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The COMMERCIAL and FINANCIAL CHRONICLE

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Cross Currents At Geneva

(By a Special Correspondent)

Observer reports Conference's opening proceedings marked by Britain's strongly indicated unwillingness to give up Imperial Preference, mainly because of possibility of our unilateral reversal of tariff concessions. Cripps stated only complete tariff elimination would warrant similar action on Imperial Preference. Undersecretary Clayton's difficulties highlighted.

GENEVA—Usually the opening speech at international conferences contain little more than broad generalities, so vague as to be almost non-controversial. This practice is unconsciously due to a desire to open the discussion in an atmosphere of harmony, by expressing pious hopes about their success in a spirit of goodwill. There has been a great deal of that kind of generalities in the opening speeches at the Geneva Preparatory Conference. At the same time, however, there was an unusual amount of plain speaking even if it was wrapped in an ample cover of platitudes.

Indeed some of the leading delegates lost no time in indicating the broad outlines of the attitude they intended to follow. In particular Sir Stafford Cripps made the British Government's policy quite clear from the outset, not only in his speech but also in statements made at a press conference held on the second day of the conference, and by implication also by his departure from Geneva on the following day.

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The Budget and Federal Taxes

By IVAN WRIGHT

Dr. Wright, in recounting growth of Federal budget and Federal taxes, points out, despite the burden, if American business is given a chance under freedom with fair and free competition, nation can meet tax burdens through increased production. Says much depends on successful removal of barriers to reduce costs and prices which would bring a real increase in wages or buying power of wage earner's dollar. Sees need for government economies.

Our Federal taxes are high by comparison with prewar taxes. The obligations of the Federal Government will require high taxes for many years to come. During the war the Government's obligations and tax rates were increased of necessity. In spite of this huge increase in taxes, a large part of the war costs are still to be paid. The story of the deficit financing is told in the increases in the Federal debt, which is now about 255 billion dollars. While the Government's budget needs declined with the end of the war and will further decline with the postwar reconversion and reconstruction, the obligations of the Government will remain high for many years because of the increased costs of defense, payments to veterans, the servicing and amortizing of the national debt, increased international obligations and other expansions in Government obligations growing out of the war.

Dr. Ivan Wright

While the Government's budget requirements have increased and Federal taxes have increased, the debts of states, municipalities and even the private corporations and individuals have decreased. This decrease, however, does not offset, by any means, the increase in the

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Strengthening Economic System

By ALFRED P. SLOAN, JR.*

Chairman, General Motors Corporation

Asserting strengthening economic system will fail unless implemented by political action, leading industrialist urges contesting propaganda against free enterprise. Attacks tax system as confiscatory and as destroying incentive. Wants labor-management relationship on voluntary basis; accuses unions of monopoly. Holds government policy distorts prices, and decries wage rises at expense of profits.

The vital importance of preserving and strengthening the American economic system stands out to most of us crystal clear. Every logical argument, every bit of historical evidence, every appraisal of actual accomplishment, all human reactions and desires support predominantly one side of the argument. Yet the battle as to whether that system, based on the fundamental concepts of the freedom of the individual, is to remain intact as a bulwark in support of the American way of living, or is to move into some form of a regimented economy — socialism or something worse — long in the stages of academic discussion, now takes concrete form. The lines of attack and defense are clearly defined. It is the world

Alfred P. Sloan, Jr.

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*An address by Mr. Sloan before the Economic Club of New York, New York City, April 16, 1947.

Don't Wrench the Price Structure!

Dr. C. T. Murchison of Cotton Textile Institute says hasty action by government or breaking down prices by "crowbar methods" may be disastrous. Holds if markets are allowed to take their due course in making adjustments, prices will tend downward.

Deploring the "utter recklessness of present assaults on the price structure," Dr. C. T. Murchison, President, Cotton-Textile Institute, declared before the annual meeting of the Alabama Cotton Manufacturers Association at Biloxi, Miss., on April 14, that such "crowbar methods" could easily lead to disastrous consequences.

Dr. C. T. Murchison

"There is much loose and irresponsible talk about the necessity for price reductions," he declared. "If reports from Washington are to be believed, there is the threat of hasty action on the part of the government. Both of these developments are more serious than the fact of higher prices. If prices are broken down by crowbar methods, the results will be disastrous."

In a period of rapidly breaking prices, he pointed out, public confidence in values melts away, buyers desert the market, being fearful of making commitments unless sure that the bottom has been reached, selling operations are brought to a standstill, heavy losses are suffered, inventory values shrink, production is curtailed, unemployment appears like mushrooms everywhere, breadlines begin to form, and the wage structure cracks as did the price structure.

"An alternative such as this," he went on, "is not idle speculation. History has shown it to be the inevitable outcome of every general price collapse. One would infer from the current fanaticism over prices that the American people were undergoing great hardship and destitution. Such an assumption, of course, is pure nonsense.

"Why have wages gone up so fast and so far except to cover these higher prices? Has the public income increased from 75 bil-

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Roots and Fruits of Boom

By BRADFORD B. SMITH*
Economist, United States Steel Corporation

Mr. Smith cites broad extent of present inflationary boom, whose bases are both physical and financial. Maintains our financial expansion is equivalent to money printing press. Predicts boom will end in bust with termination of flow to market of new money, and of banks' power to expand money supply at artificially low interest rates.

The central business fact of today, as I see it, is that America is in some phase of an inflationary boom of major, perhaps record-breaking, proportions. Two or three months ago this view was by no means universal. But at present it is a view which is shared by most students of business conditions with whom I am acquainted and has, indeed, had the corroboration of the President in a recent statement that another spin of the inflationary wage-price spiral is to be feared unless curbed by the self-restraint of its participants.

Bradford B. Smith

The presence of boom is readily established by dispassionate analysis and the statistical evidence of it is cumulative and convincing. Thus the Bureau of Labor Statistics' index of wholesale commodity prices has risen in the past year by nearly 40%. Its index of consumer prices has increased close to 20% and the increase in it since 1940 has been about 50%. These are facts so familiar that we have become deadened to their drama. So let me put the same thing another way: I imagine that many of you carry life insurance to care for wife and children in the event of death. If the cost of living advances no further than it has already, the wife and children will still have one-third less of real things to live on than if prices had remained where they were when the policy was taken out, let us suppose, in 1940.

Or let us look at the supply of money, by which I mean the dollars of check deposits and coin and currency owned by individuals and business enterprises. By a process which is the modern equivalent of the money printing press, the supply has been blown up until it is six times what it was in the middle 30's and three times what it was in 1939. I shall have more to say about this in a moment. Finally we may note something which comes, I believe, within everybody's personal experience. It is the seeming scarcity of numerous things which people want to buy and the apparent abundance of money with which to buy them were they available—and this despite the facts of very high levels of industrial production and the absence of significant unemployment. Multiplying money supplies, rising prices, wages and costs, high levels of output, expanding inventories and apparent scarcities of labor and materials—these are the historic earmarks of inflationary boom. All of these we have recently experienced. I conclude that we are living today in an inflationary boom of major proportions. It is a fact to be faced rather than one to which to close the eyes in the vain hope that refusing to recognize it can either make it not true or avert its consequences. If, then, it is a boom that we have on our hands, it is appropriate to inquire into what

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*Remarks of Mr. Smith before the Illinois Manufacturers' Costs Association Chicago, April 15 1947.

The Economic Outlook

By RAYMOND RODGERS*
Professor of Banking, New York University

Dr. Rodgers traces cross currents of business, and predicts there'll be no serious depression in 1947. Sees moderate price declines having a beneficial effect on the economy, and contends lower average mark-ups of both manufacturers and retailers, seeking volume rather than high profit margins, together with reasonable price declines will increase purchasing power and offset serious business recession.

In the economic sphere things don't "just happen." In the economic field, we reap what we sow just as directly as does the farmer, and much more certainly! Today, we are going to analyze some of the things which have been sown to see if we can determine what the crop will be!

