that the inflationary pressure would also be greater and a greater increase in the possibly harmful taxes would be necessary. A growth of national debt would have been *less* harmful!

This is the true nature of the so-called evil from national debt. It is really a result of the accumulation of private wealth that occurs if we have continued prosperity in a capitalist society, and in fact the evil is slightly less if the prosperity is brought about by measures involving the growth of national debt than if it is brought about by sufficient private investment. *The evil can be avoided only by avoiding prosperity.* The explicit spelling out of this as the alternative should be sufficient to rule it out from serious consideration.

Perhaps the greatest of the fears that people have about the national debt (second only to those associated with the false analogy with private debt) is the fear that it will bring inflation. We have seen that inflation comes about only if the total rate of spending is too great and that Functional Finance avoids this and prevents inflation no matter what it may do to the national debt. In fact, it is only because of measures to prevent inflation that we had to be concerned about the evils from bad taxes.

The Political Problem

But it is also argued that if we freely permit national debt to grow, giving up the restraints of "sound finance" we will not be able to overcome political resistance to the taxes which may become necessary for the prevention of inflation.

This argument amounts to saying that we must retain the old "sound finance" rule although it is based only a false analogy, and cannot accept the Functional Finance rule in spite of its being based on reason, because the first rule is more easily enforced.

The obvious rejoinder is that there is no sense in applying the wrong rule only because it is easier to apply. But the more important point is that the argument is false. The old rule has lost a great deal of its traditional hold ever since it was observed that in spite of the most terrifying warnings the world did not come to an end when we passed the $47 billion national debt limit or even when we passed the revised $55 billion limit. With the tremendous increase in national debt during the war, and with no observable catastrophies following from it, the irrational sanctions of tradition have lost much more of their force.

On the other hand, the true nature of inflation is becoming somewhat clearer to all. Pressures by particular interests against such taxes, or governmental economies, as are really necessary to prevent inflation can be countered by showing the real harm that would result from submission to the pressures. The interests of those who would be harmed by the inflation can be mobilized against the special interests that would gain from it.

If our democratic society is to live, it will not be by embracing defeatism and habitually conceding victory to the irrational. Democracy can live only by faith in the tendency of truth to outlive error and of reason to conquer tradition. Reason teaches us that the greatest dangers lie not in the possible growth of national debt itself but in the foolish policies that can arise from an irrational *fear* of it.

First Boston Offers New England Gas & El. Association Stocks

The First Boston Corp. headed an investment banking group which offered to the public April 2 77,625 shares of New England Gas & Electric Association 4½% cumulative convertible preferred shares of beneficial interest, par value $100, at $103 per share and accrued dividends. The same group is underwriting an offering of 479,235 common shares being made by the Association to the holders of its old preferred stock under rights expiring April 16, 1947. The offering under rights is at $9 per share. No offering by the underwriters is expected before the end of the subscription period.

The financing is being undertaken pursuant to the Association's alternate plan of recapitalization, as approved by the Securities and Exchange Commission on Feb. 11 and by the United States District Court for the district of Massachusetts on March 10. The plan provides for the elimination of all existing debentures, and preferred and common shares.

Proceeds from the sale of the new preferred and common, together with funds from the sale of $22,425,000 of 20-year 2⅞% collateral trust sinking fund bonds, series A, (which the Association has agreed to sell to the John Hancock Mutual Life Insurance Co., of Boston, following the latter's bid on March 31 of 100.05 plus accrued interest) and necessary additional cash from the Association's general funds, will be applied to the retirement, at par and accrued interest, on April 15, 1947 (with prepayment available on and after April 10) of all outstanding 5% convertible debenture bonds in the following amounts: $13,206,000 due Sept. 1, 1947; $4,747,000 due Dec. 1, 1948; $16,051,000 due May 1, 1950; and $790,800 due Jan. 15, 1962. The Association also will retire, at the same price, $203,700 of its 6% debentures due Nov. 1, 2031.

Under the plan, a total of 1,246,011 new common shares are being issued at this time. Each present $5.50 preferred shareholder will receive eight shares of new common for each share of preferred held and, in addition, will receive transferable rights to subscribe for five additional new shares of common at $9 per share. In addition, common shares equivalent to the number of those unsubscribed on transferable rights, if any, will be available for subscription by holders of $5.50 preferred up to 20 shares of new common for each share of preferred held.

As part of the plan there will be terminated all litigation pending between the Association, Utilities Investing Trust and various corporations and interests which are part of or are affiliated with the former Associated Gas and Electric System. The claims against the Association will be settled by payment of $1,944,550 to Utilities Investing Trust and the trustee of the Estate of Associated Gas & Electric Corp., the former receiving 75% of the total and the balance going to the latter. Upon payment of this sum, all of the presently outstanding shares of $7 cumulative second preferred and common shares, which are now held by Utilities Investing Trust, will be canceled.

Heilman With Mason Bros.

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF. — Charles E. Heilman has been added to the staff of Mason Bros., Central Bank Building, members of the San Francisco Stock Exchange.

Looking Ahead in Casualty Insurance

(Continued from page 9)

national income almost $100,000,000,000 greater than that of 1929, I could believe that these figures are certainly on the conservative side—perhaps even no longer to be relied upon.

If we recall that it was only about ten years ago that Financial Responsibility laws began to make their appearance in the several states and that now these laws have been passed in thirty-seven states, including the District of Columbia, we can readily see why automobile liability and property damage premiums have increased. Ten years ago, it was estimated that only one automobile in three was insured for liability and property damage, whereas the number of automobiles now insured runs, in some jurisdictions, as high as nine out of ten. With these laws now in effect and with the potential increase in the number of motor vehicle units contemplated, there seems to me to be indicated a tremendous increase in premiums for both company and agent.

Trend of Premiums

There is one other factor which seems to me should be taken into account and that is the trend which premiums on automobile public liability and property damage will take. Because of gasoline rationing and the restricted use of automobiles, premium rates were arbitrarily cut during the war and have only now begun to be increased. The greatly increased use of cars has resulted in a mounting accident rate, despite the efforts of safety campaigns. I anticipate that, at least for a few years, this condition will continue, necessitating further rate increases to offset the adverse loss experience; and, while the companies will be faced with underwriting losses, the premium income will steadily increase, resulting in increased business for the companies and increased profit for the agents.

Let use now look for a minute at the record of the workmen's compensation line. It can be said that there was no great development in this business in the years immediately prior to World War II and that rates and forms became greatly standardized and uniform. We do know, however, that industrial activity, employment and wages are major factors in the production of workmen's compensation premiums. As workmen's compensation rates are usually based upon payroll, we know that, as payrolls increase, premiums likewise go up.

Workmen's Compensation Insurance

Let us consider what the future of workmen's compensation insurance may be. It is common knowledge that wages today are far greater than they were just five years ago but few of us realize how much. For instance, according to the United States Bureau of Labor Statistics, the average weekly wage for the period 1936 to 1939 was $23. According to this same source, the figure for the year 1942 was $42.57 per week, which is an increase of 85%. Despite the fact that, in 1942, wages were supposedly frozen in most industries, the average weekly wage in 1945 was $44.35, a further increase of 4%. This was due primarily to the fact that longer hours were worked, thereby invoking the use of overtime scales. With the end of the war the number of hours in the work week were reduced, resulting in a reduction in the average weekly wage. However, because of the almost blanket wage increase of 18½% which occurred in 1946, the estimated average weekly wage for 1946 will be approximately the same as 1945, or $45.00 per week.

Now then, what effect has this had upon the national income? The record shows the following:

1920	$65,928,000,000
1930	68,858,000,000
1940	77,574,000,000
1945	161,000,000,000
1946	164,000,000,000

The estimated figure for 1946 is a distinct surprise as it was expected that 1946 would show a large drop from the war time high of 1945 and probably would not exceed $130,000,000,000.

Many prophecies are heard that a depression will occur during 1947 which will result in a decreased national income but I cannot agree with this view. In my opinion, the only thing which will cause a recession is a long-continued period of labor-management strife such as we had in 1946. This I do not anticipate as I feel that the leaders of labor have analyzed pretty carefully the 1946 elections and are prudently softening their demands to remove from Congress the urge to pass punitive labor legislation. I am hopeful that, with this pressure reduced, a sound, sensible and workable law will emerge which will correct obvious abuses while preserving for labor its legitimate gains. With harmony existing between labor and management, we should go forward into an era of increased production and an increased standard of living which should continue for at least a decade.

The conditions which make possible a favorable prediction for the future of automobile and workmen's compensation lines are the same on which to base any estimate of the future in the other classifications of the business. I am particularly impressed with the possibility for development in the classification which we call "other liability" or "miscellaneous liability." In ten years this classification has grown from $65,232,171 to $116,514,000 and there is still a tremendous unsold market. Many companies and agents have not given this line the attention which it deserves. I have only to quote from a survey by Elmo Roper, made this year, to prove this point. This survey shows that 93% of all the people do not carry residence liability. This survey further shows the very great potential which exists for burglary and accident insurance and the figures on these are 84% and 72% respectively.

Aviation Insurance

Although it seems to me that there is a fine future for all classifications as we know them today, I cannot see any new line on the horizon whose potential can equal the development in either workmen's compensation insurance or automobile insurance. Many feel that the aviation line will be the one to do this and there is no question that it will produce a sizable volume of new premiums for the industry. The highest premium volume ever reached by this line was in 1941 when the figures stood at approximately $11,000,000 but, because of the war, this line suffered a considerable reduction in volume. My own company believes so firmly in the future of this classification that it has set up a special department to handle it. This is for the purpose of providing our agents with a facility which will enable them to become familiar with the line and to reap the benefits of its growth.

It is my belief that there will be great development in commercial airlines and their feeders. I also see a great future for air express and freight. Planes will also be employed for charter service, crop dusting and other commercial uses. I am convinced, however, that there are still obstacles to be overcome before a private passenger plane becomes as necessary or as useful as a private automobile. Barring radical changes in aircraft construction as we know it today, the difficulties to be overcome in this line would seem to be: (1) the major obstacle of the weather, (2) speed necessary for flying, (3) inadequate human reactions to conditions and (4) potential congestion.

Ultimately these obstacles will be overcome and, probably in the light of American know-how, sooner than we think. Manufacturers of planes have been optimistic in their predictions and I have seen some figures which indicate that, within the next ten years, there will be at least 250,000 actively flying civilian planes of all types. If their predictions are borne out, it would indicate a premium volume well in excess of $100,000,000. No agent, therefore, despite the present outlook, can ignore this line and its potential, although my personal feeling is that the automobile will reign supreme in transportation involving one hundred miles or less.

From the foregoing it would appear that the future of casualty insurance is bright and that there will be greatly increased production in all lines. It is not too much to expect that stock casualty premiums will pass the $1,500,000,000 mark within a very short time.

Public Law 15

So far we have considered only the economic factors which affect our business and which should continue to have a beneficial effect on it in the future. However, there are factors other than economic which may greatly influence these trends. One of these is the situation created by the passage of Public Law 15 and the fact that most state legislatures will have for consideration this year rating bills designed to preserve the regulation and taxation of insurance to the states. You have all heard many speeches and have read many pamphlets about these bills and it is not my purpose in this address to attempt a discussion of them. Still, I cannot discuss the future of casualty insurance without some reference to their possible effect upon the industry.

There will be plenty of casualty business to be written in the future— enough for all to share and for all to make a satisfactory profit. But is this our only concern? What about the people who will buy all this insurance—pay all these premiums? How will the industry serve them? Will we return to our position of 30 or 40 years ago when we said to our clients, "Here's the policy we think you should have. Don't argue about it or the rate—take it or leave it!" Or will we follow the trend started some years ago of fitting insurance coverage to the client's needs? The year 1947 will provide the answer to this question.

When the 79th Congress, by the passage of Public Law 15, gave to the respective states the right to regulate and tax insurance, it gave them very broad powers. With the exception of acts or agreements of boycott, coercion or intimidation, the various anti-trust acts shall apply only to the extent that the business of insurance "is not regulated by state law."

In the days immediately following the passage of Public Law 15, it was generally believed in the industry that only the most rigid state regulation would remove the business from the threat of prosecution under the anti-trust laws. As time passed and the subject was studied more and more thoroughly, the industry split into two camps. One group feels that the first view was the correct one and the other group considers that, provided the law contains provisions for the licensing and regulation of rating organizations, for membership in such organizations and for the filing of rates by such organizations on behalf of their subscribers, then (inasmuch as these activities are covered by state law) it does not permit intervention by the federal authorities. Doubtless this is an oversimplification of the situation but my description is sufficient to identify the two groups to which Supt. Dineen of New York referred in his address, "The Battle of the Bills," at Pittsburgh last month. The trade press, currently reporting the activities before the various state legislatures, clearly reveals the schism existing between these two groups. One of these viewpoints will prevail and all should consider carefully which will provide the best market for this great increase in premiums which I have predicted. Agents should consider which view wil best:

1. Enable the public to fill every reasonable insurance need.
2. Encourage the development of new, broader and simpler froms of coverage.
3. Permit healthy competition with an opportunity for reductions in rates where justified.
4. Permit authorized activity at home and abroad to enable insurers not only to supply domestic needs but to protect American assureds in their struggle for world markets.
5. Provide restraints to prohibit sinister self-interests from throttling competition or stifling initiative.

Mr. Wendell Berge, Assistant United States Attorney General, has declared that, "Private initiative is allowed a wide latitude for venture with new ideas, new processes and new products. The right to venture implies the risk of loss as well as the opportunity to succeed. . . . Risk and uncertainty are the price we pay for the right to exercise our talents freely. . . . There are businessmen who, although professing belief in a free enterprise system, actually do not want one. These men want to eliminate risk from the market by private restrictive agreements which guarantee them against the discomforts of competition. . . . They want to suppress new products and processes which will render obsolete and supersede the old. . . . But the power of any group must not be perverted to serve selfish or special interests to the detriment of the broad social or economic order. They must not further monopolistic practices or restrict the freedom of the channels of commerce. Social responsibility is a necessary characteristic of group activity."

Free Market in Insurance

Following the thoughts propounded by Mr. Berge, it would appear reasonable to accept the premise that the policyholders' interests are best met by a free market which offers reasonable competition. In such a market the policyholder can purchase insurance at rates suited to the requirements of the risk offered. In such a market constant innovation and improvement of policy forms will provide the buyer with contracts which are always up to date and broad enough for his requirements. Under reasonable competitive conditions, the insurance producer remains free to negotiate in respect to the insurance requirements of his clients. New risks, new processes, and unorthodox risks can all be handled promptly in the regular course of business.

Does the All-Industry bill supported by the group believing in rigid regulation by the states meet the foregoing objejctives? In theory, it may, but in practice, it has been found that it is subject to interpretation and administration which throttles competition and kills initiative. Further, by imposing upon the insurance commissioner the wholly impracticable duty of reviewing and approving thousands upon thousands of rates and classifications within a brief period of fifteen days, or at most thirty days, it would substitute bureaucracy for the combined skill and resources of insurance companies and producers.

For instance, we recently had a risk submitted to us requesting insurance to cover as follows: A newspaper desired to offer a reward to the first individual or group responsible for a successful flight to the moon and return. They desired insurance in the amount of $50,000 to cover the payment of a reward in like amount, to cover for ten years from the present date. Well-trained, private underwriters are fully qualified to accept or decline such a piece of business and to quote a rate thereon, but if such a piece of business were submitted to an insurance department, under a restrictive rate law, I sincerely doubt whether a proper rate would be forthcoming in anything like a reasonable period. I, therefore, believe that the view of the group supporting state laws which provide a minimum of regulation consistent with Public Law 15 is the proper one and, unless this view prevails, it may have a serious effect upon the future of casualty production for insurance agents.

There is another question confronting the insurance industry which also may have an important effect upon the industry as a whole and, therefore, upon the casualty business. This question has arisen because of the overlapping of powers granted to casualty and fire insurance companies by various state legislatures.

Overlapping Coverages

You will all recall, I am sure, the conflict which arose in connection with the personal property floater until the New York Insurance Department took cognizance of the matter and, in cooperation with other states and committees of fire, casualty and marine underwriters, made a study of prevailing conditions. As a result there was brought forth the so-called Nation-wide Definition of Marine Insurance. This was calculated to eliminate many existing overlappings of coverage as well as of writing power among fire, marine and casualty companies. The situation which created the need for such a definition still remained and there seemed to be pressure from many sources for a definite solution of the problem. It was contended that the solution to this question of overlapping of coverage would be the granting of multiple line underwriting powers so that both fire and casualty companies could provide coverage to their policyholders in this no-man's land of conflict between the fire companies on the one hand and the casualty companies on the other.

Multiple Line Underwriting

It might be well here to define what is meant by "multiple line writing power." This means the transacting of all kinds of insurance, except life and annuities, under one corporate charter, and a license issued to the corporation by the states permitting the transaction of all kinds of insurance with the exception noted. Of course, we all know that underwriting is the practice in the insurance business whereby an insuror accepts or rejects an insurance risk. To underwrite from a multiple line point of view, therefore, is to consider the risk offered with relation to all hazards and exposures to which the assured and his property may be subject. After due consideration, there may result a single contract incorporating many different kinds of insurance or there may result several insurance contracts.