Raymond Rodgers

Prognostication is the most deadly of the economic deadly sins. No economist in his right mind would tempt the gods of destiny by trying to pierce the veil of the future if it could be avoided. Fate, happenchance, and government play too important roles in human affairs to make economic forecasting a scientific procedure; yet the businessman must plan ahead if he is to survive. Let us, then, with full realization of the hazardous character of our undertaking, attempt to mutually formulate "the shape of things to come." In doing this, I beg you to listen to my reasons more closely than my conclusions. Future developments, particularly in the field of direct government action, may force modification of some of the conclusions but if you keep the underlying reasons in mind, you can keep your conclusions up to date.

Business Cross Currents And Outlook

Business today, like Don Quixote of old, is striking off wildly in all directions. There are many cross-currents; trends are reversing themselves. Although business activity has slackened, it is still too good to be true in most lines, yet, paradoxically, everyone expects the worst! In spite of conflicting evidence and the confusion which prevails, however, certain reasonable conclusions can be drawn. Briefly stated these conclusions are:

(1) Despite the ballyhoo, there

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*An address by Dr. Rodgers before Conference of Industrialists, arranged by Manufacturers and Traders Trust Co., Buffalo, N. Y., April 11, 1947.

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A Balanced National Budget

By HARLEY L. LUTZ*

Consultant, Government Finance Department, National Association of Manufacturers

Dr. Lutz contends less government spending is key to balanced budget, reduced income taxes and national debt reduction. Denies high taxes help stop inflation, but favors debt reduction over tax reduction. Says both debt and tax reduction can now be accomplished, and tax reduction will encourage enterprise and increase revenue through expanded production and greater individual incentive. Contends all should share in tax relief and maximum income tax rate should not exceed 50%, since "soaking the rich" soaks the poor also.

Dr. Harley L. Lutz

The subject of these remarks, "A Balanced National Budget," belongs in the realm of past, rather than current history. If we accept that bit of folklore about the reticence of women on the subject of their age, there are few memebers of this audience who would admit remembering when the budget was last balanced. It was in the fiscal year 1930, and that is a long time ago by any one's calendar.

We seem to be, at last, in sight of the goal once more. There may be a surplus for the fiscal year 1947, but if this happens it will be due to good luck, not good management. We now have reason to expect, in fiscal 1948, a surplus of revenues above current spending.

Yet, the progress toward lower budgets is disappointing. Compared with the highest war budget of more than $100 billions, the President's estimate of $37.5 billions in 1948 indicates improvement. But it was fairly easy to lop off the first $60 billions or so. In fact, this was unavoidable with the termination of war contracts, extensive demobilization, and the end of lend-lease. The tough part of the job will be to get another $10 billions or $15 billions out of the present budget.

All of you have probably read about how big the 1948 budget document was, how much it

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*An address by Dr. Lutz before the Annual Convention of the Michigan State Federation of Women's Clubs, Detroit, Mich., April 9, 1947.

James J. Caffrey Sticks to His "Riskless Transaction" Theory

SEC killed proposed Rule X-15C1-10 as announced in these columns two weeks ago. Does not follow that issue of bid-and-asked disclosure may not be resuscitated.

Certain rather important things need to be said about the announcement made two weeks ago by the Securities and Exchange Commission on proposed bid-and-asked disclosure Rule X-15C1-10. Careful re-reading of the announcement revealed a puzzling ambiguity about the way the last sentence in particular was phrased and raised doubts about what the Commission really had in mind and proposed actually to do about disclosure. The reference to "municipals" was clear enough but the current attitude of the Commission on a disclosure rule applying to other classes of securities seemed vague.

To clear up points of doubt, the "Chronicle," by means of a telephone conversation and a personal interview with James Caffrey, Chairman of the Commission, posed some pertinent questions to him that had been giving thoughtful people some trouble which, it should be said, he readily and gladly consented to answer.

For the benefit of those of our readers who did not see the original announcement of the Commission printed in these columns two weeks ago and for those others who want to refresh their memories on the subject, we publish below the complete text of the announcement again.

"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

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Federal Reserve System And the Commercial Banks

By C. E. EARHART*

President, Federal Reserve Bank of San Francisco

Mr. Earhart, in maintaining Federal Reserve is adapted to preservation of our democratic ideals in realm of money and credit, describes functioning of the system and its effectiveness in stabilizing and facilitating credit. Points out developments due to war, and holds, because of heavy National Debt holdings, control powers of Reserve System have weakened. Defends fixed interest rate pattern and urges caution in commercial loan policy by banks.

Controls of any kind are unpopular at this time. The winning of our most costly war and our subsequent rapid swing into seeming high peacetime prosperity have made most of us a bit allergic to governmental restraints. Bankers are no exception in their feelings, but they, nevertheless, are confronted with the possibility of either more governmental competition or more controls. The bankers' own conduct will influence the extent thereof. If, in the opinion of the public, they fail to grant productive credit adequately, there will be support for more government in the banking business. If, on the other hand, the banking system grants unsound or speculative credits liberally during an inflationary period, it runs the risk of the imposition of more controls.


C. E. Earhart

Because the commercial banking of this country is conducted under a system of fractional re-

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*An address by Mr. Earhart at the Pacific Northwest Conference on Banking, Pullman, Washington, April 11, 1947.

Long Threatened Strike May Break Out on Wall Street Next Monday

By EDMOUR GERMAIN

New York State Mediation Board making one last effort to effect peaceful settlement of the dispute between the United Financial Employees, AFL, and A. M. Kidder & Co. Exchange, against which the union will be directing most of its fire, prepares to keep open in the event of a walkout. Members of Exchange given instructions as to what to do "during period of emergency." David Keefe, Union President, reported to have met with William Green, AFL President, to discuss issues and strategy of strike.

The New York State Mediation Board is trying once again to find some way to effect a peaceful settlement of the six-months-long dispute between the United Financial Employees, AFL, and A. M. Kidder & Co. which threatens to break out into the much-talked-about strike next Monday.

The strike would be directed not only at A. M. Kidder & Co. but also against the New York Stock Exchange, the New York Curb Exchange, and other brokerage houses against which the union has complaints. The union has given the N. Y. S. E. and the Curb 30-day notices of cancellation of contract and the contracts expire Sunday. The union can, however, rescind the cancellation notices before the cancellation date. It is expected all along Wall Street that the strike will commence on Monday, however.

The union says it will call the strike when it will be the most effective. In a declining market, the union believes, investors would clamor for a quick settlement of the argument because their wealth would be in jeopardy. The union would like to commence the strike on a day

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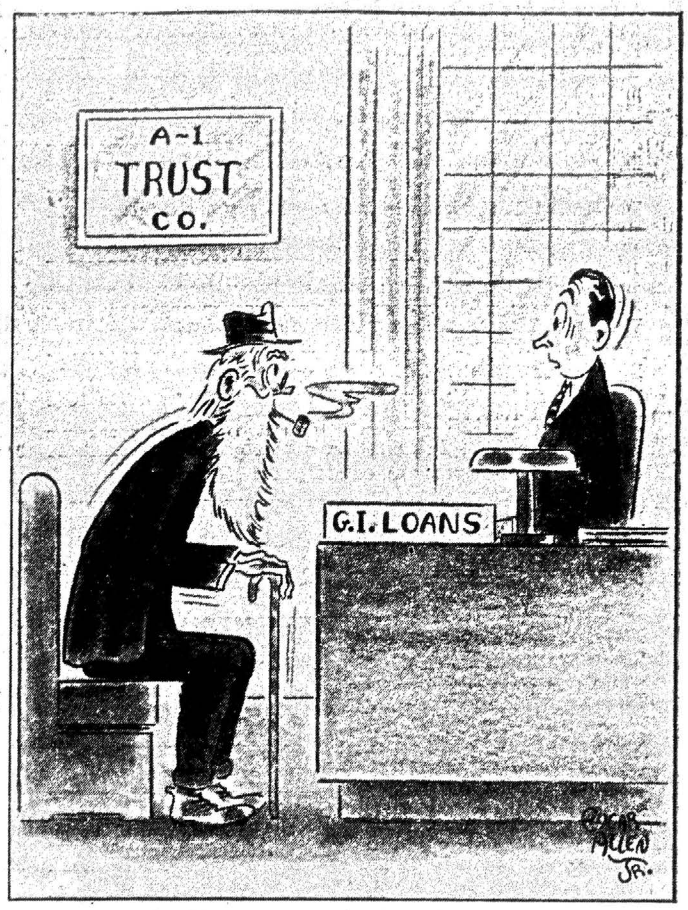
BUSINESS BUZZ



Imperialist U. S. Needs New Deal

By HENRY A. WALLACE*

Terming Roosevelt's death disastrous, Mr. Wallace tells Britishers he subsequently "left" the U. S. government because of our drift to two worlds and military purposes. Scores Americans who "raise the Red Menace as cloak behind which to dominate and exploit the world." Maintains Middle East problem can be solved by TVA technique and social betterment. Declaring Russia has been devastated by war and boycotted in peace, he calls on U. S. to try new type of power politics.

Just two years ago, Franklin D. Roosevelt died, and inevitably I ask myself what would have been the shape of world events today if he had lived to help us through a job of peacemaking, which is much more difficult than making war. Roosevelt was my greatest friend. We had our differences, of course, as good friends do, but essentially we had the same idea. We called it the New Deal.


Henry A. Wallace

First it was the New Deal for America, when she had 12,000,000 unemployed, unparalleled misery in the midst of fantastic wealth.

*Transcript of radio talk by Mr. Wallace over Home Service of British Broadcasting Corporation, April 13, 1947.

It was the beginning of Democratic planning, and the Tennessee Valley Authority was its most lasting achievement. The TVA idea inspired the world, and today the most conservative Americans, who fought bitterly against the project because it was a public enterprise for all instead of pri-

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This address has elicited a Parliamentary Question and pending explanation in the House of Commons. The question, as reported by the New York "Times," was put April 16 by L. D. Gammans, a Conservative member, asking whether the British Broadcasting Corporation "program by Mr. Henry Wallace, in which domestic and foreign policy of the United States Government was attacked, was made with the knowledge of or after consultation with his Majesty's Government."—Editor.

Washington . . . And You

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

With political window dressing, President Truman has degraded his avowed price cutting crusade into a witch hunt. Results are apparent and inevitable: (1) the issue has become partisan, (2) inclination of Republican leaders to cooperate with the White House has withered, (3) and the possibility of a coordinated endeavor between business and government has been minimized.

* * *

For an honest view of the President's real intent to confuse, note carefully these three co-incidental circumstances: (1) same day the court and Labor Department were trying to end the coal and telephone walkouts, Mr. Truman publicly demanded that business cut prices or boost wages; (2) at almost the identical moment the President was saying consumer prices must come down, his Interstate Commerce Commission was telling the "New Haven" Railroad to increase passenger fares, and (3) the President's farm agencies were zealously preparing to spend between $80,000,000 and $100,000,000 to keep consumer food costs up.

* * *

And maybe the President didn't know it, but that very same day one of his Commerce Department marketing experts was preaching that food prices just couldn't be cut voluntarily. The food industry is faced with a price log-jam that can only be broken by an economic crash, Marketing Agent John R. Bromwell assured newsmen with positive precision. He added . . . "High prices can't be reduced by any one segment of the food industry because were the wholesaler to sell at cost price and the retailer to realize only the smallest possible profit, the price of food would be abnormally high. The problem goes back to fundamental high prices—wages, materials, taxes which the farmer and manufacturers have to meet initially."

* * *

Until the President sought to (1) blame business and the Republican party for the high cost of living, and (2) arouse labor against management, there was a good chance of effective friendship between the White

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Observations . . . .

By A. WILFRED MAY

MR. TRUMAN AS ECONOMIST
Is He Beating the Gun in Hedging Against a Depression?

It is freely granted by this member of the economics as well as statistics professions that his colleagues therein are prone, through omission, commission and general subjective interpretation, to use supposedly scientific data to support their *a priori* conclusions. But it is respectfully submitted that the President of the United States in his guise of pronouncing conclusions—though not in Olympian aloofness—should act somewhat judicially and less as an advocate. It appears that in the present economic "crisis" the Chief Executive might better issue to his public an overall complete summary of all the relevant facts, with his conclusions and recommendations; in lieu of successive pot-shots, given by way of eclectic observations at one of his brief press conferences, at subsequent anonymous quasi-official White House interpretations thereof, or through comment on his advisers' report. The whole performance seeming to be a politically-tinged pre-depression *apologia!*

A. Wilfred May

Hence we shall first specify "material omissions" and then follow with commissions of error, offering them to the President for use in the next statement of his thesis on prices. First we might remind the Chief Executive of some of the obstacles to effective "talking-down" of the high price level in righteous indignation. This is primarily so because the run of large profits is not being earned on *controlled* lines, that is, where buyers fix the prices or their own individualized products in their own market. Wheat, for example, is now selling at $2.50 not through the policy or control of any individual farmer, but pursuant to the price set by the open market for standard commodities. In line therewith, the President, in his advance pre-Depression castigation of industry, also neglected to mention that fully 70% of last year's rise in the cost of living occurred through a 180% increase in the price of food.

Industrialists' Responsibility False Perspective

Prices of farm products are now 300% of their prewar figure,

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Guy Simpson Jr. With Oscar Burnett & Co.

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Guy H. Simpson, Jr. has become associated with Oscar Burnett & Co., Southeastern Building. Mr. Simpson was formerly Greensboro representative for Cohu & Torrey and prior thereto conducted his own investment business in Greensboro.

Cotten With Boettcher

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — William W. Cotten has become associated with Boettcher and Company, 828 Seventeenth Street, members of the New York Stock Exchange. Mr. Cotten was formerly with Merrill Lynch, Pierce, Fenner & Beane in Atlanta, Ga.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

HIGH POINT, N. C.—Louis L. Moorman, Jr. is with Carolina Securities Corporation, Security Bank Building.

Restore Federal Reserve to Its Essential Functions

By AUBREY G. LANSTON*
Vice-President, The First Boston Corporation

Holding Treasury's present debt management policy thwarts normal functioning of Federal Reserve, Mr. Lanston attacks as impracticable and inadvisable stabilizing of current interest rates. Holds charges on public debt are bound to increase despite efforts to prevent it, and contends "unwritten" amendment to Federal Reserve Act makes it impossible for banking and credit systems to function soundly. Urges adequate tax reduction before further debt retirement.

The present Debt Management policies of the Treasury thwart the normal functioning of the Federal Reserve System. Congress specifically placed upon the Federal Reserve System the responsibility: (1) "...to furnish an elastic currency ...," and (2) to conduct its extremely important open market operations "...with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation."

A. G. Lanston

The repercussions of existing Debt Management policies are destructive in fields far beyond the public debt and interest rates.

No good business executive would appoint two department heads for a single department and give to each conflicting authority. The war born powers of the Treasury to influence credit conditions undermine the power of the Federal Reserve to promote a sound banking structure and a wholesome business environment. The time has come for these powers of the Treasury, like those of other wartime regulatory bodies, to give way to the requirements of a vigorous peacetime economy. If the Treasury cannot or will not restore to the Federal Reserve the powers necessary to the performance of its essential economic functions, then Congress should intervene.

While the bulk of my discussion this afternoon will be devoted to

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*An address by Mr. Lanston at the Dinner Meeting of the Mortgage Bankers Association of America, New York City, April 15, 1947.

Stop Money Inflation, and Price Inflation Will End

By MURRAY SHIELDS*
Vice-President, Bank of the Manhattan Co.

Bank economist blames mounting cost of living on Federal Reserve and Treasury policies during past decade that have fostered and permitted excessive money supply. Holds Federal Reserve and Treasury have power to adopt anti-inflationary policies by preventing further increases in deposits, by refunding collossal floating debt, and by reducing bank holdings of government bonds. Attacks interest rate control as "penny-wise and pound foolish."

It has become urgently necessary for everyone with some comprehension of the ultimate consequences of present Federal Reserve and Treasury policies to demand in the strongest terms that those policies be changed. For the monetary and banking authorities have persistently refused to stem the tide of monetary inflation despite appeals by a long list of distinguished students of such questions that they do so and despite accumulating evidence of the dangers involved in feeding the fires of inflation with large injections of money and credit at a time when acute shortage of goods, rising labor costs and the monetary inflation of the past decade demand that the monetary spigot be turned off.

Murray Shields

With prices soaring and the cost of living mounting the situation is critical and if this nation experiences an inflationary "blow-up" the responsibility can be placed squarely on the policies of the Federal Reserve and the Treasury during the past decade and the refusal of those two organizations to take anti-inflationary action when it has been clearly called for.