The question of multiple line underwriting is neither the brainchild of a small group of company executives nor of insurance agents but is a development brought about because of the conflicts mentioned above and because of the desire of many insureds to secure one policy to cover their insurance needs. Because this question demanded solution, Commissioner Harrington of Massachusetts, then President of the National Association of Insurance Commissioners, appointed a committee on multiple line underwriting to consider and to report its findings to the National Association of Insurance Commissioners at its meeting in June 1944. This committee made five specific recommendations as follows:

1. *Underwriting Powers of United States Companies in Foreign Countries*—Any domestic fire, marine, casualty or surety company should be empowered to write any and all kinds of insurance or reinsurance other than life insurance or annuities, on risks outside of the United States, its territories and possessions, provided it maintains a minimum policyholders' surplus of $1,500,000.
2. *Reinsuring Powers*—Any fire, marine, casualty or surety company should be empowered to accept any and all kinds of reinsurance, other than life insurance and annuities, provided it maintains a minimum policyholders' surplus of $1,500,000.
3. *Automobile Insurance*—Any fire or marine insurance company, or any casualty or surety company licensed to write liability insurance, should be empowered to write insurance against any and all of the hazards of loss from damage to automobiles, or from liability arising out of ownership, maintenance or use of automobiles, provided such company meets the financial requirement which must be met by a company qualified to write automobile physical damage or automobile liability hazards, whichever requirement is the higher.
4. *Aircraft Insurance*—Any fire or marine insurance company, or any casualty or surety company licensed to write liability insurance should be empowered to write insurance against any and all of the hazards of loss from damage to aircraft, or from liability arising out of ownership, maintenance or use of aircraft provided such company meets the financial requirement which must be met by a company qualified to write aircraft physical damage or aircraft liability hazards, whichever requirement is the higher.
5. *Personal Property Floater Policies*—Any fire, marine, casualty or surety company should be empowered to insure individuals against all risks of loss of, or damage to, personal property other than: (a) motor vehicles, aircraft, or watercraft (excepting canoes, rowboats, sail-boats less than twenty-one feet in length, and outboard motor boats); or (b) personal property pertaining to the business, trade or profession of the insured (excepting professional books, instruments and other professional equipment owned by the insured).

The committee did not feel that their recommendations offered a complete solution to the problem but did consider that the report offered a constructive start in the solution of some of the problems that I have briefly outlined.

As with Public Law 15, it is not my intention in this address to fully discuss this question of multiple line underwriting. The Roper survey, to which I referred earlier, clearly indicates that there is a demand upon the part of the public for a simplification of policy forms. The public cannot understand why a household contents policy can insure a grand piano but cannot include an automobile as a content of its garage.

I am convinced that multiple line underwriting will become a fact within the next few years. I am further convinced that, when it does, it will place in the hands of agents an instrument which will facilitate greatly in reaching the large unsold market for miscellaneous casualty coverage. We all know that it is impractical for an agent or a solicitor to conduct a cold canvass for many single lines of insurance because of the small premiums and correspondingly small commissions resulting. This situation would be greatly improved where a solicitor or agent could approach his client on the basis of complete coverage and with perhaps a finance plan to make payments of the resulting premium possible.

To sum up: the casualty business has grown by leaps and bounds and, to me, the economic factors appear to be such that it will continue to do so. The two immediate problems other than economic appear to be the course which legislation will take under Public Law 15 and the question of multiple line underwriting powers. If both of these problems are solved in the interest of the public and not in the selfish interest of special groups, I can see no reason why casualty insurance, or let me say property and liability insurance, will not astonish us by the growth it will experience.

Plymouth Rubber Stock Offering All Sold

F. Eberstadt & Co., Inc., and E. W. Clucas & Co., managers of an underwriting group, offered publicly April 1 300,000 shares of common stock (par $2) of Plymouth Rubber Co., Inc., at $13.50 per share. The shares, which represent part of the holdings of a group of selling stockholders, were oversubscribed and the books closed.

The company, organized in Massachusetts in 1922, is a leading manufacturer of plastic and rubber specialties which are distributed widely in this country and also sold for export. The plastic division, started in 1943, is now the company's most important line. In addition to extruded products, this division makes plastic film and sheets which it sells as such and also manufactures into shower curtains, raincoats, baby pants, crib pads and other specialties. Rubber products include rubber soles and heels for shoes; electrical, friction and rubber splicing tapes and cable insulations tape; coated fabrics and rubber bands.

Plants are operated by the company in Canton and Rockland, Mass. Total net sales for the fiscal year ended Nov. 30, 1946, were $12,678,315 and net profit for the period was $2,149,550. For the fiscal quarter ended Feb. 28, 1947, net sales were estimated at $3,771,000 and net profit was estimated at $741,000. The company's sole capitalization consists of 900,000 shares of common stock, $2 par value. A dividend of 25 cents per share is payable May 15, 1947, to stockholders of record on April 30, 1947.

With Olsen, Donnerberg

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Thomas J. Hagan, John R. Heslop and Walter H. H. Schaefer are now with Olsen, Donnerberg & Co., Inc., 418 Olive Street. All were formerly with Slayton & Co.

With Slayton Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Howard R. Lofgreen has been added to the staff of Slayton & Co., Inc., 408 Olive Street.

Joins Westheimer & Co.

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Adrian K. Wuille has joined the staff of Westheimer & Co., 326 Walnut Street, members of the New York and Cincinnati Stock Exchanges.

Bates Mfg. Co. Stock Offered at $29.25 Share

Offering of 54,905 shares of Bates Manufacturing Co. common stock ($10 par) was made April 2 by a banking group headed by E. H. Rollins & Sons, Inc. The stock was priced to the public at $29.25 per share. These shares are outstanding and are being sold for the account of stockholders, and no proceeds will accrue to the company.

The company was incorporated under Maine laws on Aug. 16, 1850. Bates Manufacturing Co. now owns, directly or through its subsidiary, five textile mills. The Bates, Androscoggin and Hill Mills are located at Lewiston, Me.; the Edwards Mill is located at Augusta, Me.; and the York Mill at Saco, Me.

Bates manufactures a large variety of cotton and rayon fabrics both in the form of finished goods and grey goods. Among the cotton fabrics produced are jacquard woven bedspreads, ready-made drapes, drapery fabrics, table covers, upholstering cloth, ripplette hospital bedspreads, combed percale bed sheets and pillow cases, lawns, twills, drills, broadcloths, poplins, fine muslins, batistes, organdies, grey and starched drills for the shoe trade, flannels, soft-filled sheetings, duveteens, napped flannels, laundry felts and various specialties in the napped field. Among the rayon fabrics produced by the company are filament rayon cloths, primarily for garment linings, underwear, dress goods and home furnishings, and goods woven from acetate and nylon yarns.

J. A. Hogle Opens N. Y. Branch Under Howard

J. A. Hogle & Co., members of the New York and Salt Lake Stock Exchanges and other principal exchanges, announce the opening of a branch office at 61 Broadway, New York City, under the management of Kenneth J. Howard. Mr. Howard has been representative for J. A. Hogle & Co. in New York for the past year, specializing in Western mining issues.

Kimbrough to Manage Merrill Dept. in Detroit

DETROIT, MICH.—E. Price Kimbrough has been appointed manager of the bond department of the Detroit office of Merrill Lynch, Pierce, Fenner & Beane, in the Buhl Building. Mr. Kimbrough has recently been serving with the Army Transportation Corps in the South Pacific. Prior to his enlistment, he was with Braun, Bosworth & Co., Miller, Kenower & Co. and the Union Guardian Trust Co.

Morton M. Banks Opens Own Investment Office

Morton M. Banks has opened offices at 115 Broadway, New York City, to engage in the securities business. Mr. Banks was previously vice-president of Newkirk & Banks, Inc.

Two With Hornblower And Weeks

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Walter E. Auch and George L. Kalb are with Hornblower & Weeks, Penobscot Building.

With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Clyde K. Horton, Jr. has become affiliated with Kidder, Peabody & Co., 115 Devonshire Street.

World Bank in the Spotlight

(Continued from page 5)

to be made within a few weeks. "Which borrowers will the Bank accept? Will borrowers be chosen independently of the political policies of the United States? To be specific, will a well-organized and economically promising loan project of Poland be rejected because of Russia? Or will Chile be pushed aside because of sneering at its default record, which is really not so bad, or its leftish complexion?" These are among the questions being asked.

What those friends of Bretton Woods fear, of course, is that political considerations will dictate both the making and the withholding of World Bank loans. The number one political decision on the positive side is that of the French loan application. That is, France will get a loan. But, the writer is told, the economic aspects of the French loan in many respects are poorer than those of, say, Chile's case. France, it is pointed out, is accumulating a rather staggering debt load, already owing the U. S. A. more than $1.9 billion on Export-Import Lend-Lease settlement, 3C, and surplus-property account; owing Canada about $250,000,000, the United Kingdom about $400,000,000, and asking the World Bank for $500,000,000 for only part of the Monnet Plan.

Policy on Loan Terms Awaited

A second matter of Bank policy which is being watched in Washington and abroad is that of loan terms. What will be the rate of yield? Will there be underwriting fees in addition to compensation for the cost of distribution? Will the Bank promise investors to limit its total issues?

There has been a report that there is backing in high Bank circles for limiting the Bank's activities to its hard-currency capital, namely the capital furnished by the U. S. A. and Canada. The idea, at least, has been discussed. To friends of Bretton Woods such a policy would be most objectionable. One objection would be that the World Bank was to be a $10 billion international institution, but if in reality it were to become virtually a U. S.-guaranteed bank, it would be a very expensive American bank; for it will be selling bonds at more than the going rate for Treasury obligations of corresponding maturity and giving investment bankers and others a "cut." Were that to be the outcome, it is argued, it would have been better in the first place to let the Treasury raise the money and the Export-Import Bank lend it.

The overhead of the World Bank, it is further pointed out, is more than double that of the Export-Import Bank. Moreover, people would be asking: "Why the Rube Goldberg device of all these foreigners to lend American money under purely American guaranty?"

Hard-Currency Limitation Opposed

The argument against limiting the World Bank's operations to its hard-currency capital continues: This was to be an international bank providing, among other advantages, an international forum for the consideration of international capital-movement problems. It was to bring communal thinking to bear on national policies. Thus, if 41 countries disapproved of the policies a single member is following, it would mean much more than if the U. S. A. alone expressed disapproval.

Finally, a prime reason for the Bank was that it was to be used as bait for the Fund, the writer is told. To elucidate, the Fund was to be a keystone in the U. S. A.'s postwar trade policy; but many countries would not have accepted the Fund and the trade policies for which it stands, had it not been for the capital assistance available through the Bank. Those members, notably but not exclusively Latin Americans, who joined the Bank because of the hopes it dangled before them will give the Bank a fair chance to deliver, but will not indefinitely remain members of a, for them, sterile organization, it is said.

Another idea in circulation which friends of Bretton Woods are ever watching is a merger of the Fund and Bank. Some of the original opponents of the Bretton Woods program, it is recalled, saw no need for two separate institutions. This was the position of organized banking. A merger could in fact be accomplished without an amendment of the Bretton Woods agreements, were the countries with the largest quotas so determined. All that they would need to do would be appoint the same man as executive director of Fund and Bank. The executive directors, in turn, might appoint the same person to the posts now held by McCloy and Gutt. Then you would have a merger. The next question would be whether the Bank was merged with the Fund, or vice versa. For the Fund by its nature needs always to have its executive directors or alternates present, as was argued by Dr. White for the American delegation at Savannah; whereas the time will come when the Bank will be able to continue with only intermittent presence of its executive directors.

Possible Shift to New York

Still another idea in circulation which friends of the original Bretton Woods program are watching is the matter of moving the Bank's headquarters to New York. This was something the British and Canadians, as well as some others, wanted at Savannah. Also, it would be a move generally welcome to the financial community. But it would not be welcome to those who fathered the Bretton Woods program and who feel that the Bank has now become American-controlled—yet not American-Government-controlled.

Incidentally, it is pointed out, not all financial opinion in the Midwest and elsewhere is pleased with the changes which have come over the Bank in recent weeks. For one thing, they fear there may be "too much Wall Street" in the Bank; and refining the matter still further, "too much Chase Bank" in particular, since the Chase National Bank was a client of Mr. McCloy's law firm, since the new U. S. executive director of the World Bank comes to it from Chase, and because of other prominence of Chase officers in official and semi-official capacities in Washington and internationally.

Pittsburgh Bond Club Re-elects Steinecke

PITTSBURGH, PA.—At the annual meeting of the Bond Club of Pittsburgh held Tuesday Evening, March 25 at the Roosevelt Hotel, S. W. Steinecke, Secretary and Treasurer of S. K. Cunningham & Co. was re-elected President for the fiscal year 1947-48. Other officers elected were Ernest O. Dorbritz of Moore, Leonard & Lynch, Vice-President; W. Stanley Dodworth of Parrish & Co., Treasurer, and Edw. C. Kost of A. E. Masten & Co., Secretary. Governors elected are Robert L. Johnston of McKelvey & Co., James C. Lear of Reed, Lear & Co. and James M. Scott of J. M. Scott & Co. Mr. Alexander Galbraith, the British Consul in Pittsburgh, was the principal speaker at the dinner which followed the business session.

An Indictment of Soviet Policies

(Continued from page 16)

of deceit and further. that this entire method of procedure so far as those acting for Soviet Russia are concerned, leads to the most intense degradation of intellectual integrity; the complete atomization of the intellect. So that everyone who calls himself a Communist leader in the United States is merely a manikin, being moved about at the direction of the dictators residing in the Kremlin.

But, more important than all of this background indictment is the fact that today, Soviet Russia aims, through a war of nerves, at the destruction of the American Nation, and the American Republic as the chief physical obstacle in its path to world domination, and that, secondly, it aims at the complete destruction of the Catholic Church as the chief moral obstacle in its path to world domination, thereby, of course, paving the way for the destruction of all organized religion. Because, Pius XI says, in his remarkable Encyclical on Atheistic Communism:

> A system based on terror, Statism which has no other foundation than that the low of terror, cannot permit moral considerations to remain within its confines; cannot permit the idea of morality through a Natural Law or the idea of God to remain within its regime.

This is a most serious indictment, I appreciate, but as I have said, it is supported by the charges which I have learned to bring before you from my own, reluctant and bitter, experience. Item by item, let us consider them.

In the first place, Soviet Russia's intention to dominate the world. That I stated more than a year ago when I left the Communist movement. It is much more lucid now, because we have just had this machine-gun election in Poland. And the terror in Roumania and Bulgaria, reported by Reuben Markham of the "Chistian Science Monitor," the complete destruction of the Four Freedoms, everywhere that the Red Army dares to put its heel.

And there cannot be any more pretext, that Soviet Russia stands in one measure for any preservation of the Four Freedoms, after its conduct in Yugoslavia, Bulgaria, in Roumania and Poland.

But we can go, as far as the objective of world domination is concerned, to the Soviet leaders themselves. We have statements which I have quoted before. V. M. Molotov, present Foreign Minister of Soviet Russia, in 1928 told this to the Leningrad functionaries of the Communist party after the Sixth World Congress. These, by the way, have been chosen at random, these various quotations.

Molotov stated at the time of the Sixth Congress of the Communist Internationale: What is the sole purpose and goal of the Communist Internationale? And he answered: The sole purpose and goal of the Communist Internationale is the establishment of a World Proletarian Dictatorship. He not only said this once. He said it fully ten times in this address, which can be obtained, incidentally, from the files of the New York Public Library, and at a very nominal sum, I am sure, by having it photostated.

It appears in the International Press Correspondence for 1928, that being the reportorial system of the Communist Internationale at that time.

In 1935, there occurred the Peoples' Front Congress, and another tone might have been expected. But the same idea of world domination continues to prevail in that Congress. This was a meeting of all the Communist leaders again, from throughout the world, to receive instructions as to the policies to pursue in the ensuing period.

Wilhelm Pieck, the Chairman of that meeting, or of that Congress, who is now the chief representative of the Comintern, of the Kremlin, in Soviet-occupied regions of Germany—in his speech as Chairman, stated:

"What is our goal? It is the goal of Soviet power everywhere. What is our banner? It is the banner of Marx, Engel, Lenin and Stalin. Who is our leader everywhere? It is Stalin."

And in order to make this more emphatic, not only did D. V. Manuilsky, alleged respresentative of the Ukraine in the United Nations, who is in reality still the head of Communist Internationale, arise then, in 1935 and add much more extensively to this vision of world domination, but a special resolution of personal feeling for Stalin as their leader was adopted by the Communist leaders from throughout the World.

This resolution declared that under all circumstances would they look to the leadership of Stalin as their teacher, their leader, their guide; as the one who would lead them to the World Proletarian Dictatorship, to Universal Communism.

This was synonymous to any pledge any field marshal ever made to Hitler as the leader of the Reich. It was subscribed to by the American Communist leaders enthusiastically, and specifically by Earl Browder, as the then head or leader of the American delegation.

Let us go further into the second feature of this indictment. What part did the Communist party play in this aim at world domination? There, we can bring forth evidence upon evidence, but I will content myself calling your attention to the fact that throughout twenty-five years of its existence, never has the Communist party in any resolution, nor the Communist Press, in any of its pages, expressed one word of criticism for any leader in the Soviet Union, approved by the Kremlin dictatorship.