This is not to imply that the

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*An address by Mr. Shields before the Queens County Bankers Association, New York City, April 10, 1947.

Phila. Securities Association Field Day

PHILADELPHIA, PA. — The Annual Field Day of the Philadelphia Securities Association will be held Friday, June 13, 1947, William B. Ingersoll, of Stroud & Co., President of the Association, announced. The outing will be held at the Llanerch Country Club, Llanerch, Pa.

Secretary Snyder Sees Evidence of Price Cuts

At press conference, Treasury head expresses concern about a depression if price spiral continues upward. Says $200 million weekly retirement of Treasury bills is part of program to reduce credit pressure.

WASHINGTON, April 15—In his press conference today, Secretary of the Treasury John W. Snyder replied to a number of questions about the commodity price situation. He refused, however to make public his statements on the subject in the last Cabinet meeting. Mr. Snyder said that he had seen evidences of price reductions by some of the large manufacturing wholesalers.

In the event that industry does not cooperate with the Administration in reducing prices, the Secretary stated that he has in mind no alternatives, as this is not a matter for the Treasury to handle.

Asked what the Treasury can do by way of using its fiscal powers, Snyder replied: "Well, there are the Treasury credit control operations. Our $200,000,000 weekly retirement of bills is part of the program to reduce the credit pressure."

Asked what would be the effect of relaxation at this time of Federal Reserve credit controls, Snyder said: "That would not be helpful at this time."

Snyder refused comment on the recent press statements of former Under Secretary of the Treasury John W. Hanes on budget policy, nor would the Secretary reveal the presently expected budget surplus for this fiscal year.

Snyder denied knowing of any Egyptian request for a loan from this Government.

Nor would the Secretary give any information in answer to a question as to the amount of public funds lost to GIs as a result of the remittance racket (referred to in last week's "Chronicle," Second Section, p. 2).

Mr. Snyder favors relaxing Regulation W only as goods come into supply. Otherwise, he regards its removal as an inflationary step. Instalment buying is now going up markedly, he added.

Asked whether he is concerned about a depression this fall if the price spiral continues upward, Snyder said: "I am increasingly concerned about it as the high prices and the large earnings continue." Snyder prefers to use the word "recession" rather than "depression."

Apart from bill retirements, the Treasury has another instrument for controlling prices. Snyder said that on June 30 the reserve requirements go back on war loan deposits. "That tightens up credit," he observed.

There is no evidence the Secretary sees that taxes are now retarding business, and so he is against tax reduction now.

"Do you mean to say that it is possible that you won't go right through and retire $200,000,000 a week off the 12 outstanding issues of bills; that it might not go right down the line?" Snyder replied: "I made no such statement."

When a reporter asked about the "paradoxical" policy of supporting farm prices, Mr. Snyder referred him to the Secretary of Agriculture.

The Treasury has no objection to the flotation of the reported bond issue by Norway, Snyder said, adding: "Those matters are cleared through the SEC you know."

Moderation in Labor Reforms Needed

By HON. IRVING M. IVES*
U. S. Senator From New York

After commenting briefly on foreign political situation and endorsing Truman's program for aid to Greece and Turkey, Senate Labor Committee member discusses in detail proposed labor relations legislation. Warns against playing politics in this field and recommends moderation and "extreme caution" in new legislation. Although citing closed shop abuses, Mr. Ives favors its retention with restrictions. Advocates ending of secondary boycotts, including cross-picketing, and application of corrective measures to industry-wide bargaining.

At the time I received the invitation to address the Economic Club of New York, I intended to talk on subjects of a governmental nature and dealing with fundamentally economic matters. I intended to speak on our tax structure in this country, not alone as it pertains to the federal layer of government, but to all the lower layers, and to consider the interrelationship existing among these layers where problems of taxation are concerned. I feel very strongly that one of these days—and the sooner the better—this matter of taxation must be adjusted on a more equitable basis from the standpoint of the overall burden upon the people of our country. Otherwise the lower layers of government may find themselves in a condition where they will become incapable of raising revenues or where, if they do raise revenues, they will be in effect confiscating the property of the private citizen.


Irving M. Ives

Circumstances in the meantime have arisen which have caused me to change my plans in the selection of a subject for this evening. These circumstances are not the proposal now before the Congress to provide aid to Greece and Tur-

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*Address by Sentor Ives before the Economic Club of New York, City April 16 1947.

Work and More Production Will Reduce Prices

By EMIL SCHRAM*
President, New York Stock Exchange

NYSE executive scores any program of scarcity or restriction of output for purpose of spreading work or maintaining prices. Points out need for less bureaucracy and more local independence, and ascribes our superior economic situation to capitalistic system as contrasted with either Socialism or Communism. Says we are now testing our ability to act without either political or economic compulsion, and, in bringing about reduced prices, all must cooperate, including business, government, labor and farmer.

Coming from a family of very moderate circumstances I was taught very early in life that to have I had to work and save. My father taught me to do many things with my hands, being a very versatile workman himself, a German immigrant. He taught me the joy of accomplishment, a heritage that has meant more to me than wealth. I never once heard him say that someone owed him or his family security in their late unproductive years. He adhered to the philosophy that if he ever had anything he would have to work for it.


Emil Schram

Sounds rather old-fashioned, doesn't it? But as we look back over the history of this great country, we find that it grew and prospered under an entirely different philosophy than that which exists today. True, the progress was not always upward—sometimes it was too fast and often too slow—but as we look at the charts today we find it was constantly pressing forward to a higher standard of living, better health, better schools, better and cheaper automobiles and improved housing. But about 15 years ago we suddenly decided that old things must give away to new. We apparently decided that we had progressed about as far as

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*From an address by Mr. Schram at the Annual Dinner of the Sons of Indiana, New York City, April 11, 1947.

Earnings and Stock Prices

By JOHN M. TEMPLETON
Of Templeton, Dobbrow & Vance, Inc.

Asserting never before in peacetime since 1908 have stock prices been so low in relation to earnings as modified by interest rates, Mr. Templeton amplifies and expounds his statement by statistical data. Says disparity between earnings and stock prices may be corrected by decline in earnings which may already have been discounted.

Never before in peacetime since 1908 have stock prices been so low as they are now in relation to earnings as modified by changes in interest rates. The statistics on this subject for the last 53 years are given in the accompanying table. The last figure in column 6 tells the story.

Column 2 gives the earnings on the stocks used by the Cowles Commission in compiling the index of industrial stock prices up to 1938. The series has been filled out for the years 1939 through 1946 by reference to Standard & Poor's quarterly index of earnings of 117 industrial companies. The estimate for 1947 is merely four times the earnings for the final quarter of 1946. When actual earnings reports are available for the first quarter of 1947, it is probable that an increase of 10% or more over the final quarter of 1946 will be recorded. However, many economists are predicting that earnings for the final quarter of 1947 will be considerably less than earnings for the first quarter.

John M. Templeton

Column 3 is the index of prices of 354 industrial stocks compiled by Standard & Poor's and by the Cowles Commission. The earnings per dollar of market price in column 4 are found by dividing the figures in column 2 by the figures in column 3. Because only the low for the year is given in column 3, the figures in column 4 for the years 1895 through 1946 are much larger than they would be if compiled on the basis of the average of the stock price index for each year. This method was chosen in order to substantiate the truth of the statement in the first sentence of this article.

Column 6 results from dividing the earnings per dollar of market price at the year's low in column 4 by the yield on high-grade bonds shown in column 5. The last figure in column 6 is 3.84. This is larger than the figures in that column for the 52 earlier years, except the years 1902, 1907, 1915, 1916, 1917 and 1941. The exceptions since 1908 occurred during major wars. This means that earnings are now very high, or stock prices are very low, or both.

The information in columns 7 through 10 is the same as the information in columns 2 through 6, except that it is based on the companies whose shares are used in the Dow-Jones industrial index rather than the Cowles-Standard & Poor's index. Column 7 corresponds to column 2; column 8 corresponds to column 3; and column 10 corresponds to column 6. No compilation of earnings on stocks in this index for years earlier than 1920 has ever been published.

The last figure in column 10 is 4.45. This tells an even more emphatic story than the last figure in column 6. It is higher than any other figure in the column, without exception. This means that, if full consideration is given to changes in interest rates, then stock prices are lower now in relation to earnings than ever before as far back as statistics are available. If no consideration is given to changes in interest rates, it can still be said that the Dow-Jones index of industrial stock prices is lower now in relation to earnings than in any previous year since 1925, lower even than the lowest point reached by the price index in each of those years.

Obviously investors think that present earnings are temporary. At a time when no Treasury bonds can be bought to yield more than 2.3%, it would not be beyond reason that investors might pay $500 for stock earning $23. Such is not the case; Goodyear earned $23 a share before contingency reserves last year and the market price is only $52. This implies an expectation in this case that future earnings will be hardly more than one-tenth the current rate.

To give some clue on the extent to which current earnings can be considered abnormal, column 11 was added to the table. The figures in this column are found by taking the earnings of all corporations filing income tax returns and dividing by national income. The last two figures in the column are estimates of course. The current ratio of 9.6% is much greater than the figures in the great depression of the 1930's. As an indication of normal, it is fairer to take the 19 years shown in the table ending 1930. Three war years are omitted because earnings were abnormally great at that time, as shown in column 2. The average for the 19 years is 8.4%. To reduce the current figure of 9.6% to 8.4% would require a decrease of only 12½%. This is an answer to those statisticians in the pay of labor unions who cry out so loudly about the current rate of earnings.

The present disparity between earnings and stock prices can be corrected by a decline in earnings. I think a decline in earnings will occur. Possibly the peak of earnings occurred in the first quarter of 1947. The disparity can be corrected by a decline in earnings, by an increase in stock prices, or both. The evidence in the accompanying table tends to the conclusion that the right answer is "both."

A word of caution. This brief article concerns only one factor in the complex question of estimating the future level of stock prices. (Mistakes are often made by persons who permit their thoughts to be dominated by a single factor.) This article is not intended to imply that stock prices will be higher or lower next month or next year; it is intended only to warn that a great decline in corporate earnings is already discounted in stock prices.

Col. 1 Year—	Col. 2 Earnings Index (Cowles plus Standard & Poor's)	Col. 3 Low point of Price Index for the Year (Cowles plus Standard & Poor's)	Col. 4 Earnings-Price Ratio	Col. 5 High Grade Bond Yields	Col. 6 Earnings-Price Ratio Adjusted for Bond Yield Changes (Col. 4 ÷ Col. 5)	Col. 7 Earnings Index (Dow-Jones Industrial Average)	Col. 8 Low Point of Price Index (Dow-Jones Industrial Average)	Col. 9 Earnings-Price Ratio	Col. 10 Col. 9 ÷ Col. 5	Col. 11 Corporation Profits as a Percentage of National Income
1895	2.31	19.6	11.8	4.76	2.52					
1896	1.28	16.8	7.6	4.71	1.61					
1897	1.51	18.6	8.1	4.40	1.84					
1898	1.86	21.1	8.8	4.36	2.02					
1899	4.13	30.3	13.5	4.20	3.21					
1900	2.78	27.0	10.3	4.49	2.30					
1901	2.78	33.0	8.4	4.38	1.92					
1902	5.35	31.4	17.0	4.34	3.92					
1903	2.96	22.0	13.5	4.52	2.99					
1904	2.16	22.9	9.4	4.49	2.09					
1905	4.00	33.2	12.0	4.28	2.80					
1906	5.92	38.7	15.7	4.38	3.59					
1907	5.24	24.2	21.6	4.72	4.58					
1908	2.50	26.1	9.6	4.76	2.06					
1909	4.39	36.7	12.0	4.51	2.66					10.0
1910	4.50	39.7	11.3	4.60	2.46					9.9
1911	3.27	37.7	8.7	4.58	1.90					8.9
1912	3.80	40.4	9.4	4.60	2.04					10.0
1913	4.42	37.2	11.9	4.78	2.49					10.7
1914	2.94	35.3	8.3	4.75	1.75					7.8
1915	6.46	35.2	18.9	4.83	3.92					11.4
1916	15.25	57.2	26.6	4.73	5.63					---
1917	12.56	44.6	28.2	4.99	5.66					---
1918	8.12	47.7	17.0	5.47	3.11					---
1919	7.44	53.5	13.9	5.51	2.52					10.5
1920	7.22	43.3	16.8	6.18	2.72	9.12	67	13.60	2.20	6.3
1921	d.28	40.6	d0.7	6.03	d.12	2.10	64	3.28	0.54	1.9
1922	4.24	49.5	8.6	5.17	1.66	9.11	79	11.53	2.21	7.6
1923	6.44	54.2	12.9	5.22	2.47	8.25	86	9.62	1.84	8.6
1924	5.85	57.7	10.1	5.07	1.99	10.88	88	12.37	2.44	7.2
1925	8.90	69.8	12.8	4.93	2.60	13.89	115	12.05	2.44	8.8
1926	8.62	81.5	10.6	4.77	2.43	11.39	135	8.45	1.77	8.9
1927	7.70	94.6	8.2	4.65	1.76	8.72	153	5.70	1.22	7.8
1928	9.79	119.7	8.2	4.63	1.77	15.97	191	8.35	1.80	9.3
1929	10.80	121.5	8.9	4.86	1.83	19.94	199	10.02	2.07	10.0
1930	5.72	88.7	6.5	4.71	1.33	11.02	158	6.98	1.48	3.4
1931	1.69	46.4	3.6	4.55	1.02	4.09	74	5.53	1.22	d2.5
1932	d.24	28.8	d0.9	5.28	.17	d0.93	41	d0.23	0.44	d8.7
1933	1.92	35.0	5.5	4.69	1.17	2.78	50	5.56	1.19	d10.4
1934	3.10	67.1	4.6	4.14	1.11	4.60	86	5.35	1.29	1.7
1935	4.64	67.3	6.9	3.61	1.97	6.86	97	7.07	1.92	3.9
1936	7.14	103.3	6.9	3.34	2.07	10.19	143	7.13	2.14	6.1
1937	7.80	78.3	10.0	3.30	3.03	11.37	114	9.98	3.02	6.4
1938	3.70	68.6	5.4	3.20	1.69	6.03	99	6.09	1.90	3.1
1939	6.01	83.8	7.2	3.02	2.38	9.18	121	7.58	2.51	6.9
1940	7.40	73.1	10.1	2.92	3.46	10.99	112	9.80	3.36	8.2
1941	8.30	71.6	11.6	2.84	4.09	11.64	106	10.98	3.87	9.9
1942	6.50	62.4	10.4	2.85	3.65	8.87	93	9.55	3.35	7.8
1943	6.67	81.1	8.2	2.81	2.88	8.30	119	6.97	2.47	7.0
1944	7.14	95.1	7.5	2.78	2.69	10.03	134	7.50	2.70	6.3
1945	7.08	108.6	6.5	2.67	2.44	10.47	151	6.93	2.59	5.7
1946	7.30	121.1	6.0	2.60	2.30	13.60	163	8.35	3.22	5.7
1947	12.09	(a)124.4	9.7	2.53	3.84	19.36	(b)172	11.25	4.45	9.6

(a) 4-9-47. (b) 4-12-47.

Public Utility Securities

Atlantic City Electric

American Gas & Electric has been one of the better integrated holding company systems, with only two outlying properties, Scranton Electric and Atlantic City Electric. The former was sold to the public last year. On or about April 15 American will sell 522,416 shares of the outstanding 1,150,000 shares of Atlantic City and will later distribute the remainder through dividend distributions to its common stock holders.

Atlantic City Electric operates in the southern one-third of New Jersey, about half its revenues being derived in resort areas. Some 42% of the revenues are residential, 25% commercial, 18% industrial and 15% miscellaneous and wholesale.

While as the name implies Atlantic City is the principal city served, there are 224 other communities in the company's territory. Industrial revenues are obtained largely from service to large-scale farms and food processors (freezing and canning), glass making, chemical and related industries. Glass companies have been attracted by the supply of glass sand. The company has an important tie-in with DuPont through the Deepwater generating plant in which both companies (through subsidiaries) have an interest.

The company's capital structure is about 50% debt, 15% preferred stock and 35% common stock equity. There are about $18,000,000 3¼% mortgage bonds due 1964, 55,000 shares of 4% preferred stock and 1,150,000 shares of common stock with a book value of $11.05 per share (par $10).