To the contrary, its pages resound with praises, with adulation of all those in the leadership of the Soviet State, no matter what actions they may pursue, no matter what policies they may adopt. On the contrary, every American leader is weighed and measured in accordance to the degree of his friendship or subservience to the Soviet State. If he is at all in "opposition," he is subjected to the utmost flow of vituperation, no matter who he may be.

And if we had the time, we could study the Communist attitude toward President Roosevelt as a very outstanding example of just this course of action.

And that, my friends, is the mark of a Quisling movement, which is reenforced very much by the whole conduct and attitude of the Communist leaders.

What does the Communist leader have to do? Every morning study—not what American leadership is saying, but what Pravda says, or Izvestia, the Soviet Press; what the Soviet leaders are declaring, in order to learn how best he can that day and throughout the country in his work carry forward the will of Moscow among the American people, expressing it as far as possible in American terms, in order to deceive the people.

That is the constant preoccupation of Communist leaders in this country, without one degree of individual initiative insofar as they can exercise it in putting into effect the current will of the masters of the Kremlin.

Then this is carried forward in the most illegal manner, with resort to all sorts of illegal contrivances and devices.

You will recall that Earl Browder went to jail for falsifying his passports. At the time of the Hitler-Stalin Pact, he had travelled, in defiance of the United States Government, into Russia and to other places, particularly China, on the representation that he was another person; that he was, for instance, Nicholas Dannenberg, a secret Soviet agent not so generally known to the United States Government; that he was this man or that man, and he went to jail for that offense.

It was represented at that time, by the Communists and their friends, that this was a rather unusual occurrence on the part of Communist leadership. My friends, it is a common pattern of such leadership. Charles Krumbein who was the National Treasurer, spent eighteen months in jail for travelling to the Orient on the Kremlin's business on a false passport. Harry Ganngs, late foreign editor on the "Daily Worker," was about to be imprisoned on the same charge as Browder when he died, and his activities were even more extensive: to Paris, Latin America, to the Philippines—on false passports to carry forward the Kremlin's desires.

Oh, the number of these names, which would not mean so very much just in the naming, can be mounted up until they become quite a considerable lot. And then, during the Hitler-Stalin Pact, I found that so wide were the technical difficulties, false entries into the United States, false passports, other things to haunt the footsteps of Communist leaders here, that practically all of them had to go underground. That was at the time that the Party was in disrepute because of its forwarding the ideas of Hitler, as you will recall, declaring Hitler to be the Evangel of Peace, and Britain to be the chief enemy of mankind. They went to Florida, put on false moustachios—did all sorts of things. They even tried to get me to go underground; to go to a hotel, to put down my name under some assumed cognomen, but I refused to do so, saying: "What's the matter with me? There is nothing wrong with me." And they were very much surprised to find that there was one leading Communist, or two, who had no "technical difficulties" as they called it; who had committed no offense against the Government of the United States.

It was largely because of that that I was elevated to the presidency of the corporation controlling the "Daily Worker" during that time, and to the managing editorship of the "Daily Worker."

Illegal activity I will not go into, in the sense of the methods of assassination carried on by the secret conspiratorial apparatus, save to point out that as an editorial worker on the "Daily Worker" I sought to get the answers to the charges in regard to the disappearance of Julia Stuart Poyntz, for example, a native American school teacher long in the ranks of the Communists, who was very active in the secret apparatus of the Communist movement; who was about to "go sour," as they call it, and disappeared completely from the sidewalks of New York, and has never been heard from since. The "Daily Worker" was accused of knowing something in regard to this disappearance, and I wished to make a defense. I was told very definitely that we will make no defense; that this is hot cargo —"it might involve some of our comrades, and the people will soon forget it."

It was the same thing in the case of Ignatz Maria Reiss, also in the secret apparatus — kidnapped, killed and, again, about whom I wished to make a defense—received the same reply. And this story can go very much further, indeed, than I can give it to you today. I am sure that it will come out in more detail, as the days go by.

In regard to the deceit, of course, this is the common pattern of Communists, and I will not belabor your time with mentioning it in detail. I will only give you two examples from out of the Soviet Government's own public activities, which could be reenforced by many others.

We'll take the case of Argentina. We remember Argentina. I remember it very vividly because, as managing editor of the "Daily Worker," I watched with great attention the battle taking place in San Francisco, and we received instructions, when D. Z. Manuilsky arrived late on the scene, as you will recall, to open fire on Stettinius in regard to the whole Argentine and other matters. So that it is very vividly in my mind.

Soviet Russia made an attack upon the United States for endeavoring to bring Argentina into the United Nations. The United States contended this would lead to unanimity in Latin America and was desirable, and won its point, but thereafter the Communists, as you know very well, and those whom they were able to influence, conducted a barrage, a campaign everywhere throughout this country against Argentina, so that a policy of bearing down upon Argentina was inaugurated. Immediately the Communists in Latin America took advantage of this to open fire in Latin America upon Yankee Imperialism and its interference with the affairs of another country, and as a result the Communists have gained tremendously in neighboring Chile; many new members in the Parliament, and three members in the Chilean cabinet.

And then, when all of this was thoroughly done, Soviet Russia's Foreign Department makes a special treaty with Argentina, a trade treaty and declares itself a friend of the Argentine people. I submit that this is deceit.

Then, in regard to the treatment of the German people. I had thought that this war was fought over the principle no people were to be stamped as criminal, and yet the Communists began a campaign to destroy the German people. Not the Nazi leaders alone, but the entire German people. The Soviet armies and the Soviet Union compelled Czechoslovakia to drive 14 million people, men, women and children, in the cold, in the midst of a winter, out of their homes, which they had occupied for several hundreds of years, into the American Zone in Germany, roofless — without clothes on their backs, in many instances.

And here, too, there was a regular campaign conducted by the Communists and their friends everywhere possible for bearing down up the German people. And when this thing was thoroughly done, so far as it could be, Mr. Molotov arises and, in effect, declares that Soviet Russia does not approve of bad treatment for the German people. And Mr. Byrnes has to rush to Stuttgart and say, "Neither do we!"

This is a short-hand account of the affair, but that is what took place. And that, I submit, is deceit. Deceit intended to undermine the prestige and position of the United States throughout the world.

This is reenforced today in the "New Times," the "New Times" being the current name of the Communist Internationale magazine. Every trained Communist knows it. It is issued as a special supplement to the Soviet trade union magazine, "Trud," in Moscow. That, I, as managing editor of the "Daily Worker," Earl Browder, then general secretary, and every other leading Communist, knew and knows—that "New Times" is the Communist Internationale in disguise, and "New Times" is conducting a campaign against the United States that certainly shouldn't come from any friendly power, declaring us a greedy nation which has planned for the starvation of all other peoples in order to be able to subjugate them to American domination.

This is expressed in "New Times" in scientific, ideological language, but when it is transferred to the Communist ranks in every country, into the trade unions where they operate, into the peoples' organizations, into the Press they influence, it comes out in much more raucous terms. And can anyone wonder that, throughout the world, there is apparently a peculiar animus against the United States in many quarters, when this organized campaign from Moscow — allegedly a friendly power — is being carried on constantly in the official word that reaches every Communist Party leader as a specific directive to them as to how to act.

This has led, of course—the fact that the Communist movement is such a puppet of the Kremlin in the carrying out of this campaign —has led to the absolute destruction of all intellectual integrity on the part of anyone who wishes to be an adherent of Communism, in any leading degree. It is very ironical that in the viewpoint of Marxism, which claims to have established a science that brought about the triumph of the intellect by doing away with all sorts of spiritual underbrush, spiritual or moral considerations that keep the intellect from expressing itself fully—that this has ended in the complete destruction of the intellect. What intellect is allowed a Communist leader? I will give you one or two examples.

We will take the intellect of Earl Browder. What happened to it?

Well, Earl Browder was the leader, chosen personally by Josef Stalin to represent him in America when Jay Lovestone and Gitlow were thrown out in Moscow, by Stalin himself—personally. Browder, therefore, every time he appeared before a secret national committee meeting, had to be cheered for at least one half hour to one hour. Of course, on a public platform we respect leadership. Sure, that's correct, if you agree with it, but this was in private, secret meetings. You had to arise, whether you wanted to or not, and cheer him to the echo.

Beyond that—this was only a sign of what was to follow. Every member of the National Committee, after Browder had given a report from two to four hours at a National Committee meeting, stating what would be policy for the next period, every member of the National Committee, 60 in all, would arise in turn, and say that he agreed 100% with the magnificent report of Comrade Browder which transcended anything that his genius ever before had concocted, and they hailed him as the leading Marxist of the Western Hemisphere, and the adulation was very thick, indeed.

The reason for this, of course, is very apparent. They weren't honoring Earl Browder, who many of them had the utmost contempt for. They were honoring Josef Stalin whose depository Earl Browder happened to be.

I hope that I have made this properly clear. Although if you read the Birthday Edition about Browder in "The Communist," which was then the official theoretical organ, you would imagine they were speaking about Stalin instead of Browder, so great were the praises that were sung on his behalf. He was a man without fear or reproach, or any defect whatsoever. But one day suddenly, in April of 1945, Jacques Duclos, the leader of the French Communists, wrote an article in which he declared Browder to be guilty of Revisionism.

Do you know what Revisionism is? It is a crime from the Right, a crime of treason against the Soviet Union and the Communist movement from the Right. It is somewhat similar, or corresponds to what Trotzkyism is in the way of a crime from the Left. And at the first National Committee meeting, which was held in June, 1945, a secret meeting at which Browder was to state his case under this accusation, these members of the National Committee who had cheered him and adulated and approved of him were now—they wouldn't even speak to him. This was before he had uttered a word yet in his own defense.

But wasn't that a powerful document written hundreds of miles away, by a Frenchman in Paris? Of course Browder had sealed his own death warrant when he had written, introducing this article finally, after much hesitancy, he had written this significant phrase: "This undoubtedly represents the opinion of all leading European Marxists." That is, that he was a traitor. Represented the opinion of all leading European Marxists, said he. Well, everyone knew—you didn't have to be very grownup to know that the leading European Marxist is Josef Stalin—Our leader, our teacher, our guide, and if all the leading European Marxists agree with this judgment, that was the judgment of the dictators in the Kremlin.

That is why Mr. Browder was socially ostracized at the first appearance he made in the National Committee after this document was released.

I was one of three who spoke to him, and I had a particular exemption as a newspaperman to be able to speak to enemies of the Party, because I had said, "How in the world can I go to press tables and other places as a newspaperman, and make faces at people with whom I have to cooperate"—and I was given a special exemption by which I could speak to enemies of the Party.

Ironically, I took that exemption to speak to Earl Browder on that June morning when the majority of the 60 members of the National Committee present would not address him any more.

Now, why was Browder signalled out, we may ask. Why was he signalled out for this treatment, when he had been so subservient to the Kremlin? He had gone to China as the representative of Stalin, and had organized the Chinese Reds against the American nation. That was specifically said to be the purpose of his mission at that time. With Thomas Mann, Jacques Doriot of France, he had done a good job there, and that is why he was elevated to the leadership of the American organization. Here he had likewise been subservient, even, sometimes, to an almost absurd degree, carrying out every order minutely and justifying every conclusion reached by Moscow as quickly as he could.

Why was he signalled out for this particularly ignominious treatment? Because a conspiracy does not leave signs around everywhere, saying "Kilroy was here." A conspiracy does not arise in the United Nations, in the person of a Molotov and say "We are about to unleash a War of Nerves against the United States, from which we wish to borrow money in order to attack the United States once more."

And to every trained Communist it is well understood that Mr. Browder was so demoted without warning, in the fashion he was, in order that everywhere, throughout the world, the leading Communists would appreciate that from this time on, the United States is the chief foe, and a War of Nerves is about to be unleashed against the American nation. Because Browder stood out in the international Communist movement as a man who, following the Kremlin line at that time, defended the Teheran Pact. The Teheran Pact, the agreement between Stalin, Roosevelt and Churchill which said they would cooperate for future generations of peace.

Browder stood on that policy; popularized it in America, as the Kremlin at that time wished it to be done. But Jacques Duclos said then, in his article, that the Teheran Pact is only a diplomatic document, and that Browder is guilty of Revisionism in trying to extend it to a lengthy friendship between the Soviet Union and the United States.

Only a diplomatic document. In other words, only a piece of dust to be thrown in the face of the American Executive and the American people in order that they will pour lend-lease into Russia, stricken before the efficient German war machine. That is what Mr. Duclo's words said, and I invite you to study them carefully, and to be reminded of their full significance. That is what they meant to a trained Communist, and that is what they meant to the entire National Committee of the Communist party of the United States, well-trained in deciphering such messages.

Were time to permit, I'd like to go into this Duclos article in which it was shown that the United States was a hopelessly capitalistic nation, in the light of the Duclos article, which meant, incidentally, that the United States as a hopelessly capitalistic nation would have to receive, eventually, the same treatment that Germany, the hopelessly Facist nation, received.

All this is borne home to my memory well, because it was a three weeks' discussion, of which I was chairman, just before I left the organization—already preparing to go for a long period of time—and this viewpoint was endorsed by the then representative of the Communist Internationale, Gerhardt Eisler, otherwise known as Hans Berger.

And in order to confirm this, in August last year, Eugene Tarle, the Soviet historian, in an article in the "Red Star," declared the United States to be a Fascist nation, comparing it somewhat to Hitlerite Germany. Ann O'Hare McCormick answered that in the New York "Times," but that didn't phase the Communists at all.

The British Communists, through their National Committee, in September adopted a resolution again declaring the United States to be a Fascist nation, and I repeat, if you read the characterizations of United States policies as appearing in "New Times," and regularly sent as directives to all the Communist party throughout the world, you will find that the United States, with its Imperialism so-called now, in the eyes of the Soviet and its Fifth Columns, is almost, if not precisely, in the same position as Hitlerite Germany's relation to Soviet Russia a few years back.

There was, likewise, the attack upon the Catholic Church, which I learned about from bitter experience in my endeavor to reconcile Catholicism and Communism. That is too long a story to tell you today, but I will say that, again, in "New Times," all my experiences are confirmed. The attack on the Vatican has increased with fury, but here in the United States, in April, 1946, in "Political Affairs," the official communist theoretical organ, those charges which I made the year before, in this respect, and which I knew to be true from my experience, are openly acknowledged.

Namely, it is set out that there must be a campaign for the destruction of the Catholic Church in America. This is to be done by arousing the Protestants to the increasing influence and growth of the Church. As a matter of fact, Monsignor Sheen is accused of being in cahoots with Capitalism, and the Capitalists are throwing him a few converts in order to build up the Catholic Church, in the endeavors of Wall Street against Moscow. But I am sure that our American Protestants and fellow citizens are not going to be deeply moved by this activity. Nevertheless, the Comrades now understand that, disguised as Protestants they are to go forth, just as they have been alleged Liberals and trade unionists and endeavor to arouse America against the Catholic Church. And they state specifically—this is in the April, 1946 "Political Affairs"—that the laity must be divided from the hierarchy, and as a sample of how this can well be done they give a model in the recent resolution in New York City Council by the Communist councilman attacking Cardinal Spellman.

This should be repeated everywhere that it is feasible, feasible of course, to be done, and this is the Communist tactic which they recommend throughout America. It is interesting that the charges against Cardinal Spellman were precisely the same as those that have so infamously sent Archbishop Stepinac of Yugoslavia to jail, in hard labor, in Tito's prison camps.

There, in some fragmentary form, is some of the story that I could tell. Or, part of the experience that came to me. It is much more intense than I can give you in our few moments together today, but this thing is clear: That, as I stated at the time, the Dictators in control of the Kremlin are intent upon a War of Nerves against the United States; upon pushing forward across Europe and Asia, to confront our nation with these two continents and to engage, if necessary, in military conflict. Just as this year, we see the Four Freedoms, as I have stated, so notoriously destroyed in Poland, Bulgaria, and Roumania—not to mention Yugoslavia — so we shall see, in the next year, unless a firm policy is taken by our Government against this constant destruction of Liberty by Soviet Russia, we will see the advance of Soviet Russia to the borders of Europe, into France where already the Communist party is very strong, basing its program, likewise, on a policy of the utmost deceit.

That being so, what should we do? I cannot venture to give recommendations to you today, but one thing I am sure of, and that is that the appeasement of Soviet Russia in any form will be more disastrous for the United States than was even appeasement of Hitlerite Germany.

Secondly, and this I raise only as a question, Why is it not possible to raise on the floor of the United Nations at last the question of the maiming and murder of the Four Freedoms in Poland, Bulgaria, Roumania and Yugoslavia? Soviet Russia certainly has no qualms about raising any question on its mind on the floor of the United Nations, almost even having this recent hold-up brought on the floor of the United Nations. But certainly today, in the case of Poland we have, as the New York "Times" indicated it, reached a point where, unless something is done, Soviet Russia will be the complete master of Europe whether the Eurpoean people want it or not. And I do raise as a question—not knowing all the facts in the case—if it is not advisable at the moment that the question be raised as to why the Four Freedoms are being destroyed, and free elections being wiped out in these countries which, in my mind, from other information that I have received over my desk, are the nesting places for the next World War—should it come. The nesting places, because hundreds of thousands of conscripted soldiers are being trained there eventually by Soviet Russia for its services in the conquest of other nations, through the Blitzkrieg, which is the same tactic as Hitler adopted, except with Soviet variations.