The electric plant account is conservatively stated at original cost and the small heating plant account at cost to the company. The depreciation reserve is about 29% of the plant account, which ratio is above average. Depreciation charges last year amounted to 12% of revenues and maintenance 7%, the total being 19%.

Average residential revenues per kwh in 1946 were about 4c and average usage about 1,270 kwh. A rate reduction amounting to about $376,000 went into effect Dec. 1, 1946. Despite the increase in earnings last year the ratio of net operating income to net plant account (plus allowance for working capital) is estimated at 6.4%. Residential rates appear to be somewhat lower than those of Public Service Corp. of New Jersey, though exact comparisons are difficult.

The Atlantic City franchise does not expire until 2025, and a number of other franchises are perpetual. The earliest franchise expiration date is in 1960.

Atlantic City and other coast resorts were affected during the war by severe blackout or dim-out regulations, and resort business was affected by other restrictions. However, the company's share earnings held up rather well considering these difficulties, as indicated by the ten year record:

Year	Earned	Paid
1946	$1.50	$1.00
1945	1.19	1.17
1944	1.17	1.16
1943	.98	.97
1942	.80	.60
1941	.85	.25
1940	1.01	.96
1939	1.14	1.05
1938	1.23	1.18
1937	1.21	.99

The indicated future dividend rate is $1.20.

While growth possibilities in the resort areas may be somewhat limited, there would seem to be good growth prospects in the industrial areas served. The new $40,000,000 bridge which will connect Wilmington and Deepwater, New Jersey, is expected to open up for development an area which heretofore has been handicapped by inadequate transportation facilities.

Atlantic City Electric's plants are relatively modern and efficient. The Deepwater plant, in which the company has a part interest, is considered one of the most efficient in the country, and the important new unit at the Missouri Avenue station is of the most modern type. Accordingly, the company should benefit by reduced operating costs.

With Herman, Hampton Co.

(Special to THE FINANCIAL CHRONICLE)

SALINAS, CALIF. — John A. Carrick has become associated with Herman, Hampton & Company, 341 Main Street. Mr. Carrick was previously with Livingstone & Co.

COMING EVENTS

In Investment Field

April 23, 1947 (St. Louis, Mo.)
Security Traders Club of St. Louis—Annual Spring Party and Baseball Confab at the Coronado Hotel, with dinner at 7 p.m.

April 25, 1947 (New York, N. Y.)
Security Traders Association of New York Eleventh Annual Dinner at the Waldorf-Astoria.

May 2, 1947 (Pittsburgh, Pa.)
Pittsburgh Securities Traders Association First Annual Outing at the Shannopin Country Club, Pittsburgh.

May 19-21, 1947 (Chicago, Ill.)
Illinois Bankers Association 56th Annual Convention at the Palmer House.

May 23, 1947 (Philadelphia, Pa.)
Bond Club of Philadelphia Annual Field Day at the Philmont Country Club, Philmont, Pa.

June 6, 1947 (New York)
Bond Club of New York Field Day outing at the Sleepy Hollow Country Club, Scarborough, N. Y.

June 12, 1947 (Minneapolis - St. Paul)
Twin City Bond Club 26th Annual Picnic at the White Bear Yacht Club, to be preceded Wednesday night, June 11, with a cocktail party at the Nicollet Hotel, Minneapolis.

June 13, 1947 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing.

June 13, 1947 (Cleveland, Ohio)
Cleveland Bond Club's annual spring party and silver anniversary celebration.

June 13, 1947 (Philadelphia, Pa.)
Philadelphia Securities Association Annual Field Day at Llanerch Country Club, Llanerch, Pa.

June 14, 1947 (Chicago, Ill.)
Bond Traders Club of Chicago annual Field Day Party, Acacia Country Club.

June 27, 1947 (Westfield, N. J.)
Bond Club of New Jersey Spring Field Day at the Echo Lake Country Club, Westfield, N. J.

July 15, 1947 (Detroit, Mich.)
Security Traders Association of Detroit & Michigan Annual Summer Golf Party, Orchard Lake Country Club. Also a cocktail party and buffet dinner on July 14 at the Savoyard Club, Detroit.

Aug. 10-14, 1947 (Boston, Mass.)
National Security Traders Association annual convention.

Cleveland Bond Club to Hold Spring Party

CLEVELAND, OHIO — The Cleveland Bond Club will hold its annual spring party on June 13th. The Club will celebrate its silver anniversary this year.

The organization will entertain as its guests at the outing 50 corporate syndicate managers.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

GREENSBORO, N. C.—Clarence C. Riner, Jr. is conected with Merrill Lynch, Pierce, Fenner & Beane, 107 West Gaston Street.

McGovern in Clayton

CLAYTON, MO.—Francis J. McGovern is engaging in the securities business from offices at 8052 Davis Drive.

Longer Work Week Needed!

By BERNARD BARUCH*

Prominent elder statesman urges more and harder work with greater production as well as international and domestic harmony in order to assure basis on which world can renew itself physically and spiritually. Says we are in midst of "a cold war," with enemies looking to unrest as heart of their success. Scores Russia's rejection of atomic control.

If this portrait could speak, it would be saying what lies so deeply in my heart—Home Again! Not from a foreign shore, for I have lived for nearly 70 years amidst that most generous, tolerant, kindly, patriotic people—in the World's Capital—New York City.

Bernard M. Baruch

But you are my people. This is the land of my birth, where my forebears, together with yours, shared hardships that were bitter from the earliest days down through the Lost Cause. They fought and died for their principles with a bravery never exceeded anywhere.

Defeated, we accepted that defeat. Although the victors placed unnecessary hardships upon us, we rose from the ruins left by Sherman, to a wider and widening life—economically and spiritually. There was no friendly government to give a helping hand or to lend us money. The Scallywags and Carpetbaggers saw to that. But nothing could conquer the spirit of our people. As we did then, we can do again: I believe the American people will rise to the responsibilities and dangers which face us now.

And this thought is true of other nations, too. England and the English people are not finished. A nation which stood magnificently the dreadful trials of war will not quail at what is necessary to be done in its aftermath. The vast opportunities offered to Britain by the elimination of the sweated labor of Germany and Japan will be grasped by her to make the world an easier place in which to live.

From the time man appeared from the obscurity of earlier aeons to become the commanding figure among living things, his existence depended upon his ability to adapt natural laws—whether they be physical or economic—to his use. That is still the primal problem of our world—to prevail against animals and insects; starvation, disease, weather—and above all—his own incredible folly—war. Many advances have been made in science, but little headway in controlling economic

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*Speech by Mr. Baruch delivered to the South Carolina Legislature on the unveiling of his portrait at the State Capitol, Columbia, S. C., April 16, 1947.

Hanes Sees $3 to $4 Billion Current Surplus

Under-Secretary of Treasury during Roosevelt regime writes Millikin, Chairman of Senate Finance Committee, taxes could be cut 20% to 30%.

John W. Hanes, Under-Secretary of the Treasury in the Roosevelt Administration, and now Chairman of the Board of Trustees of the tax Foundation of New York City, in a letter dated April 7 to Sen. Eugene D. Millikin, Chairman of the Senate Finance Committee, predicted that the Treasury will have next June 30, a surplus of from $3 to $4 billion, and that in the coming fiscal year, under present tax rates, and with a $4.5 billion cut in expenditures, there would be a surplus of $9.5 billions. Accordingly, Mr. Hanes held that it is feasible and practical to effect the proposed 20% to 30% cut in income tax rates and simultaneously reduce the national debt.

John W. Hanes

The text of Mr. Hanes' letter follows:

Dear Senator Millikin:

I am addressing this letter jointly to you as Chairman of the Senate Finance Committee and to Senator George as the senior minority member, because of the leadership and influence that you exercise in your respective parties in questions of national finance.

New facts have recently come to light which I believe show that substantial debt reduction and substantial tax relief are not incompatible. It is possible to have both. The most important new fact is that the Treasury, for the fiscal year ending June 30, 1947, will have a substantial surplus—probably from $3 billion to $4 billion—instead of the deficit of $2.3 billion that was forecast in the Executive Budget published in January. This is because receipts are running larger, and expenditures smaller, than estimated.

Receipts from individual income taxes are exceeding estimates because taxable incomes have increased. As recently as last September income payments to individuals, according to the Department of Commerce, were at the annual rate of $166 billion. The latest figure, for January, was $176 billion. Such an increase in income requires more people to pay taxes and lifts those who already pay into higher brackets.

During March the increase in individual income taxes and other receipts almost offset the loss of corporation excess profits taxes, and the month's total revenues at $5.7 billion nearly equalled last year's figures. With this evidence before us, and knowing that monthly receipts from withholding and excise taxes will be substantially larger than last year, we may confidently predict that revenues in the final quarter of the fiscal year will run much ahead of the January estimates.

At the same time, expenditures are responding to the widespread pressure exercised by Congress and organs of public opinion for an end of waste and extravagance in government. From Jan. 1 to date they are 10% below a year ago, whereas the January budget estimated a decline of only 6%. The Executive Budget anticipated expenditures of $24 billion from

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The Bonds of World Bank

By E. FLEETWOOD DUNSTAN*
Director of Marketing,
International Bank for Reconstruction and Development

Holding U. S. is principal source of funds for nations to resume peacetime productivity, World Bank official asserts his institution is ready for the job. Says Bank's present $725 millions cash capital is not likely to be soon increased and therefore it will be required to issue its obligations. Points out factors of safety in Bank's bonds and divulges eight countries have notified intention to obtain loans.

It is a privilege and a pleasure to be here today to discuss with you some of the more important aspects of the International Bank. This is doubly so, since there have been many misconceptions about the Bank and before it can hope to play its contemplated part in fostering world economic recovery it must receive enthusiastic support—particularly in this country.

E. Fleetwood Dunstan

I know of no audience we could address which means more to the future of its operations than this one. In the last analysis, it is what the bankers and institutional investors of this country think about the Bank and how they react to it, that will largely determine its usefulness. But let me make clear at the outset that in forming your opinion of our institution, its functions and potentialities, we expect—and prefer—that you will be hard-boiled.

For the time being, we are going to assume that you are all from Missouri. You are going to turn the cold calculating eye of the banker as he is pictured—not as he is—on the International Bank and you are going to be cruelly searching in your analysis. The first question you must necessarily ask yourselves is: Is there a need for such a Bank?

Well, let's take a look!

The indescribable destruction of global war is all too obvious to all of us. Among the great pre-war industrial nations, Germany and Japan lie prostrate. For the time being, at least, they have little or nothing to contribute toward the rebuilding of the world. From the standpoint of industrial production they may be liabilities rather than assets.

Much of industrial France lies in ruins. Many of her factories must be rebuilt and re-equipped before she can make an appreciable contribution to the world's imperative needs. Our allies, the British, are making a noble struggle against terrific odds to get into production and resume prewar status. Switzerland, which

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*An address by Mr. Dunstan before the Executive Council Meeting of the American Bankers Association, French Lick Springs, Ind., April 14, 1947.

Our Domestic Economy and Foreign Affairs

By HON. WILLARD L. THORP*
Assistant Secretary of State for Economic Affairs

State Department's ranking economist maintains our dependence on foreign supplies, accentuated by wartime demands on our natural resources, is increasing. Emphasizing foreign nations' political instability and need for liquid financial resources, Mr. Thorp holds strengthening of our domestic economy largely depends on effectiveness of economically stabilizing rest of world.

It is worthy of some note that the Congress of the United States has spent more time and energy on foreign affairs since it assembled three months ago than on domestic matters. The "Congressional Record" is full of speeches on this or that phase of foreign relations. The humanitarian angle appears in relief and refugee legislation; the economic angle in sugar and rubber legislation, and in the extension of the war powers for export and import controls; the political angle in the four peace treaties now before the Senate; the security angle in the discussions of the atom bomb. And there are triangular or multi-angular items such as the Greek and Turkish programs, temporary adjustments in immigration quotas, and the foreign information program. There is no sense in speaking today of isolation. It never did exist, and it never can.

Willard L. Thorp

Economic Interdependence

This is very clearly the case in the economic field. Our economic life is thoroughly entangled with the rest of the world. We seldom realize that fact, any more than New Yorkers think about their dependence on New England or California, but the world has grown smaller and smaller and the economic independence of any individual or area has grown less and less. Today, the best word to describe this situation is not inde-

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*An address by Mr. Thorp before the Economic Club of New York, April 16, 1947.

Syria, Lebanon Join Fund and World Bank

On April 11, Dr. Costi K. Zurayk, Minister of Syria, on behalf of the Government of Syria, signed the Articles of Agreement of the International Monetary Fund and the International Bank for Reconstruction and Development.

Syria's application for admission to membership was approved at the first annual meeting of the Board of Governors of the International Monetary Fund in Washington in October, 1946. Syria's quota in the International Monetary Fund is $6,500,000, and its subscription to the capital stock of the International Bank for Reconstruction and Development is 65 shares of a par value of $6,500,000.

The signing of the Articles of Agreement by Syria brings the total of countries having membership in the International Monetary Fund and the International Bank for Reconstruction and Development to 43.

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

In line with Syria's action, it was announced on April 14 that Lebanon also joined the International Monetary Fund and the World Bank when Minister Dr. Charles Malik signed the articles of the agreement. Lebanon's quota in the bank will be 45 shares valued at $4,500,000 and an equal subscription in the monetary fund.

The application for membership of Lebanon, together with Turkey, Italy and Syria, was approved at the First Annual Meeting of the Boards of Governors in October, 1946.

World Bank Issues Now Eligible for NY Ins. Cos.

Governor Thomas E. Dewey on April 11 signed a bill to amend section 81 of the New York State Insurance Law, to permit all insurance companies to purchase securities of the International Bank for Reconstruction and Development. Holdings are limited to 5% of the admitted assets of the respective companies.

Gerahty Director

James D. Gerahty, Vice President of the First Colony Corporation, has been elected to the Board of Directors of the Dumont Electric Corporation.

Wineman, Weiss to Admit

Wineman, Weiss & Co., 40 Wall Street, New York City, will admit Paul Fischer to partnership in the firm on May 1st.

John Galbraith & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SALEM, OREG. — Charles A. Goodwin is with John Galbraith & Co., Pioneer Building.

Federal Reserve of N. Y. Defends Margin and Consumer Credit Controls

In Annual Report for 1946, submitted to member institutions by Allan Sproul, it is stated inflationary pressures required steps be taken during year to tighten credit controls such as restrictions on margin trading and consumers credit. Cites substantial rise in volume of consumer credit despite restrictions.

The 1946 Annual Report of the Federal Reserve Bank of New York, submitted to member institutions on April 16 by Allan Sproul, President of the Bank reviews the selective credit controls instituted or maintained during the year and defends such actions as a means of curbing inflationary pressures.

Allan Sproul

According to the report:

In view of ary pressures which prevailed during most of the year, further steps were taken in the direction of tightening the selective credit controls available to the System—the regulation of security margins and the regulation of consumer credit. Effective Jan. 21, 1946, the Board of Governors of the Federal Reserve System, by amendments to Regulations T and U, raised margin requirements for trading in securities listed on national securities exchanges from 75% to 100%. This change had the effect of prohibiting new loans on listed securities (for the purpose of trading in such securities) by either security brokers or banks, except in certain specified circumstances. In order to assist stockholders who receive rights to subscribe to securities, the Board amended Regulations T and U, effective Dec. 1, 1946, by permitting loans to be made to finance the purchase of securities by stockholders exercising subscription rights. For this purpose registered securities were given a loan value of 50%. Subsequently, following the dampening of speculative activity in the security markets in the latter part of 1946 and the consequently reduced threat of substantial credit expansion to finance such speculation, the Board announced a restoration of the general margin requirement to 75%, effective Feb. 1, 1947. It should be remembered that these restraints apply only to the use of stock exchange collateral for loans to finance security trading, and not to the use of such collateral for business borrowing. In the existing circumstances, it is questionable whether more liberal use of credit to finance security trading would be beneficial to the economy unless there is evidence that it is needed to facilitate the flotation of securities to provide funds required for productive purposes.