This I saw, my friends, as early as 1943. I saw it in the changes in tactics in regard to Finland. You will remember the efforts of Soviet Russia: Finland was to be a Red Republic. That was not successful, and from that time on it was decided to follow the Hitler tactic which was always near at hand for the Soviet Dictator, but definitely to follow the Hitlerite tactic in Latvia, Estonia, Lithuania, of getting 95% "Jah" elections, which is what is occurring ever since, everywhere the Red Army has entered any country under any guise. This has to be stopped, unless we are to have World War III and I do raise the question as to whether the time to stop it is not now, and as to whether the place in which to stop it is not concerning this complete denial of free elections in these nations to which I have referred.

I feel confident that America has a great mission to the World today, and that the chief of its contributions can be the bringing about of a just and lasting peace, by taking a firm stand against appeasement; by taking a firm stand for democratic elements throughout the world, and by taking a firm stand for those things which were promised out of this Bloody Conflict, the Triumph of the Four Freedoms.

Federal Reserve Board Clarifies Reasons For Backing Bank-Loan Bill

(Continued from page 15)

Owners of small enterprises characteristically prefer to obtain their funds on a *loan* rather than an *equity* basis, because they do not wish to permit a dilution of their own interests or to run the risk of losing control of their businesses. For this purpose term loans, amortized out of profits, are essential and desirable. This type of financing is particularly suitable for small businesses, which need a substantial period of time to retire loans by gradual repayment from earnings.

Operating Procedure

The Reserve Board maintains that the bill does not place the Reserve Banks in competition with the private banking system. Loans guaranteed would originate with local banks dealing with local people whom they know and with whose character, capability and capacity they would be familiar. A Federal Reserve Bank would not guarantee any loan unless requested by the local bank; but if such a guarantee is desired it would be promptly available, when approved by the Reserve Bank, without referring the matter to any agency in Washington. The 12 Federal Reserve Banks and their 24 branches provide a regional organization through which local financing institutions in all areas of the country would have convenient access to a guaranteeing agency.

As in the case of war production loans under the V-loan program, a maximum interest rate would be set for guaranteed loans. The present maximum rate under section 13b is 5% and it is contemplated that the initial maximum rate under the new legislation would be the same. Within this limit, which may be subject to change with changing conditions, interest rates would be determined by the borrower and the bank.

Guarantee fees charged would be specified percentages of the interest rate, graduated according to the percentage of the loan guaranteed. The method would be similar to that used in the V-loan program, when guarantee fees ranged from 10 to 30% of the interest rate, according to the percentage of the guarantee.

Precedents for Guaranteeing

The Federal Reserve authorities firmly maintain that the system of providing financial assistance through partial guarantees of loans no longer involves untried principles and procedures. For many years the Federal Reserve System has had experience in making and guaranteeing business loans under section 13b of the Federal Reserve Act. Although the authority of the Federal Reserve Banks under that section was restricted, they approved 3,542 applications for commitments and advances amounting to $566,000,000, and their personnel gained a fund of knowledge and training in this type of financing. Interest and fees collected exceeded expenses and losses.

They point out that during the war the Federal Reserve System acquired valuable experience in the administration of the V-loan program for guaranteeing war production loans. Under that program they processed 8,771 guarantees, aggregating nearly $10½ billion. The guarantee fees collected far exceeded expenses and losses sustained and the operation resulted in a very substantial profit for the government. The pending bill follows the guarantee principle which was applied under that program, and financing institutions are already familiar with the services of the Reserve Banks in that field.

Polish Fair to Run From April 26 to May 4

WASHINGTON—The International Fair of Poznan, Poland, interrupted by the war after 18 years of existence, will take place—for the first time in the postwar period—from April 26 to May 4, 1947, the Polish Embassy has announced. It added that "the Fair this year will be especially interesting, as it will reflect the progress already made in Poland's postwar reconstruction. The Fair will offer foreign firms many opportunities for commercial and business trade, with especially wide possibilities in the sale of industrial articles.

"Exhibitors and visitors to the Poznan Fair will find comfortable lodgings at the city's Gospoda Targowa, Poland's largest tourist hotel.

"Persons interested in attending the International Fair of Poznan can receive visas by applying to the nearest Polish consulate."

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Harold R. Colvin to Albert D. Farwell will be considered by the Exchange on April 10. Mr. Farwell will continue as a general partner of Farwell, Chapman & Co.

Luber & Co. dissolved Mar. 31.

Walter S. Aagaard, partner in Fahnestock & Co. died on March 24th, his interest in the firm ceasing as of the same date.

Percy Owen, Jr., member of the New York Stock Exchange, withdrew from partnership in S. R. Livingstone & Co. on March 31, on which date the firm retired as a New York Stock Exchange member firm.

Allan W. Betts withdrew from partnership in Silberberg & Co. on March 31.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Continued dullness for rest of April indicated. Participation in current market on a hit and run basis.

If you're tired of reading about this market, then imagine how much more tiresome it is to write about it. After all here is a market lying on its side. Every time it stirs everybody around it starts buzzing with ponderous statements about what it will do, and all it does is just shift its position slightly and continue to snore. No wonder the market is losing friends. After all how unsocial can it get and still keep even its acquaintances. Even the bears who see in the present lethargy a sure indication of sleeping sickness (encephalitis is lethargicus — if you're scientific) are slowly losing interest. But whether or not the dormant position of the market is to your liking or not, you'll probably have to resign yourself to seeing it behave that way for the next few weeks. The only thing that can move it one way or another is some kind of a jolt, and where this will come from is anybody's guess. And yours is probably better than mine.

* * *

Two weeks ago I wrote here that the tape was beginning to show an oversold position and that a rally to about 178 was more than a probability. But once it got there it would run into trouble. Only a piece of surprise news would move it higher. Well, that was two weeks ago. Last week (the latter part of it) you saw them climb up to about 179. Just when prices started to look like they might go higher, the sleeping sickness overtook it, and back it went to about 177.

* * *

That the market is waiting for something, I'm sure. But what it is I don't know. Neither do I know what the next direction will be once the "something" occurs. I have a suspicion, however, that the next major move will be up. Before that happens I also believe that we will see a period of dullness that will last most of April, and during that time prices will kind of drift down to about the 170 figure. It may stop short of it by a couple of points. But from this vantage point the 170 price appears to be the objective.

* * *

Timing in the next few weeks will be quite important, not that it isn't important at all times, but buyers in the next few weeks, if they don't have the patience of a Job, will lose considerable both in sleep and money. There is nothing so trying on one's nerves as to stay long during a dull reactionary market. To buy them right on the nose is an ideal everybody in the market strives for. To attain it is something else. If by chance one does manage to do it, it is usually a result of a combination of factors, in which sheer luck plays a major part. I'm not denying that skill has something to do with it. But that skill has to do with something based on experience and that kind of experience doesn't include picking tops or bottoms. In its broader sense, this kind of skill can smell out a change in the tide, but not its low or high point.

* * *

One way to make known and unknown factors work is to limit a buying or a selling program to various stocks and at specific prices. Sometimes this causes losses. More often the losses are limited. Profits on the other hand have a better chance of increasing.

* * *

Specifically this means the placing of orders frequently away from the market and waiting for them to be reached. But with each order a limit must also be placed. If it's a short sale there must be a stop on top, with a buy order on bottom. If it's a buy a specific price must also be given with another figure under the buy point beyond which the stock will not be carried. This is not a system, and it is by no means infallible. But it has its advantages, particularly in a dull market that is groping for something.

* * *

Last week I mentioned two stocks that show better than average performance, Bethlehem and U. S. Steel. At this writing their action is still encouraging. But now with prices groping down it might be a good idea to place some buying orders. I suggest Bethlehem between 87 and 89 with a stop at 86. U. S. Steel is suggested between 68 and 69 with a stop at 67. I don't know how long you may have to wait before you get either of them. But you'll have to wait, of that I'm almost certain.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Wilbert Olsen V.-P. Of J. J. O'Connor

CHICAGO, ILL.—J. J. O'Connor & Co., Incorporated, 135 South La Salle Street, announce that Wilbert O. Olsen has become associated with their firm as Vice-President. Mr. Olsen was formerly with Kneeland & Co. for many years, in charge of the Municipal Department.

Wilbert O. Olsen

Govt. Security Dealers Will Close Saturdays

Beginning April 5, members of the Government Security Dealer Group, consisting of 19 government bond dealers in New York and Chicago, will suspend operations on Saturdays, R. C. Morris, Bankers Trust Co., chairman of the group announced. The action of the dealers, who handle a major proportion of over-the-counter transactions in Treasury bonds, coincides with the beginning of Saturday closings by New York City commercial banks. Until May 31, when the New York Stock Exchange starts its schedule of Saturday closings for the summer, dealings in Government securities on Saturday may be concluded on the exchange.

Fridley & Hess Admit Wilbur H. Frederking

HOUSTON, TEX. — Wilbur H. Frederking has been admitted to partnership in Fridley & Hess, First National Bank Building. Mr. Frederking has been with the firm as Manager of the Municipal Department.

Caffrey to Push for Disclosure and Proxy Requirements to Unlisteds

(Continued from page 6)

report their transactions in the stocks of their companies and to pay over to the companies any short-term capital gains in such stock."

Records Opposition

Says the Committee—and this is the point of interest here now—"as these proposals (the two proposals mentioned in the paragraph above) are not currently being pressed, so far as this Committee is aware, no further discussion of them appears necessary at this time. The Committee, however, wishes to register its opposition to them in case they should be revived." As explained by both Edward B. Twombly and William P. Putney 3rd of the firm of Putney Twombly Hall & Skidmore of New York, under whose guidance the report was prepared, the Committee decided to include reference to these proposals so as to be on record as being opposed to them still should the SEC ever decide to revive them. The Committee feels that it and the NAM were responsible for killing similar proposals made by the SEC before the war and the Committee wanted to make it plain that it is still very much opposed to them, they said.

Mr. Putney who investigated the proposal which would require the registration under the Securities Act of 1933 of "private offerings" said he could see no justification for such registration. The insurance companies and other large institutions which accept much of these private placings are wholly capable of evaluating the risks which they take, he thinks. He does not agree, therefore, he points out, with the I.B.A. which believes that the private offerings should be registered just as the public offerings must be.

Danger to Investors

Mr. Twombly is convinced, as many others are convinced, that extending the provisions of the Securities Exchange Act of 1934 to the larger unregistered companies would have a strong tendency to drive many unlisted securities from the over-the-counter market where they properly belong to the Big Board of the New York Stock Exchange or other exchanges. The listed and the unlisted markets are really two separate and distinct things and securities that are not nationally known do not belong on the exchanges, he feels. If the SEC were to bother to find out what happens when the stock of what was at one time a relatively small and closely-held company is given wide distribution and listed on an exchange, it would learn that the original investors in a new issue are not always protected regardless of all the information about the company that is available to them. Only the people more or less intimately acquainted with the operations or even the existence of some small company, that is, the people who, geographically, live somewhere near where the company has its plant or plants can have any real idea of the actual worth of the company, he thinks. It is an error to confuse the functions of the listed and of the over-the-counter markets, he believes.

Corporations Handicapped

Extending provisions of the '34 Act to the unlisted field, as suggested, would also have the effect of making it difficult sometimes for corporation executives to make important decisions affecting their business, that is, it would often needlessly erect formidable hurdles for them to overcome when trying to make up their minds on the best course of action their companies should take, he feels. In short, extension of the '34 Act to the unlisted companies would only gum up the processes of trade just that much more, he thinks. Instead of devising ways to extend controls over business, the SEC should be thinking of lifting some of the existing controls, he points out. Mr. Twombly makes these statements despite the fact, as he says, he fully appreciates the important policing functions of the SEC. Rules which may apply to the listed markets do not necessarily apply to the over-the-counter market, he feels.

Truslow to Attend Financial Meeting

Francis Adams Truslow, President of the New York Curb Exchange, will leave New York on Thursday morning, April 3rd, for Montevideo, Uruguay, where he will represent the Curb Exchange at the third plenary session of the Inter-American Council of Commerce and Production scheduled for April 8th through 11th. Mr. Truslow will fly to Montevideo, spending one day in Lima, Peru, enroute. He will also return by plane, arriving in New York about the 16th of April.

Francis A. Truslow

The trip will be Mr. Truslow's first as the executive head of the Curb Exchange. He spent several weeks in South America early this year prior to taking office as Curb President, and is widely acquainted there as a result of his government service in rubber procurement work as an official of the Rubber Reserve Company and the Rubber Development Corporation from 1942 to 1945.

The Montevideo conference will furnish private enterprise its first postwar opportunity for an inter-American exchange of views on problems of commerce, finance, industry, agriculture and mining.

Charles Plohn Opens Own Inv. Offices

Charles Plohn has retired as a general partner in the firm of Newborg & Co. to form his own general stock brokerage business. Mr. Plohn is a member of the New York Stock and Curb Exchanges and of eight other stock exchanges, and is also a director of several corporations including General Finance Corporation, General Phoenix Corporation, the Morris Plan Corporation of America and Universal Laboratories, Incorporated. He will be located at 30 Broad Street, New York.

Joins Daniel F. Rice & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Daniel F. Rice & Co., Board of Trade Building, members of the New York and Chicago Stock Exchanges, have added Richard H. Grimm, Jr. to their staff.

Joins Hunnewell Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Vincent P. Ryan is with Hunnewell & Co., 49 Federal Street, members of the New York and Boston Stock Exchanges.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Electric Corp., Cuba, N. Y.
June 26 filed 132,740 shares ($1 par) common stock. **Underwriters**—Herrick, Waddell & Co., Inc., and First Colony Corp. **Offering**—To be offered publicly at $5 a share. **Proceeds**—Company will receive proceeds from the sale of 68,880 shares and four selling stockholders the proceeds from the sale of 63,860 shares. Company also will receive proceeds from the sale of 20,000 warrants for common stock to underwriters at an aggregate price of $200. Of the net proceeds ($292,940) $50,000 will be used to pay current bank loans; about $20,000 will be used for machinery and equipment, and the remainder for working capital.

Air-Borne Cargo Lines, Inc., New York
Feb. 14 (letter of notification) 214,890 shares ($1 par) common. Being offered for subscription to stockholders of record Feb. 20 at $1 a share. Rights expired 3 p.m. (EST.) March 11. Unsubscribed shares will be offered to the public through Greenfield, Lax & Co., Inc., New York. For reduction of current obligations and for working capital.

All American Industries, Inc., New York
March 17 (letter of notification) $300,000 10-year 5% income notes and 7,500 shares of capital stock (par 25¢). **Offering**—To be offered in units of $1,000 of notes and 25 shares of stock at $1,000 per unit. **Underwriter**—A. W. Benkert & Co., Inc., New York. To reduce indebtedness incurred in acquisition of outstanding stock of Oklahoma Steel Castings Co.

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 Iron & Machine Works Co., Oklahoma City, Okla. (4/16)
Feb. 24, filed $1,000,000 of 4% sinking fund debentures, due 1967; 25,000 shares (no par) $1.10 cumulative preferred and 60,000 shares (no par) common. **Underwriters**—Rauscher, Pierce & Co., Inc., Dallas, and Milton R. Underwood & Co., Houston, Texas. **Price**—Debentures will be offered at 100 while price of the preferred and common stocks will be supplied by amendment. **Proceeds**—To pay $712,500 balance on a bank loan, retirement of $850,000 promissory notes, and provide working capital. **Business**—Manufacture, sale and rental of material and equipment used in drilling and equipping oil and gas wells.

● **American Machinery Corp., Orlando, Fla.**
Mar. 31 filed 143,000 shares (50c par) common. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds**—For general corporate purposes including reduction of bank loans and outstanding notes. **Business**—Manufacture of food processing equipment.

● **American Overseas Airlines, Inc., New York**
Mar. 31 filed unspecified amounts of subordinated income debentures and stock purchase warrants for shares of $1 par capital stock. **Underwriting**—None. **Offering**—The debentures and purchase warrants will be issued to the company's capital stockholders. The subscription ratio will be supplied by amendment. Price by amendment. **Proceeds**—For purchase of additional flight equipment, terminal facilities and for other corporate purposes. **Business**—Operation of airlines.

American Tobacco Co., New York
March 11 filed 896,404 shares ($25 par) B common stock. **Underwriter**—Morgan Stanley & Co., New York. **Offering**—Shares are offered for subscription at $57½ per share to common and B. common stockholders of record April 2 on basis of one share of B. common for each five shares held of record. Rights exprire April 21. Unsubscribed shares will be sold to underwriters. **Proceeds**—Net proceeds will be added to funds for the reduction of outstanding bank loans aggregating $85,000,000 as of Dec. 31, 1946.

● **American Superior Products Corp., Wilmington, Delaware**
March 26 (letter of notification) 350 shares ($100 par) common. **Price**—$100 a share. No underwriting. To organize business of utilizing carbide lime for agricultural and other commercial purposes.

American Water Works Co., Inc., N. Y.
March 30, 1946 filed 2,343,105 shs. of common (par $5) plus an additional number determinable only after the results of competitive bidding are known. **Underwriters**—To be filed by amendment. Probable bidders include Dillon, Read & Co. Inc., White Weld & Co., and Shields & Co. (jointly), and W. C. Langley & Co. and The First Boston Corp. (Jointly). **Offering**—Price to public by amendment.

American Zinc, Lead & Smelting Co., St. Louis
Sept. 6 filed 336,550 shares common stock (par $1). **Underwriting**—No underwriting. **Offering**—Stock will be offered for subscription to common stockholders in the ratio of one additional share for each two shares held. Unsubscribed shares will be offered for subscription to officers and directors of the company **Price**—By amendment. **Proceeds**—Working capital. Offering indefinitely postponed.

Arkansas Western Gas Co.
June 5 filed 16,197 shares of common stock (par $5). **Underwriters**—Rauscher, Pierce & Co. Inc., and E. H. Rollins & Sons Inc. **Offering**—Stock will be offered to the public. Price by amendment. Shares are being sold by six stockholders.

Armour and Co., Chicago
July 12 filed 350,000 shares (no par) cumulative first preference stock, Series A; 300,000 shares of convertible second preference stock, Series A, and 1,355,240 shares common stock (par $5). **Underwriter**—Kuhn, Loeb & Co., New York. **Offering**—The 350,000 shares of first preference stock will be offered in exchange to holders of its 532,996 shares of $6 cumulative convertible prior preferred stock at the rate of 1.4 shares of first preference stock for each share of $6 prior preferred. Shares of first preference not issued in exchange will be sold to underwriters. The 300,000 shares of second preference stock will be offered publicly. The 1,355,240 shares of common will be offered for subscription to common stockholders of the company in the ratio of one-third of a new share for each common share held. Unsubscribed shares of common will be purchased by the underwriters. **Price**—Public offering prices by amendment. **Proceeds**—Net proceeds will be used to retire all unexchanged shares of $6 prior stock and to redeem its outstanding 7% preferred stock.

George Eastwood, President, in letter to stockholders, Dec. 22 said "we have come to the conclusion it will not be necessary to issue any additional shares of common stock" as part of company's refinancing plan.

Artcraft Hosiery Co., Philadelphia
Sept. 27 filed 53,648 shares ($25 par) 4½% cumulative convertible preferred and 150,000 shares ($1 par) common. It also covers shares of common reserved for issuance upon conversion of preferred. **Underwriter**—Newburger & Hano, Philadelphia. **Price**—$25.50 a preferred share and $12 a common share. **Proceeds**—Company will receive proceeds from the sale of all of the preferred and 100,00 shares of common. The remaining 50,000 shares of common are being sold by three stockholders. Estimated net proceeds of $2,300,000 will be used by the company to pay off bank notes of about $1,100,000 and to purchase additional machinery and equipment in the amount of $1,200,000. Offering date indefinite.

Atlantic City (N. J.) Electric Co.
March 19 filed 522,416 shares ($10 par) common, being offered by American Gas & Electric Co. **Underwriters**—To be determined by competitive bidding. Probable bidders include: The First Boston Corp., and Drexel & Co. (jointly); Shields & Co., and White, Weld & Co. (jointly); Dillon, Read & Co., Inc., and Smith, Barney & Co. (jointly); Blyth & Co., Inc.; Union Securities Corp. **Price**—To be determined by competitive bidding. **Proceeds**—The offering is part of American's plan to dispose of its holdings of 1,150,000 outstanding shares of Atlantic City. The shares remaining after the public offering will be distributed as dividends on American's common stock. This dividend policy will become effective June 15 and will continue to the end of 1948.

● **Automotive Parts Co., Columbus, Ohio**
March 27 (letter of notification) $300,000 4% sinking fund debentures, due 1962. To be sold at $500 and $1,000 principal amount. **Underwriter** — The Ohio Co., Columbus. For payment of bank notes and for additional 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.

Beaunit Mills, Inc., New York
Sept. 27 filed 180,000 shares ($2.50 par) common. **Underwriter** — White, Weld & Co., New York. **Price** — By amendment. **Proceeds**—Of the total, 140,000 shares are being sold by St. Regis Paper Co., New York, and the remaining 40,000 shares are being sold by I. Rogosin, President of Beaunit Mills, Inc.

Berbiglia, Inc., Kansas City, Mo.
Sept. 12 (letter of notification) 41,000 shares of 5% cumulative convertible $6 par preferred. Offering price $6 a share. **Underwriter**—Estes, Snyder & Co., Topeka, Kans. To pay outstanding indebtedness and expenses and to open five additional stores in Kansas City, Mo. Offering postponed indefinitely.

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.

● **Black, Sivalls & Bryson, Inc., Kansas City, Mo.**
March 27 filed 72,000 shares ($1 par) common. **Underwriter**—F. S. Yantis & Co. and H. M. Byllesby & Co., both of Chicago. **Offering**—Shares are part of the 99,000 shares purchased from the company by F. S. Yantis & Co. and H. M. Byllesby & Co. who will receive all of the proceeds. Price by amendment. **Proceeds**—Proceeds go to the selling stockholders. **Business**—Manufacture of tanks for oil and other industries.

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 withould action.

Bobbi Motor Car Corp., Birmingham, Ala.
Mar. 3 (letter of notification) 60,000 shares ($1 par) common. **Price**—$5 a share. Company proposes to offer 12,997 shares of common in exchange for its unsecured promissory notes in the amount of $64,985 held by distributors of company's proposed products. **Underwriting**, the stock will be sold by officers and directors of the company. For completion of display automobiles now under construction.

● **Bookcraft, Inc., Milwaukee**
March 27 (letter of notification) 250 shares ($100 par) preferred. **Price**—$100 a share. No underwriting. For purchase of machinery and equipment.

(Continued on page 54)

NEW ISSUE CALENDAR

(Showing probable date of offering)

April 7, 1947

Chicago Indianapolis & Louisville Noon (CST) ---- **Equip. Trust Ctfs.**

April 8, 1947

Georgia Hardwood Lumber Co. ---- **Common**

April 10, 1947

Crown Capital Corp. ---- **Common**

April 15, 1947

Chesapeake & Ohio Ry. Noon (EST) ---- **Eq. Tr. Ctfs.**
Container Corp. of America ---- **Preferred**
Erie RR. ---- **Equip. Tr. Ctfs.**
Rosslyn Loan Co. ---- **Preferred**

April 16, 1947

American Iron & Machine Works Company ---- **Debs., Pfd., Common**
Cohart Refractories ---- **Common**
Pitney-Bowes Inc ---- **Preferred**

April 21, 1947

Ferguson (Harry), Inc. ---- **Pfd. and Com.**
Hamilton Mfg. Co. ---- **Common**
Hawaiian Electric Co., Ltd. ---- **Bonds**
Morris Plan Corp. of America ---- **Debentures**
United States Rubber Co. ---- **Debentures**

(Continued from page 53)

● **Borg (George W.) Corp., Delavan, Wis.**
March 26, (letter of notification) 1,000 shares ($10 par) capital stock. Price (market) estimated at $12 a share. Underwriter—Paul H. Davis & Co., Chicago. Being sold on behalf of Thomas B. Gibbs, Janesville, Wis., a director.

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.

● **Brayton Flying Service, Inc., Robertson, Mo.**
March 24 (letter of notification) 50,000 shares ($1 par) 27½ cent cumulative, convertible preferred and 50,000 shares (10c par) common. Price—$5 per unit, consisting of one share of each. Underwriter—White and Co., St. Louis, Mo. For expansion of operating facilities and for working capital.

● **Brook Haven Fur Farm, Inc., Wilmington, Del.**
Mar. 27 (letter of notification) 100,000 shares of Class A common. Price—$2 a share. Underwriter—L. B. Eberhardt & Co., of Wilmington. For purchase of mink breeders and other business purposes.

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.

Burrillville Racing Association, Pawtucket, R. I.
Feb. 27 filed 38,500 shares (no par) class A stock. Underwriter—Barrett & Co., Providence, R. I. Offering—The shares will be offered for subscription to class A stockholders at $20 a share, on the basis of one share for each share held. Unsubscribed shares will be offered publicly at $20 a share. Price—$20 a share. Proceeds will be used to finance the cost of completing a race track at Lincoln, R. I.

● **Caddie-Croft, Inc., New York**
March 31 (letter of notification) 100 shares of preferred (par $100) and 1,000 shares of common (no par) of the common 665 shares are to be offered to the organizers for services. The balance of the common, 335 shares, and the 100 preferred shares will be offered in units of 2 common shares and 1 preferred at $500 per unit. Proceeds for initial capital, costs of organization, etc.

California Oregon Power Co.
March 26 filed 60,000 shares ($100 par) cumulative preferred and 390,000 shares ($20 par) common. **Underwriters**—To be determined by competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kuhn, Loeb & Co., and Smith, Barney & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane, and Bear, Stearns & Co. (jointly). California Oregon will sell all of the preferred and 30,000 shares of the common, Standard Gas & Electric Co. (parent), which is planning to sell its entire common stock holdings in California Oregon, will sell the remaining 360,000 shares of common. The subsidiary plans to amend its charter to create the new preferred stock and to reclassify and increase the authorized common. The 312,000 shares of $25 par common of California Oregon present, outstanding are held by Standard Gas. They will be reclassified into 390,000 shares ($20 par) common. Standard Gas will make a capital contribution of 30,000 shares to California Oregon. **Proceeds**—Standard Gas will use the proceeds to reduce its bank loan notes. California Oregon will apply its proceeds to redeem 45,761 shares ($100 par) 6% preferred, series of 1927, at $110 a share. The balance will be used to reimburse its treasury for previous additions and improvements.

● **Cal-Tex Oil Corp., Fort Worth, Texas**
March 24 (letter of notification) 47,850 shares ($2 par) common on behalf of the company and 2,250 shares of common on behalf of Cliff Groves, in payment of oil and gas leases purchased from him. **Price**—$2 a share. No underwriting. To purchase oil and gas leases, drilling equipment and for conduct of oil business.

● **Carpenter Paper Co., Omaha**
March 27 (letter of notification) 550 shares of common. **Price**—$55 a share. **Underwriter**—Kirkpatrick-Pettis Co. For working capital.

● **Carpenter Paper Co., Omaha, Neb.**
Mar. 31 filed 10,000 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares will be offered directly to officers and employees of the company at $45 a share. Purchasers must agree not to transfer the shares for a period of five years. **Price**—$45 a share. **Proceeds**—To be added to general funds for purchase of additional equipment. **Business**—Warehousing of paper and paper products.

Carney Fasteners, Inc., Columbia, S. C.
Jan. 13 (letter of notification) 32,950 shares ($5 par) capital stock. **Price** — $6.50 a share. **Underwriter** — Mitchell Securities Corp., New York. For equipment and working capital.

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 Mills, Inc., Dunbridge, O.
March 13 (letter of notification) $300,000 of first mortgage bonds. **Price**—$500 per unit. No underwriting. For retirement of preferred stock, for purchase of two alfalfa dehydrating plants from Logan County Dehydrators, Inc. and for retirement of latter's preferred stock.

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.

● **Claude Neon, Inc., New York**
March 28 filed 223,954 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares will be offered for subscription to common stockholders on basis of one share for each 10 shares held. Price by amendment. **Proceeds**—To finance airline operations and acquisition and development of oil properties. Company also plans to advance funds to Summit Airways, Inc., of whose stock it owns 61%. **Business**—Airline operations and oil business.

Cleveland (O.) Electric Illuminating Co.
Feb. 21, filed 1,847,908 shares (no par) common. **Offering**—All of the shares are owned by The North American Co., which is offering 1,714,524 shares to common stockholders of North American of record March 19 at $15 per share to the extent of one Cleveland for every five North American shares held. Rights expire May 27. The remaining 133,383 shares are to be sold, probably through competitive sale Probable bidders include Dillon, Read & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Kuhn, Loeb & Co. and W. C. Langley & Co. (jointly); Otis & Co.; Blyth & Co., Inc.; Smith, Barney & Co. **Proceeds**—For prepayment of bank loan notes of North American.

Clinton Machine Co., Clinton, Mich.
Feb. 17 (letter of notification) 10,000 shares ($1 par) stock on behalf of Donald D. Thomas, President of the company. **Price**—$6 a share. **Underwriter**—Smith, Hague & Co., Detroit. Proceeds go to the selling stockholder.

Clinton Machine Co.
Feb. 24 (letter of notification) 6,500 shares of common stock (par $1) on behalf of selling stockholders. **Underwriters**—F. H. Koller & Co. **Price**—$6 a share.

Columbia Machinery & Engineering Corp., Hamilton, O.
Feb. 24 (letter of notification) 24,000 shares of common on behalf of James C. Hart. Price—At market. To be sold through Jackson & Co. and Flannery & Co., both of Youngstown, Ohio. Proceeds go to the selling stockholder.

Community Frosted Foods Co., Philadelphia
March 14 (letter of notification) 25,000 shares of class A common stock (par 10¢). **Price**—$5 per share. Underwriting, none. Additional working capital. Frederick Peirce & Co., Philadelphia has guaranteed the payment of semi-annual dividends of 12½ cents each in Oct., 1947 and April 1948.

Container Corp. of America, Chicago (4/15)
March 21 filed 100,000 shares ($100 par) cumulative preferred stock. **Underwriter**—Kidder, Peabody & Co., New York. **Price**—By amendment. **Proceeds**—To be added to general cash funds for payment of a portion of the company's program for additions and improvements.

● **Continental-United Industries Co., Inc., N. Y.**
Mar. 28 filed 152,500 shares ($1 par) common. **Underwriters**—Aronson, Hall & Co., and P. W. Brooks & Co., New York. **Offering**—Of the total 102,500 shares are being offered by selling stockholders. Price by amendment. **Proceeds**—The company, which is selling 50,000 shares, will apply proceeds to general funds. **Business**—Manufacture of diversified line of metal products.

● **Cohart Refractories Co., Louisville, Ky. (4/16)**
Mar. 28 filed 182,520 shares ($5 par) common. **Underwriters**—Harriman Ripley & Co., and Lazard Freres & Co., both of New York. Price by amendment. **Proceeds**—The shares are being sold by Corning Glass Works, New York, and represent 88.8% of the total outstanding common of the company. **Business**—Manufacture of electrocast refractories principally for use in the lining of furnaces of the glass industry.

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.

Cribben & Sexton Co., Chicago
March 21 (letter of notification) a maximum of 5,000 shares ($5 par) common on behalf of Robert S. Caldwell, a director of company. **Underwriters**—Swift Henke & Co., and Paul H. Davis Co., Chicago.

Crown Capital Corp., Wilmington, Del. (4/10)
Jan. 22 filed 250,000 shares ($1 par) class A common. Underwriter—Hodson & Co. Inc., New York. will act as selling agent. Price—$4.25 per share. Proceeds—Net proceeds will be used as capital for company's subsidiaries engaged in the small loan or personal finance business.

● **Cumberland Valley Poultry & Egg Auction, Inc., Bethlehem, Pa.**
April 1 (letter of notification) 1,500 shares of class B non-voting stock (par $10). **Price**—$10. Underwriting, none. Company intends to sell the stock to farmers and tradesmen who buy and sell products handled by the company. Proceeds for operation and expansion.

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.

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.

● **Dodge & Cox Fund, San Francisco**
Mar. 31 filed 20,000 beneficial shares. **Underwriting**—Dodge & Cox, San Francisco, investment managers. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

Douglas Oil Co. of California, Clearwater, Calif.
March 13 (letter of notification) 11,500 shares ($25 par) 5¼% cumulative convertible first preferred. To be offered at a maximum of $26 a share. **Underwriters** —

Pacific Co. of California, Cruttenden & Co., Pacific Capital Corp., all of Los Angeles; Brush Slocumb & Co., San Francisco; and Adele W. Parker, Clearwater. To purchase 493 shares of capital stock of G. H. Cherry, Inc. out of a total of 625 such shares presently outstanding.

Duraloy Co., Scottdale, Pa.

March 12 (letter of notification) 25,000 shares ($1 par) common on behalf of the issuer, 12,500 shares ($1 par) common for the account of Thomas R. Heyward, Jr., and 12,500 shares ($1 par) common for the account of Mrs. Thomas R. Hayward, Jr. **Price**—At market (approximately $3.25 per share). **Underwriter**—Johnson & Johson, Pittsburgh, Pa., and The First Cleveland Corp., Cleveland. The company will use its proceeds for working capital.

● **East Coast Electric Co., West Point, Va.**

Mar. 28 filed $1,300,000 of first mortgage bonds, Series A, due 1977, and 60,000 shares of $10 par common. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds only); Harris, Hall & Co. (Inc.); Otis & Co.; Kidder, Peabody & Co. **Offering**—To the public. The registration showed that $800,000 of the bonds and all of the common stock are being offered by East Coast Public Service Co., parent of the registrant. **Proceeds**—East Coast Electric will use proceeds from the sale of $500,000 of bonds toward the payment of outstanding first mortgage notes and repayment of bank loans. **Business**—Public utility.

Ebaloy, Inc., Rockford, Ill.

March 12 (letter of notification) $125,000 of 10-year 2½% subordinated debentures, due 1957. **Price**—$25 a unit. No underwriting. To retire current liabilities and for working capital.

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.

● **Electronic Engineering Inc., Spokane, Wash.**

March 28 (letter of notification) 2,500 shares of class B common and 250 shares of preferred. To be sold through Lee Klos, President. For payment of accounts payable. For working capital and for purchase of goods for sale.

Elkhorn-Beaverhead Mines Co., Baltimore, Md.

March 12 (letter of notification) $250,000 first mortgage 10-year 5% bonds, and 250,000 shares (10 cents par) common. **Price**—$550 per unit consisting of $500 bond and 500 shares of common. No underwriting. For mine development.

● **Empire Copper Corp., Douglas, Ariz.**

March 27 (letter of notification) 600,000 shares of common. Price—50 cents a share. No underwriting. For operating purposes.

Equipment Finance Corp., Chicago

Feb. 28 filed 8,025 shares ($100 par) 4% cumulative preferred, series 2, and 25,070 shares ($10 par) common. **Underwriting** — None. **Offering**—Company anticipates that the entire offering will be sold to its employees and officers. Price—Par. **Proceeds**—Estimated proceeds of $1,045,000 will be applied to working capital.

Federal Electric Products Co., Newark, N. J.

Feb. 26, filed 150,000 shares ($1 par) common class A. **Underwriter**—E. F. Gillespie & Co., Inc., New York. **Price**—$7.25 a share. The registration states principal stockholder has granted the underwriters an option to purchase 45,000 shares of class B ($1 par) common at $7.25 a share, exercisable for a period of three years. **Proceeds**—Proceeds of approximately $870,000, together with $755,000 of other bonds, will be used to repay the balance of $34,000 of a property mortgage, to pay off loans in the amount of $1,295,000 to Bankers Commercial Corp., New York, and for additional working capital.

● **Ferguson (Harry), Inc., Detroit (4/21)**

Mar. 31 filed 100,000 shares ($50 par) 4¾% cumulative preferred and 250,000 shares ($1 par) common. **Underwriters**—F. Eberstadt & Co., Inc., New York, and Watling, Lerchen & Co., Detroit. Price by amendment. **Proceeds**—To equip and improve recently acquired Cleveland, O., plant. **Business**—Manufacture of farm machinery.

● **Fidelity Fund, Inc., Boston**

March 28 filed 300,000 shares ($5 par) capital stock. **Underwriters**—Paul H. Davis & Co., Chicago; and The Crosby Corp., Boston. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

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

● **Fizzadent Corp., Jackson Heights, N. Y.**

Mar. 27 (letter of notification) 15,000 shares (10c par) common. **Price**—$1.50 a share. No underwriting. For additional working capital.

Foreman Fabrics Corp., New York

July 29 filed 110,000 shares ($1 par) common stock, all outstanding. Underwriters—Cohu & Torrey. Price by amendment. Issue may be withdrawn.

● **Foremost Dairies, Inc., Jacksonville, Fla.**

March 28 filed 70,000 shares ($50 par) 4¾% series cumulative preferred stock with common stock purchase warrants. **Underwriters**—Paine, Webber, Jackson & Curtis; and Allen & Co., both of New York. **Offering**—65,500 shares will be offered to the public at a price to be supplied by amendment. The remaining 4,500 shares of stock are not being underwritten and will be offered to certain of its officers and one large stockholder who have indicated their willingness to surrender shares of 6% preferred stock of the company held by them in exchange for shares of new preferred. Part of the shares also are being offered in satisfaction of an obligation to pay $57,000 in connection with the purchase of a plant in Jacksonville, Fla. Price by amendment. **Proceeds**—For redemption of 25,233⅓ shares of 6% preferred and for other corporate purposes. **Business**—Dairy business.

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.

Georgia Hardwood Lumber Co. (4/8)

March 14 filed 100,000 shares ($1 par) common. **Underwriters**—Reynolds & Co., New York, and Equitable Securities Corp., Nashville, Tenn. **Price**—$8.20 a share. **Proceeds**—To obtain long-term cutting contracts on large tracts of timber, to construct additional manufacturing units and for other expansion purposes.

Glen Industries Inc., Milwaukee, Wis.

July 31 filed 50,000 shares of $1.25 cumulative convertible preferred stock series A ($20 par) and 150,000 shares (10c par) common, all issued and outstanding and being sold by eight selling stockholders. Underwriters—Van Alstyne Noel & Co. Price by amendment. Proceeds—To selling stockholders. Offering temporarily postponed.

Glencair Mining Co. Ltd., Toronto, Can.

Oct. 2 filed 300,000 shares ($1 par) stock. Underwriter—Mark Daniels & Co., Toronto. **Price**—40 cents a share (Canadian Funds). **Proceeds—For mine development.**

Glensder Textile Corp., New York

Aug. 28 filed 355,000 shares ($1 par) common, of which **55,000 shares are reserved for issuance upon the exercise of stock purchase warrants. Underwriter — Van Alstyne, Noel & Co. Offering—The 300,000 shares are issued and outstanding and being sold for the account of certain stockholders. Company has also issued 55,000 stock purchase warrants to the selling stockholders at 10 cents a share entitling them to purchase up to Aug. 1, 1949, common stock of the company at $11 a share. Price by amendment. Offering temporarily postponed.**

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. withdrew as underwriters. 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. Idenfinitely postponed.

● **Growth Industry Shares, Inc., Chicago**

Mar. 31 filed 100,000 shares (no par) common. **Underwriting**—None stated. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

Gulf States Utilities Co., Baton Rouge, La.

Jan. 20 filed 1,909,968 shares (no par) common. Underwriter—None. Offering—The shares will be offered for subscription to common stockholders of Gulf States' parent, Engineers Public Service Co., New York. The subscription basis will be one share of Gulf States stock for each share of Engineers common held. Price—$11.50 a share. **Proceeds**—Purpose of offering is to carry out a provision of dissolution plan of Engineers approved by the Commission.

Hammond Instrument Co., Chicago

Aug. 8 filed 80,000 shares ($1 par) common. Underwriter: Paul H. Davies & Co., Chicago. Price by amendment. **Proceeds—Net proceeds will be used to redeem its outstanding 6% cumulative preferred stock at an estimated cost of $213,258, exclusive of accrued dividends. It also will use approximately $402,000 toward the purchase of a manufacturing plant in Chicago; balance for working capital. Offering date indefinite.**

● **Hamilton Manufacturing Co. (4/21)**

Mar. 31 filed 100,000 shares ($5 par) common. **Underwriter**—A. C. Allyn & Co., Chicago, and Loewi & Co., Milwaukee. Price by amendment. **Proceeds**—To retire on May 1 company's outstanding preferential participating stock. **Business**—Professional furniture and equipment.

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.

● **Hawaiian Electric Co., Ltd., Honolulu (4/21)**

Mar. 31 filed $5,000,000 first mortgage bonds, series F, due 1977. **Underwriters**—Dillon, Read & Co., Inc., New York, and Dean Witter & Co., San Francisco. Price by amendment. **Proceeds**—To repay $3,000,000 of short term promissory notes and to reimburse its treasury for previous construction expenditures. **Business** — Public utility.

Helicopter Air Transport, Inc., Camden, N. J.

March 14 filed 270,000 shares of capital stock. **Underwriter**—Strauss Bros., Inc., New York. **Price**—$3.50 a share. **Proceeds**—Net proceeds will be used to pay obligations, purchase helicopters and equipment and for working capital.

Houston Lighting & Power Co.

Mar. 25 filed 259,002 shares of common. **Underwriting**—none. **Offering**—Company will issue warrants to its common stockholders of record on April 25 giving them the right to subscribe for one share of common for each 4 shares held at $37.50 a share. It will on April 16 file with the Secretary of State of Texas an amendment to its charter converting its then outstanding 517,999 shares of common into 1,035,998 shares and to convert its then authorized 600,000 shares of common into 1,200,000 shares and to increase the total authorized common to 2,000,000 shares. Unsubscribed shares may be offered publicly through underwriters. **Proceeds**—To be added to working capital for general corporate purposes, including construction of additions to its system.

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.

● **Income Foundation Fund, Inc., Baltimore, Md.**

March 28 filed 500,000 shares (10c par) capital stock. **Underwriter**—None. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

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.

● **Investors Syndicate of America, Inc., Minneapolis, Minn.**

March 27 filed $100,000,000 face amount of series 15 certificates and $80,000,000 face amount of Series 20 certificates. **Underwriter**—Investors Syndicate, Minneapolis. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

Iowa-Illinois Gas & Electric Co.

Feb. 15 filed $22,000,000 of first mortgage bonds due 1977. **Underwriter**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Blyth & Co., Inc.; Harriman Ripley & Co.; Harris, Hall & Co. (Inc.). **Proceeds**—Part of the proceeds will be used to pay mortgage debt of $10,578,000 and balance will be added to general funds.

Jahn & Ollier Engraving Co.

Feb. 26, filed 102,000 shares ($1 par) common. **Underwriter**—Sills, Minton & Co., Inc., Chicago. **Price**—By amendment. **Proceeds**—The shares, which constitute approximately 48.5% of company's outstanding common stock, are being sold to stockholders.

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● **Kaaba Silver-Lead Mines Inc., Nighthawk, Wash.**
March 27 (letter of notification) 650,000 shares (10c par) common, of the total 300,000 shares will be offered publicly at 25 cents a share. The remaining shares are to be issued for payment of notes and other debt. The shares to be offered publicly are to be issued through officers and directors of the company. For exploration and mine development.

● **Kennedy Co., Washington, D. C.**
March 24 (letter of notification) preorganization subscriptions for 40,000 shares ($1 par) Class A common and 4,000 shares (no par) Class B common. **Price**—$1 per share of Class A stock and 10 cents per share of Class B stock. No underwriting. To establish and operate automobile business.

Latin American Airways Inc., New York
March 7 (letter of notification) 21,250 shares ($1 par) common, on behalf of Henry E. Rohlsen, Bronx, N. Y. **Price**—$2.50 a share. No underwriting. Proceeds go to the selling stockholder.

Maguire Industries, Inc., New York
March 7 (letter of notification) 300,000 shares of common stock (par $1). Underwriting, none. **Price**—$1 per share. Stock will be offered for subscription to stockholders of record March 29 in ratio of 1 new share for each 3 shares held. Rights expire 3 p.m. (EST) April 21. Subscriptions payable at Registrar & Transfer Co., 2 Rector St., New York. Proceeds for working capital.

Massachusetts Investors Trust, Boston
March 19 filed 696,178 shares of beneficial interest. **Underwriter**—Vance, Sanders & Co. Boston. **Price**—Based on market. **Proceeds**—For investment.

Mays (J. W.) Inc., Brooklyn, N. Y.
Feb. 28 filed 150,000 shares ($1 par) common. **Underwriter**—Burr & Co., Inc., New York. Price by amendment. **Proceeds**—Of the total, 100,000 shares are being sold by seven stockholders. The remaining 50,000 shares are being sold by the company, which will use its proceeds for general corporate purposes.

● **Mercantile Acceptance Corp. of California, San Francisco**
Mar. 26 (letter of notification) $146,900 10-year debentures, 4% series. To be sold at face amounts of $100, $500 and $1,000. **Underwriter**—Guardian Securities Corp., San Francisco. For payment of short term notes or for other corporate purposes.

Michigan Consolidated Gas Co., Detroit
March 7 filed $6,000,000 first mortgage bonds, due 1969. **Underwriting**—To be determined by competitive bidding. **Probable bidders**—Dillon, Reed & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harris, Hall & Co. (Inc.). **Price**—To be determined by competitive bidding. **Proceeds**—Net proceeds, together with funds to be received from the sale of additional common shares to Michigan's parent, American Light & Traction Co., will be used to finance its property construction and equipment program and to reimburse its treasury for previous construction expenditures.

Mission Appliance Corp., Los Angeles
March 25 filed 58,000 shares ($5 par) common. **Underwriter**—Lester & Co., Los Angeles. **Price**—$11.50 a share. **Proceeds**—For construction of new plant building and an office building and for purchase of machinery and equipment. **Business**—Manufacture of gas-fired water heaters.

● **Morris Plan Corp. of America, N. Y. (4/21)**
Mar. 31 filed $5,000,000 of debentures. **Underwriter**—Eastman, Dillon & Co., New York. Price by amendment. **Proceeds**—To retire outstanding bank loans in amount of $4,080,000, with the balance applied to general corporate purposes. **Business**—Consumer credit and personal loans.

Motors Securities Co., Inc., Shreveport, La.
Feb. 19 filed $5,000,000 collateral trust notes. **Underwriting**—No underwriting. **Price**—$97.65 a unit. **Proceeds**—For purchase of automobile time sales paper which is its principal business as a finance company.

● **Muller (W.) & Co., Inc., New Britain, Conn.**
March 25 (letter of notification) 20,000 shares of common. Price—$5 a share. No underwriting. To purchase rare stamps and to provide additional working capital.

Murphy (G. C.) Co., McKeesport, Pa.
June 13 filed 250,000 shares of common stock (par $1). **Underwriter**—Smith, Barney & Co. Price by amendment. **Proceeds**—Redemption of outstanding 4¾% preferred stock at $109 a share plus dividends. Indefinitely postponed.

Mutual Plywood Corp., Oakland, Calif.
March 11 filed 7,000 shares of 6% cumulative preferred stock (par $100) and 10,000 shares of common stock (par $100). Underwriting none. **Price**—Preferred $100; common $100. **Offering** — Securities will be offered mainly to employees. **Proceeds** — For construction of plant, purchase of machinery, etc.

● **National Gas & Oil Corp., Newark, Ohio**
March 28 filed $1,750,000 of 15-year sinking fund debentures, due 1962. **Underwriter**—Name by amendment. Probable Underwriters—G. H. Walker & Co. Price by amendment. **Proceeds**—To redeem first mortgage bonds, to repay Freedom-Valvoline Oil Co. the balance of advances made by that company to the corporation and to add to general funds for payment of costs of construction and development work. **Business**—Production and sale of natural gas and crude oil.

● **National Underwriters Finance Corp., Denver, Colo.**
March 28 (letter of notification) 1,500 shares ($100 par) cumulative convertible preferred and 5,000 shares (no par) common. No underwriting. For working capital and corporate purposes.

Nesbett Fund Inc., New York
March 12 filed 300,000 shares ($1 par) capital stock. **Underwriter**—John G. Nesbett & Co., New York. **Price**—Based on market. **Proceeds** — For investment. The company estimates an aggregate offering price of $2,952,000 based on $9.84 a share which would have been the proposed offering price on Feb. 28.

● **New Brunswick Oilfields, Ltd., Fredericton, New Brunswick, Canada**
April 2 filed 150,000 shares (no par) capital stock. **Underwriters**—William D. Elwell, Boston, and W. C. Pitfield & Co., Ltd., Montreal. **Price** — $5.75 a share. **Proceeds**—Proceeds, together with $300,000 bank loan and $300,000 from the Shell Co., will be used towards the purchase of the New Brunswick Properties of New Brunswick Gas & Oilfields, Ltd. **Business**—Exploration and development of oil and gas wells.

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.

New Jersey Water Co., Haddon Heights, N. J.
March 24 (letter of notification) 2,950 shares, $4.25 series A preferred stock (no par). **Price**—$101 per share. **Underwriter**—E. H. Rollins & Sons, Inc. **Proceeds**—To retire 7% preferred stock.

Northern Natural Gas Co., Omaha, Neb.
March 13 filed $10,000,000 of serial debentures, due 1956 to 1967. **Underwriters**—To be determined by competitive bidding. Probable bidders include Dillon, Read & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co. **Price**—To be determined by competitive bidding. **Proceeds**—Net proceeds will be used to construct additional property and facilities.

Northern States Power Co. (Wis.)
March 24 filed $19,000,000 first mortgage bonds, series due April 1, 1977. **Underwriters**—To be determined by competitive bidding. Probable bidders include Smith, Barney & Co.; The First Boston Corp.; Harriman Ripley & Co.; Halsey, Stuart & Co. Inc. **Proceeds**—Company will apply $17,866,187 of proceeds toward the redemption of $16,975,000 first mortgage bonds, 3½% series, due 1964, at 105¼%. The balance, together with funds from sale of additional common stock to parent, Northern States Power Co. (Minn.), will be used to reimburse its treasury for previous construction and improvement expenditures.

Oglethorpe Fund, Inc., Savannah, Ga.
March 10 filed 200,000 shares of common. **Underwriter**—Southern Securities Corp. **Price**—Based on market. **Proceeds**—For investment.

● **Old Poindexter Distillery, Inc., Louisville, Ky.**
Mar. 31 filed 50,000 shares ($20 par) 5% convertible cumulative preferred and an unspecified number of ($1 par) common shares into which the preferred is convertible. **Underwriters**—F. S. Yantis & Co., and H. M. Byllesby & Co., both of Chicago. **Price**—At par. **Proceeds**—To be added to working capital. **Business**—Whiskey distillery.

Pacific Power & Light Co., Portland, Ore.
July 10 filed 114,815 shares ($100 par) 5% preferred. **Offering**—Company proposes to exchange the new preferred share-for-share for the outstanding $6 and 6% preferreds and share-for-share plus $5 per share in cash for 7% preferred of the Pacific Power & Light Co. and Northwestern Electric Co. upon merger into Pacific Power & Light Co. No underwriting.

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.

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.

● **Pitney-Bowes, Inc., Stamford, Conn. (4/16)**
March 27 filed 45,736 shares ($50 par) convertible preferred stock. **Underwriter** — First Boston Corp., New York. **Offering**—Shares initially will be offered for subscription to common stockholders in the ratio of one share of preferred for each 20 shares of common held. Unsubscribed shares will be offered to the public. Price by amendment. **Proceeds**—Proceeds will be used to repay short term bank loans and for working capital. **Business**—Manufacture of postage meter equipment.

Porcupine Club, Ltd., Nassau, Bahama Islands
Feb. 27 filed $125,000 5% first mortgage sinking fund bonds, due 1971. **Underwriting**—None. **Offering**—Of the total, $87,500 will be issued in exchange for an equal amount of outstanding 5% notes. The remaining $37,500 of bonds will be offered to club members. **Price**—The bonds will be issued in denominations of $1,000 and $500 for sale at their face amount. **Proceeds**—For repayment of bank loan and other corporate purposes.

Public Service Co. of Indiana Inc.
March 26 filed $11,077,800 15-year 2¾% convertible debentures. **Underwriters** — None. **Offering** — For subscription to common stockholders in the ratio of $200 principal amount of debentures for each 20 shares of common held. The debentures will be convertible into common from May 1, 1947 to April 30, 1959. **Price**—At face amount. **Proceeds**—For repayment of $11,500,000 of bank loan notes.

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.

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 Molding Co., Inc.**
March 26 (letter of notification) 30,000 shares ($5 par) 6% cumulative convertible preferred on behalf of the company and 9,000 shares of the same stock on behalf of three stockholders, all officers of the company. **Price**—$5 a share. No underwriting. The company will use its proceeds for additional working capital.

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.

Richmond Radiator Co., Richmond, Va.
March 6 filed $1,025,000 4% 5-year serial maturity debentures due April 1, 1948 to 1952. **Underwriting**—None. **Offering**—Debentures will be offered for subscription to common stockholders in the ratio of $1 of such debentures for each common share held. Reynolds Metals Co., which holds 61.3% of the company's outstanding common, has waived its right to purchase its pro rata share of debentures until the subscription period for other holders expires on April 15. Reynolds will have until April 21 to subscribe for the debentures after which they will be offered to the public. The debentures will be sold at face amounts of $25, $50, $100, $500 and $1,000. They are convertible into common stock up to June 30, 1947. **Proceeds**—Will be used to retire $1,025,000 of the company's notes held by Reynolds.

Rosslyn Loan Co., Inc., Arlington, Va. (4/15)
March 12 (letter of notification) 20,000 shares ($10 par) preferred. **Price**—$10 a share. **Underwriter**—Miller & Patterson, Richmond, Va. For expansion purposes.

● **Salant & Salant, Inc., New York**
March 28 filed 240,000 shares ($2 par) capital stock. Underwriter—Eastman, Dillon & Co., New York. Price by amendment. Proceeds—Shares are being sold by 13 stockholders who will receive proceeds. **Business**—Manufacture of work shirts.

Solar Manufacturing Corp.
March 19 (by amendment) filed 110,000 shares of 75c cumulative convertible preferred stock, series B (par $5) **Underwriters**—Van Alstyne, Noel & Co. Price per share $12.50 **Proceeds**—Net proceeds will be applied to redemption of bank loans and to cover part of cost of expansion program.

● **South Carolina Insurance Co., Columbia, S. C.**
March 26 (letter of notification) 10,000 shares of common. **Price**—$17.50 a share. No underwriting. **Proceeds**—$100,000 to capital stock and $75,000 to surplus.

● **South Carolina Power Co., Charleston, S. C.**
Mar. 31 filed 200,000 shares (no par) common. **Underwriters**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Harriman Ripley & Co.; Morgan Stanley & Co. Price to be determined by competitive bidding. **Proceeds**—To reimburse its treasury funds expended for property improvements. **Business**—Public utility.

● **Southern California Water Co., Los Angeles**
March 28 filed $5,100,000 first mortgage bonds, due 1977. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co., Inc.; Blyth & Co., Inc.; Union Securities Corp. **Proceeds**—Part of the proceeds will be used to redeem $3,762,000 of outstanding first mortgage bonds at 105¼. Balance will be applied to capital additions.

● **Standard Railway Equipment Manufacturing Co., Chicago**
March 28 filed 500,000 shares ($1 par) common. **Underwriters**—Smith Barney & Co., New York; and The Illinois Co., Chicago. Price by amendment. **Proceeds**—Company will use proceeds from the sale of 135,000 shares to retire a $1,500,000 bank loan. The remaining 365,000 shares are being sold by certain stockholders. **Business**—Manufacture of metal roofs and other equipment for railroad freight cars.

State Finance Co., Youngstown, O.
March 17 (letter of notification) 2,100 shares (no par) cumulative preferred. **Price**—$100 a share. Butler, Wick & Co., Youngstown, Ohio, dealer. For expansion of business.

Strauss Fasteners Inc., New York
March 25 filed 25,000 shares of 60 cents cumulative convertible preferred. **Underwriter**—Floyd D. Cerf Co. Inc., Chicago. **Offering**—The shares initially will be offered for subscription to common stockholders of Segal Lock & Hardware Co. Inc., parent, at $9 a share in the ratio of one share of preferred for each 30 shares of Segal common held. Unsubscribed shares of preferred will be offered publicly at $10 a share. **Proceeds**—For additional working capital. **Business**—Manufacture of slide fasteners.

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.

● **Suburban Propane Gas Corp., Whippany, N. J.**
March 28 filed 50,000 shares ($50 par) cumulative preferred, convertible into $1 par common prior to May 1, 1957. **Underwriter**—Eastman, Dillon & Co., New York. Price by amendment. **Proceeds**—Company will use $375,000 of proceeds to pay outstanding bank loan to National City Bank, New York, and $250,000 to pay a short-term bank loan to Fidelity Union Trust Co., Newark, N. J. Balances will be added to working capital. **Business**—Distribution of liquefied petroleum gas.

● **Sumit Drive-In Theater, Inc., Cleveland, Ohio**
March 24 (letter of notification) 250 shares of common and about 15 or 20 promissory notes in the aggregate of $29,400. **Price**—$2 per share of common and $1 for $1 worth of notes. No underwriting. To construct drive-in theater in Ohio.

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.

Textron Inc., Providence, R. I.
Feb. 23 filed 300,000 shares ($25 par) 5% convertible preferred. **Underwriters**—Blair & Co., Inc., New York, and Maxwell, Marshall & Co., Los Angeles. Price by amendment. **Proceeds**—For payment of $3,950,000 of bank loan notes; purchase of two notes issued by a subsidiary, Textron Southern Inc. in the amount of $1-000,000 each, and for working capital.

● **Tide Water Power Co., Wilmington, N. C.**
Mar. 31 filed 157,868 shares (no par) common. **Underwriters**—W. C. Langley & Co. and Union Securities Corp. are selling the stock and also are the principal underwriters. They will engage others to sell the stock. **Offering**—To the public. Price by amendment. **Proceeds**—Proceeds go to the selling stockholders. **Business**—Public utility.

● **Tiny Tot Safety Table Co., Chicago**
March 28 (letter of notification) Clarence W. Miller, Chicago, who will solicit and obtain preorganization subscriptions to common stock of Illinois corp. to be formed under the name of Tiny Tot Safety Table Co. Preorganization subscriptions for 55,000 shares of $1 par common. **Price**—$1 a share. No underwriting. For organization and operation of business.

Toledo (O.) Edison Co.
Oct. 25 filed $32,000,000 first mortgage bonds, due 1977, 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.

● **Topside Oil Corp., Denver**
Mar. 26 (letter of notification) 70,000 shares (no par) common. **Price**—$1 a share. To be sold through directors of the company. For development work.

● **Uncle Ray Publishing Co., Inc., Madison, Wis.**
March 24 (letter of notification) 550 shares ($100 par) common. Being offered on behalf of common stockholders of the company. **Price**—$100 a share. No underwriting.

● **United States Rubber Co., New York (4/21)**
Mar. 31 filed $40,000,000 20-year 2⅝% debentures, due 1967. **Underwriter**—Kuhn, Loeb & Co., New York. Price by amendment. **Proceeds**—To provide additional working capital. The company said termination of exclusive control of the purchase of natural rubber by the government makes it necessary for the company to resume financing of purchases in the Far East. **Business**—Rubber industry.

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.

Upper Peninsula Power Co., Houghton, Mich.
March 6 filed $3,500,000 first mortgage bonds, due 1977; 10,000 shares ($100 par) cumulative preferred and 180,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds); Kidder, Peabody & Co.; Merrill Lynch, Pierce, Fenner & Beane and Paine, Webber, Jackson & Curtis (jointly); Blyth & Co., Inc.; The First Boston Corp. **Price**—To be determined by competitive bidding. **Proceeds**—Company was organized Feb. 26, 1947 to acquire the capital stocks and assets of three Michigan operating utilities—Houghton County Electric Light Co., Copper District Power Co. and Iron Range Light & Power Co. The proceeds will be used in connection with this acquisition program.

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.

● **Vauze Dufault Mines, Ltd., Toronto, Canada**
Mar. 31 filed 500,000 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. **Price**—50 cents a share. **Proceeds**—For general operating expenses.

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.

● **Weber Showcase & Fixture Co., Inc., Los Ang.**
Mar. 31 filed 87,010 shares ($5 par) common. **Underwriters**—Name to be supplied by amendment. **Offering**—Of the total, 16,671 shares will be offered for subscription to Weber's common stockholders on the basis of one new share for each five presently held. The remaining 70,339 shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—To reduce bank loans and to retire a purchase money trust deed note. **Business**—Manufacture of store fixtures and equipment, particularly soda fountains, commercial refrigerators and frozen food cabinets.

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**—To repay short term bank loans for aircraft communication equipment part and shop facilities and for working capital

● **West Star Mining Co., Coeur d'Alene, Idaho**
March 28 (letter of notification) 200,000 shares of common. **Price**—50 cents a share. No underwriting. For exploratory work. Equipment and supplies in connection with prospecting holdings of the company.

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.

● **Westview Apartments, Inc., New York**
March 25 (letter of notification) 580 shares (no par) common. **Price** — $100 a share. **Underwriting** — Mark Rafalsky & Co., New York. To finance remodeling and alterations of the premises.

Whites Auto Stores, Inc.
Feb. 25, filed $1,000,000 12-year debentures, due 1959, and 50,000 shares ($1 par) common. **Underwriters**—First Colony Corp., New York, and Childs, Jeffries & Thorndike Inc., Boston. **Offering**—Of the total common, 5,000 shares are reserved for offering to employees. **Price** By amendment. **Proceeds**—Company is selling the debentures while the common stock is being sold by the four officers and directors. The company will use its proceeds to pay bank loans, to acquire additional warehouse space and to provide working capital. Debentures may be sold privately.

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 Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); The Wisconsin Co.; Dillon, Read & Co., Inc. **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.

Woodmont Country Club, Bethesda, Pa.
March 12 (letter of notification) $300,000 non-interest bearing debentures. **Price**—$250 per unit. No underwriting. To obtain golf course property and to improve same.

● **Wright & Glenn Co., Inc., New York**
Mar. 26 (letter of notification) 1,056 shares of Class B common on behalf of company and 150 shares of Class A common on behalf of Claude T. Glenn, President. **Price**—$250 per unit consisting of one share of Class A and four shares of Class B common. (Individually the securities are priced at $50 a share.) The company will use its proceeds for expansion purposes. No underwriting.

Wyandotte Worsted Co., Waterville, Me.
Feb. 26 filed 92,038 shares of common stock (par $5). **Underwriter**—None. Stock will be sold through regular market channels over the New York Stock Exchange at current market but at not less than $10 per share. **Proceeds**—Stock being sold by five stockholders.

(Continued on page 58)

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 57)

• Asbestos Manufacturing Co.
Mar. 5 stockholders increased authorized common stock from 400,000 shares to 600,000 shares (par $1). Approximately 116,000 shares will be offered for subscription to common and preferred stockholders at $2.50 per share. **Proceeds**—For expansion and improvements.

• Atlas Powder Co.
April 29 stockholders will vote on increasing authorized common from 450,000 to 700,000 shares (no par). Increase is designed to provide for possible new capital investment, retirement of indebtedness or general corporate purposes.

• California Electric Power Co.
March 31, company reported planning sale of $4,000,000 preferred stock to be sold at competitive bidding the dividend rate to be specified in the bids. Probable bidders include, Dean Witter & Co.; Blyth & Co., Inc.; Otis & Co. (Inc.).

• California-Pacific Utilities Co.
April 2 reported company proposes to ask stockholders to approve amendments to certificate of incorporation as forerunner to finance property extensions.

• Chesapeake & Ohio Ry. (4/15)
Company will receive bids up to noon (EST) April 15 at 3400 Terminal Tower, Cleveland, for the purchase of $1,650,000 equipment trust certificates. Probable bidders include Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

Chicago, Indianapolis & Louisville Ry. (4/7)
Company is inviting bids to be opened noon (CST) April 7 for $2,800,000 of equipment trust certificates, the proceeds to be used to finance not over 75% of the purchase price of 22 diesel-electric locomotives, to be acquired at an estimated cost of $3,765,500. Bids will be received at office of company, 608 So. Dearborn Street, Chicago. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

• Connecticut Light & Power Co.
March 19, stockholders voted a new preferred issue in connection with a $16,000,000 expansion program. Details of proposed issue not yet available, but company contemplates refunding 336,088 (no par) shares of $2.40 and $2.20 outstanding prefered either through an exchange offer or by call. Probable underwriters, Putnam & Co.; Chas. W. Scranton & Co., and Estabrook & Co.

• Consolidated Edison Co. of New York, Inc.
April 1 company petitioned New York P. S. Commission for authority to issue for refunding purposes $100,000,000 in first and refunding mortgage bonds, Series B, due April 1, 1987. The price of the bonds as well as the interest rate is to be determined by competitive bidding. Probable bidders include Morgan Stanley & Co.; Halsey, Stuart & Co., Inc. Proceeds received from the sale will be applied to the redemption of $60,000,000 Consolidated Edison Co. of New York, Inc., 10-year 3½% debentures due 1948. The balance will be applied to the redemption of a part of the $65,000,000 in unsecured short-term bank loans executed recently by the company.

• Erie Railroad (4/15)
Mar. 26 company applied to ICC for authority to issue $5,440,000 equipment trust certificates. Bids for purchase of the equipments will be received up to April 15. Probable bidders include Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler.

• Fairbanks Morse Co.
March 26 company is working out details of a debenture issue to provide funds for two plants and for increased sales volume. Part of the money will be used to purchase from the government of two plants operated by the company during the war. Probable underwriter, Harriman Ripley & Co.

• General Public Utilities Corp.
Mar. 28 A. F. Tegen, President, in annual report stated that new financing is required to meet heavy construction requirements.

• General Time Instruments Corp.
April 1 stockholders voted to increase authorized common (no par) from 400,000 shares to 500,000 shares. The 100,000 additional shares would be reserved for issuance from time to time as company's needs require.

• H & B American Machine Co.
Mar. 29 reported that in connection with proposed recapitalization plan company may sell 208,000 shares of common stock as new financing.

• Rayonier, Inc.
April 2 Edward Bartsch, President, states that company has no immediate financing plans, but should securities markets show improvement and if the company could get additional suitable timberlands, it would consider some financing for such purposes.

• Rochester Gas & Electric Corp.
The 1946 annual report states that company is preparing a financial program to provide funds for its construction program which is estimated presently at $25,000,000, of which $11,000,000 is to be spent in 1947. Probable bidders for new securities include Halsey, Stuart & Co. Inc. (bonds); Blyth & Co., Inc.; Lehman Brothers.

• Southern California Edison Co., Ltd.
March 26 California P. U. Commission approved company's application to issue two new classes of preferred stocks in connection with its proposed plan for retirement through exchange or call, of all of its presently outstanding preferred series B 6% stock and series C 5½% stock. The Commission exempted the new securities from the Commission's competitive bidding rule and company invited The First Boston Corp. and Harris, Hall & Co. (Inc.) to manage the underwriting and exchange offerings. The proposed refunding plan will involve the issuance of new securities totalling more than $95,000,000. Under the plan it is proposed to issue and exchange or sell 1,653,429 shares of new cumulative preference and new convertible preference voting stocks. The new stocks would be offered in exchange for the present series B 6% and series C 5½% preferred stocks on the basis of one-half share of each of the new issues for each share of the old preferred. Unexchanged portions of the old preferred would be called at $28.75 per share. Unexchanged portions of the new preferred stocks will be sold and proceeds used for the redemption of the old preferred.

• Sylvania Electric Products, Inc.
Mar. 29 reported company planning equity financing to provide funds for expansion and working capital as soon as market conditions are favorable. Probable underwriters include Paine Webber, Jackson & Curtis, White, Weld Co., Lee Higginson Corp.

SEC Abandons Idea of Promulgating Bid-and-Asked Disclosure Rule

(Continued from page 3)

disclosure by over-the-counter dealers of prevailing market quotations when effecting transactions in 'exempt securities,' a phrase which includes 'muncipals'."

Industry comment on the full disclosure rule received by the SEC on its own solicitation back in 1942 was predominantly opposed to the proposition. The dealers argued that the rule, if put into effect, would reduce their earnings and jeopardize their very existence. They reasoned that there was no justification for singling out the securities business for this kind of treatment. They felt there was no more reason for them to disclose their "inside" or wholesale prices to their customers than it would be for merchants in other lines of business to do so.

Our readers will recall that it was the "Chronicle" which, back in 1942, launched the fight against the SEC's attempt to force such a disclosure rule upon the over-the-counter market, thereby helping to crystalize industry-wide opposition to the scheme. Since then we have carried innumerable articles attacking the proposal as being vicious and un-American and have published column after column of comment from dealers agreeing with our position and indicating the devastating effect such a disclosure rule would have on the securities business. It is still the opinion of the editors of this newspaper that legislation should be enacted, possibly as an amendment to the Securities Acts, preventing the SEC from ever compelling over-the-counter dealers to disclose their inside or wholesale prices, or profits, to a customer unless they are acting on an agency basis.

Decision of the SEC to abandon the proposed "disclosure" rule was announced yesterday. The complete statement follows:

"Inquiries have been received by the Commission from time to time regarding the disposition of a Proposed Rule X-15C1-10 under the Securities Exchange Act of 1934 which was circulated to the public for comment in 1942. The rule would have required every dealer executing a purchase or sale in the over-the-counter market to disclose to his customer the best independent bid-and-asked price ascertainable upon the exercise of reasonable diligence or the fact that no such bid-or-asked price could be so ascertained.

"The Commission has received numerous inquiries with respect to the status of 'municipal securities' under any market disclosure rule which might be adopted. The Commission believes it has no authority upon either Section 15C-1 or any other section of the Securities Exchange Act of 1934 to adopt a rule requiring general disclosure by the over-the-counter dealers of prevailing market quotations when effecting transactions in 'exempt securities' a phrase which includes 'municipals.'

"Section 15C2 of the Securities Exchange Act of 1934 expressly provides for rules which 'prescribe means reasonably designed to prevent fraudulent, deceptive or manipulative practices' or fictitous quotations in the over-the-counter market. However, no rule adopted under 15C2 could apply to transactions in 'exempt securities', since they are explicitly excluded from that section. As a result of the comment received in 1942 the Commission decided not to adopt Rule X-15C1-10."

With H. Hentz & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Henry I. Monheimer has joined the staff of H. Hentz & Co., 120 South La Salle Street.

With Robert F. McMaster

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—William F. Wilson is with Robert F. McMaster & Co., 135 South La Salle Street.

Food Machinery Stock And Debentures Offered

The Food Machinery Corp. is publicly offering today $8,000,000 of 2½% sinking fund debentures due March 15, 1962 at a price of 100⅞% and 70,000 shares of 3¼% cumulative convertible preferred stock, $100 par value, at a price of $101 per share. Kidder, Peabody & Co. and Mitchum, Tully & Co. have underwritten the offering of the debentures and are heading a group of investment banking firms through which the preferred stock is being offered.

Proceeds from the sale of the new securities will be used to reimburse working capital for expenditures made under a program of capital improvements and additions, to provide for additional expenditures for similar purposes, to provide for a $4,700,000 renegotiation refund to the Government, and to repay substantially all of the $8,000,000 of bank loans incurred in connection with the program.

Henry B. Boland Dead

Henry B. Boland, partner in Boland, Saffin & Co., 52 William Street, New York City, died on April 1st at the age of 68. He was a resident of Monmouth Beach, N. J.

Our Reporter's Report

Although the behavior of the stock market suggests a degree of uncertainty rules in most directions the situation here has not been of a nature to put the "damper" on the new issue market.

On the contrary the latter phase of the securities business has definitely taken on signs of renewed vigor spurred, no doubt, by the remarkably favorable reception being accorded new underwritings as they appear.

The ease with which the market absorbed first the $100,000,000 Consolidated Edison issue of a fortnight ago and then American Telephone's $200,000,000 of new money debentures last week has been conducive to fresh confidence.

Accordingly many firms have moved to proceed with the marketing of new issues, some for refunding, some for new money, and some growing out of the efforts of utility holding companies to meet with the divestment and integration provisions of the law.

The latter phase has been providing investment bankers with substantial opportunities as witness the several such deals which developed this week as for example the multiple sale by New England Gas and Electric Assn. which sold bonds, preferred and common stock, and the big block of Maine Public Service Co., capital stock sold by the Consolidated Electric & Gas Co. the other day.

Don't See Eye to Eye

Differences of opinion are what make the world go around from a financial and investment point of view. This was vividly indicated by the divergent courses pursued by two of the larger industrial corporations in the course of the last day or two.

Atlantic Refining Co. on the one hand, brought out through its bankers an issue of 250,000 shares of new $3.75 dividend preferred stock, priced at par and offered yesterday to provide funds for general corporate purposes.

From all indications this issue was absorbed widely and in no small measure by institutions when the books opened.

On the other hand, American Locomotive Co., which went into registration for 100,000 shares of new preferred last July, this week asked SEC to permit withdrawal of its registration, explaining that directors felt it would not be to the best interests of the company to go ahead with the program now or in the near future.

It All Depends

Many companies have things in mind and probably would move quickly if they felt prevailing market conditions justified such action.

At the various annual meetings now being held, it has been indicated that more than a few corporations contemplate expansion which would call for additional capital. But quite evidently management is not altogether sure that the time is right.

At the Rayonier, Inc. session Edward Bartsch, President, stated that the company had "no financing plans for the near future." But, he added, "should securities markets show improvement and could the company get additional suitable timberland, it would consider some financing for such purposes."

On the Second Leg

Consolidated Edison Co. of New York is definitely launched on the second leg of its big refinancing venture, having asked the Public Service Commission to approve issuance of another $100,000,000 of new bonds.

Proceeds of this portion of the issue would be applied with company cash and bank loans to retire $194,541,000 of long-term debts outstanding, leaving a final $90,000,000 of new securities to be floated at a future date.

U. S. Rubber Plans

U. S. Rubber in keeping with expectations, has registered with SEC for an issue of $40,000,000 of new 20-year 2⅝% debentures which will be marketed by a group of 80 underwriters.

Proceeds will be used to provide additional working capital which the company considers essential to handle present business which is double that just before the war.

Additional funds also are needed in consequence of return to more normal turnover in inventories and accounts receivable than existed during the war and last year. A similar issue was sold last year to finance acquisitions and plantation rehabilitation among other things.

Northern Trust Co. Elects Geil Officer

CHICAGO, ILL.—The Northern Trust Company, announces the election of Lloyd H. Geil, Second Vice-President and Manager, Public Relations. Mr. Geil recently resigned as field representative in the department of public relations, Standard Oil Company (Indiana) to accept his position with the bank. For ten years he was associated with Michigan State College in East Lansing. There he was head of the department of publications and director of public relations. He is a graduate of North Central College, Naperville, and holds a master's degree from Northwestern University. J. Mills Easton, Second Vice-President, continues to serve as manager of advertising, a position he has held with the bank since 1926.

Lloyd H. Geil

Iglehart Director

J. A. W. Iglehart, a partner in the New York Stock Exchange firm of W. E. Hutton & Co., has been elected a director of Franklin Simon & Co. Mr. Iglehart is also a director of the National Gypsum Corporation, the Rotary Electric Steel Company of Detroit, and the Columbia Broadcasting System.

J. A. W. Iglehart

Estes, Snyder Elects Harold P. Lowe V.-P.

TOPEKA, KANS.—Estes, Snyder & Co., Inc., 217 West Sixth Street, have announced the association with them of Harold P. Lowe and his election as Vice-President in charge of the Municipal Bond Department. In the past Mr. Lowe was with the firm for a number of years.

Edwin V. Hale Joins Clement, Curtis & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Edwin V. Hale has become associated with the Chicago investment firm of Clement, Curtis & Co., members of the New York and Chicago Stock Exchanges. Mr. Hale was formerly with Otis & Co. for many years.

Ohio And World Bank Bonds

WASHINGTON—Last week the lower house of the Ohio State Legislature, on a motion from the floor by a large majority, voted to make World Bank bonds ineligible for investment on the part of state banks. According to a World Bank source, Ohio bankers expect that this action will be reversed.

In any case, it is pointed out, if Ohio state banks are authorized to invest 10% of their capital and surplus in World Bank securities and exercise the authority, the total would be only about $16,000,000.

Fund Advice for Monetary Reform Sought by Members

WASHINGTON—Several members of the International Monetary Fund have requested its assistance in reforming their monetary systems. The Fund has not acceded to all such requests. Considerations are: Whether the Fund can spare the necessary staff members; the position of the member vis-a-vis the Fund; the nature of the problem; etc.

Joins Davies and Mejia Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Walton T. Hildebrand has become associated with Davis & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. He was in the past connected with Henry F. Swift & Co. and Stone & Youngberg.

Albert W. McCready Rejoins Staff of Conrad, Bruce Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Albert W. McCready has rejoined the staff of Conrad, Bruce & Co., 530 West Sixth Street. Mr. McCready has recently been associated with Gross, Van Court & Co. as trader.

With Bacon & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Earl C. Elliott has become affiliated with Bacon & Co., 256 Montgomery Street, members of the San Francisco and Los Angeles Stock Exchanges. Mr. Elliott was formerly with Dean Witter & Co.

N. Y. Office for Int'l Fund Under Consideration

WASHINGTON—The International Monetary Fund has under consideration the opening of an office in New York.

Carl E. Harris With Leonard J. Fertig & Co.

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, IND.—Carl E. Harris has become associated with Leonard J. Fertig & Co., Berry at Court Street, members of the Chicago Stock Exchange. Mr. Harris was formerly with Slayton & Co., Inc., and in the past with Wm. E. Shumaker & Co.

Harold Roberts with Joseph

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — Harold Roberts has become associated with John E. Joseph & Co., Inc., 18 East Fourth Street. Mr. Roberts was formerly with Westheimer & Co. for many years. Prior thereto he was with the Cincinnati Stock Exchange.

At Coburn & Middlebrook

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN. — Leo P. Begley, Jr. has been added to the staff of Coburn & Midlebrook, 37 Lewis Street.

With Bache in Miami

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Donald D. Burr has become associated with Bache & Co., 96 N. E. Second Avenue.

DIVIDEND NOTICES

Business Man's Bookshelf

Beverage Distilling Industry—Facts and Figures 1934-1935—Licensed Beverage Industries, Inc., Research & Statistical Bureau, 10 East 40th Street, New York 16, N. Y.—paper.

With A. F. de Felice

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Aldo Cincotta is with Aurelius F. de Felice, 145 Sutter Street, member of the San Francisco Mining Exchange.

DIVIDEND NOTICES

Europe and the Geneva Conference

Correspondent foresees great reluctance on part of many European countries to return to system of *laissez-faire* in foreign trade, and predicts little support will be given American policy by Western Europe at forthcoming International Trade Conference. Holds much will depend on continuance of British leadership and loans from United States.

BASLE, SWITZERLAND.—The coming Geneva Conference on International Trade differs materially from the two economic conferences that followed the first World War. The conference of Brussels and Genoa did not aim at anything beyond passing a series of resolutions laying down the principles that were to guide the Governments in their policies. No international agreements were arrived at and none were concluded. The participating Governments were at liberty to depart from the principles laid down in the Brussels and Genoa resolutions. At Geneva, however, the Governments are expected to enter into definite and binding commitments. For this reason, public opinion on the European continent is gravely preoccupied by the prospects of that conference and by the attitude of the Governments concerned.

There can be no doubt that, generally speaking, the continental Governments are not enthusiastic about the American policy aiming at the restoration of multilateral international trade. Strong opposition is likely to be forthcoming in the first place from the countries east of the "Iron Curtain." Under the influence of the Soviet Union, they have adopted a policy of State controlled foreign trade, not as a matter of temporary expediency but as a part of the fundamental economic system towards which they are being steered. For them there can be no question of a return to *laissez-faire* in foreign trade. Their representatives are expected to hold out in favor of quantitative discrimination, bilateralism, and regional pacts.

Nor is the American policy likely to receive much support from Western Europe. Most liberated countries are in such a state that their Governments do not feel disposed to relinquish the weapons at their disposal for the defense of their balance of payments. They consider discriminatory trading methods as indispensable as exchange control. In order to be able to run the risk of exposing themselves to the hazards of multilateral trade, they would all require large loans to provide the means for meeting trade deficits. The grand total of their requirements would be an astronomic figure, far beyond the limits up to which the United States is likely to be prepared to go in its policy of financial assistance.

Even countries such as Switzerland or Sweden, which are in need of dollar loans, would be reluctant to do away with bilateral arrangements and discrimination in general. These arrangements have resulted in a kind of equilibrium which is held to be particularly valuable by small countries. Swiss economic literature in particular stresses the extent to which a small country is exposed to shocks under a system of free (or comparatively free) trade. Although the former neutrals are in a sufficiently strong financial position to face a series of trade deficits, they are anxious to preserve their strength, if necessary, by means of "artificial" trading arrangements.

There seems to be no clear attitude discernible in any of the continental countries. None of them are keen on taking the plunge by reverting to free trade and hoping for the best. There is bound to be a great deal of hard bargaining for safeguards, whether in the form of international organizations and arrangements regulating the flow of multilateral trade, or in the much more obvious form of substantial dollar loans. Every country has, of course, its price, and quite conceivably even the Eastern European countries will be prepared to commit themselves to non-discrimination in return for a sufficiently large loan. They would do so with the approval of the Soviet Government, approval which would be forthcoming, since the Soviet Union would indirectly benefit by such loans. How much the commitments, given in contradiction to fundamental policies, will be worth in the long run is another question.

Western Europe is likely to take its lead from Britain. In spite of the weakening of Britain's financial and economic power as a result of the war, the greater part of the Continent still looks towards London for guidance in matters relating to international trade or currency. The fact that none of the continental countries ratified the Bretton Woods Agreement until Britain decided to ratify it is well worth bearing in mind, as history is likely to repeat itself in Geneva.

Yugoslavia Pays Its World Bank Quota

Action follows Baranski's visit to Belgrade.

WASHINGTON, April 2 (Special to the "Chronicle")—Following a visit of World Bank Executive Director, Leon Baranski, to Belgrade, Yugoslavia recently paid its subscription to the World Bank.

For a long while Yugoslavia, as a matter of principle, insisted on not paying its subscription to the Bank until the United States should free Yugoslav gold frozen in this country. Baranski, a Pole who represents Poland, Czechoslovakia and Yugoslavia in the Bank, is now enroute to Washington.

Prior to Baranski's visit, the Yugoslav Government was obdurate. While the matter was still in an impasse, the United Kingdom unblocked Yugoslavia's assets, whereupon the World Bank repeated its request to Belgrade, but without success until Mr. Baranski's visit.

Sees Danger in Price Distortions

Nrothern Trust Company of Chicago points out that with industrial production 90% above prewar, and real consumer purchasing power only 60% above, maintenance of industrial production depends on combination of lower living costs through lower prices and larger capital expenditures of business.

In spite of a 55% increase in the cost of living since the prewar years of 1935-1939, the total real purchasing power of current incomes is sufficient to buy a quantity of goods almost 60% greater than before the war, according to an article in the April edition of The Northern Trust Company's "Business Comment."

Reasons for this increase in consumer purchasing power lie, of coal. In 1946, they got according to the article, in the large increase in income payments to individuals which have recently been running at the rate of $175 billion annually as compared with a $67 billion average for the five prewar years. Though taxes paid by individuals are heavier ($20 billion annually now against $3 billion prewar), income available for spending (after taxes) is still almost 2½ times prewar.

Industrial production, meanwhile, has been running 90% higher than prewar in physical volume, the bank reported. Compared with the 60% rise in real purchasing power of current incomes, it would appear that production was tending to outrun the market, but, the report states, "a direct comparison between these figures is very superficial."

For one thing, consumers not only buy the products of industry but also the products of agriculture and services, such as doctors, education or entertainment. Domestic consumption of farm products in the aggregate, and of some services, has not risen 60%, which gives leeway for greater increases in consumption of products of industry. A second factor in the comparison is that not all of industrial production is in the form of consumers' goods, a large fraction consisting of capital goods purchased by business firms to maintain, improve or expand production and marketing facilities. At the present time, the bank reports, such spending by business is very large.

Maintenance of industrial production at present levels depends on the combination of consumer purchases and capital expenditures of business, the bank pointed out. Government purchases of military equipment and other supplies and services are also a part of the total demand and are still important.

The maintenance of production on an even keel depends not only on the matching of the flow of consumers' goods and the amounts available to consumers for spending on these goods, but also on the matching of the output of capital goods and the amount available to business from profits, depreciation reserves and sale of securities to the public, the bank stated.

The rise in the cost of living and of other commodity prices, the bank reported, is a reflection of cost increases and of shortages, particularly of farm products and metals. Price distortions that now exist threaten the maintenance of production and employment. In such a situation a relatively few benefit, while many suffer, the bank added. Thus the mass markets for goods on which full production depends are undermined.

"Any action that will increase the price distortions that now exist is harmful," the article concluded. "Any action that will bring down the prices and costs that are out of line is helpful."

August Fuchs Partner In Geo. B. Wallace Co.

George B. Wallace & Co., 15 William Street, New York City, announce that August G. Fuchs has been admitted to partnership in the firm. Mr. Fuchs has been with the firm for some time in charge of the trading department.