Despite the rising volume of industrial production during the year, demands for many classes of consumers' goods continued to exceed supply, with consequent upward pressure on prices through most of the year. In these circumstances, the Board of Governors of the Federal Reserve System continued Regulation W (Consumer Credit Regulation) in effect, with few changes, until December. In fact, it tightened the Regulation somewhat, in September, by raising from $1,500 to $2,000, the maximum size of

(Continued on page 47)

Dealer-Broker Investment Recommendations and Literature

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

Advantages of Listing Securities — Descriptive pamphlet — Detroit Stock Exchange, Penobscot Building, Detroit 26, Mich.

Comparison and Analysis 1st Quarter 1947 of 19 New York City Bank Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

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

Nebraska Municipal Subdivisions—Statistical information for 1946-1947 — Wachob-Bender Corporation, 210-12 South 17th Street, Omaha 2, Neb.

Railroad Company Bond Purchases and Retirements 1941-1946—Study covering thirty-six leading railroads—Analysis also estimates 1947 fixed charges and percentage reduction in such charges from 1940—R. W. Pressprich & Co., 68 William Street, New York 5, N. Y.

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

Thoughts on the Current Pessimism—Booklet—Bennett & Palmer, 165 Broadway, New York 6, N. Y.

American Export Lines, Inc.—Memorandum—Stanley Heller & Co., 30 Pine Street, New York 5, 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.**

Bassett Furniture Industries, Inc.—Memorandum — Scott, Horner & Mason, Inc., Law Building, Lynchburg, Va.

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

Central of Georgia Railroad—Brochure discussing the reorganization of the road—Varnedoe, Chisholm & Co., Inc., Savannah Bank and Trust Co. Building, Savannah, Ga.

Central Public Utility 5½s of '52 and Consolidated Electric and Gas $6 Preferred—Recent review—Fred. W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Coeur d'Alene Mines Corporation—Memorandum—R. E. Nelson & Co., Hyde Building, Spokane 8, Wash.

Also available are maps of the **Metaline Mining District**, and the **Coeur d'Alene Mining District**.

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

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

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

Electric Power & Light Corporation — Review of situation — Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Fort Wayne Corrugated Paper Company — Detailed analysis — David A. Noyes & Company, 208 South La Salle Street, Chicago 4, Ill.

Franklin County Coal Corp.—Detailed analysis — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Also available are analyses of **Hydraulic Press Mfg. Co., Long Bell Lumber Co., Miller Manufacturing Co.**, and **Old Ben Coal Corporation.**

General Portland Cement Company—Circular—Greenfield, Lax & Co., Inc., 40 Exchange Place, New York 5, N. Y.

Hotels Statler Co., Inc.—Memorandum—Shaskan & Co., 40 Exchange Place, New York 5, N. Y.

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

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

International Detrola Corp.—Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

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

James Manufacturing Company — Descriptive memorandum — Also available is a study of **Wisconsin Power & Light Company**—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Kingwood Oil Co.—Analysis—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Leland Electric Company — Memorandum and descriptive folder—Bennett, Spanier & Co., Inc., 105 South La Salle Street, Chicago 3, Ill.

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

Lukens Steel Company—Memorandum—Otto Fuerst & Co., 47 William Street, New York 5, N. Y.

Monroe Auto Equipment—Circular—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

National Can Corporation — Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

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

Prentiss-Wabers Products Co.—New analysis—Adams & Co., 231 South La Salle Street, Chicago 4, Ill.

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.**

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.

Standard-Thomson Corporation—Memorandum—Toppell & Company, 40 Exchange Place, New York 5, N. Y.

Terra-Lite — Circular—Caswell & Co., 120 South La Salle Street, Chicago 3, Ill.

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

Visking Corp.—Memorandum—Jacobs & Low, 61 Broadway, New York 6, N. Y.

Western Light & Telephone Co.—Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Bird & Son, Inc.** and **Eastern Corporation.**

R. C. Williams & Co., Inc.—Memorandum—Bonner & Bonner, Inc., 120 Broadway, New York 5, N. Y.

Worumbo Manufacturing Co.—Circular—B. S. Lichtenstein & Co., 99 Wall Street, New York 5, N. Y.

Cudahy Packing to Try Competitive Bids

Will seek offers from investment groups on $15,000,000 of refunding bonds. Halsey, Stuart & Co., underwriter of former issues, reported to be forming syndicate to make a bid. First instance of voluntary competitive bidding for industrials not under reorganization or Alien Property Custodian.

The Cudahy Packing Co., Inc., is seeking bids from competing investment houses for a contemplated new issue of $15,000,000 24-year Refunding Bonds and it is stated that this departure from private negotiation is made at the instance of Halsey, Stuart & Co., the investment bankers who previously marketed the Cudahy issues, particularly the last issue of $14 million of the Company's 3% bonds, which it is proposed to refund. The participants in the syndicate that marketed the new issue in April 1944 were: Halsey, Stuart & Co., Inc., Goldman Sachs & Co., Central Republic Co., Ladenburg, Thalmann & Co., F. S. Moseley & Co., A. G. Becker & Co., Hallgarten & Co., Shields & Co., Blair & Co., Inc., Paine, Webber, Jackson & Curtis and William Blair & Co.

The firm of Halsey, Stuart is said to be forming a syndicate to bid for the new bonds, but as yet no other concerns have given definite indication of entering competitive bids.

Although offering at public competitive sale has become the order of the day in the financing of state, municipal, public utility and railroad capital requirements, this announcement marks the first time that the management of a large industrial company has elected to issue new securities at competitive bidding.

In commenting upon the company's decision to offer the new mortgage bond issue at competitive sale, E. A. Cudahy, Chairman, issued the following statement:

"Officers of the company have followed with interest the competitive sale of state, municipal, public utility and railroad issues and have been very favorably impressed with the results obtained. We have noted widespread feeling on the part of public and quasi-public bodies that only through competitive bidding can assurance of a fair market appraisal be obtained and the interests of taxpayers and consumers be adequately protected. Although we as meat packers are not subject to the same considerations affecting municipalities, utilities and railroads, we feel a sense of responsibility to our stockholders, employees and customers, which requires that we arrange our financing on the most advantageous terms available to us. We believe that the cost of money is just as much a cost of doing business as are any of our administrative or operating expenses. In view of the long-term improvement which has characterized the company's operations and credit position and the seasoned nature of a Cudahy Packing Co. obligation, we feel justified in assuming that this new offering will receive general investment acceptance and will attract bids by representative underwriting institutions. If these expectations are realized, this financing will be subjected to the broadest possible range of informed investment appraisal, and we can be assured that the company will obtain these funds on the most advantageous terms which the market affords."

The Cudahy Company contemplates that the bonds will be publicly offered early in May.

According to the New York "Times," the Cudahy request for bids, while the first major industrial issue posted for competitive sale at the initiative of the issuing company, does not mark the first time that industrial securities have been awarded to underwriters at competitive sale. In such cases, however, the initiative and responsibility were vested temporarily in a public authority. Examples were the recent competitive sales of enemy-owned securities by the Alien Property Custodian. Another notable instance was the competitive sale in 1941 of $13,700,000 of debentures and 56,000 shares of $100 par value preferred stock of the McKesson & Robbins Company at the direction of a reorganization trustee responsible to the court.

With Vance, Sanders & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Nelson S. Burbank and Alfred D. G. Fuller have been added to the staff of Vance, Sanders & Co., 111 Devonshire Street.

NSTA Notes

BOND TRADERS CLUB OF CHICAGO

President Lawrence Marr, of E. H. Rollins & Sons, Inc., has announced that the Bond Traders Club of Chicago will hold their annual Field Day Party on Saturday, June 14, 1947 at the Acacia Country Club, just west of Chicago.

This Party will include all day golf, horseshoes, baseball, lunch and dinner. Guests will be welcome.

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis has announced a Spring Party to be held at the Coronado Hotel on April 23.

PITTSBURGH SECURITIES TRADERS ASSOCIATION

The Pittsburgh Securities Traders Association will hold its first Annual Outing on May 2 at the Shannopin Country Club. Hon. Robert McConnaughey of the Securities and Exchange Commission will be speaker.

Shares are available at $1.00 par in the grand drawing; first prize is a $500 radio-phonograph; second price, $200 U. S. Savings Bonds; third price $100 U. S. Savings Bonds; and fourth prize, case of Old Overholt. Other prizes will also be awarded.

Outing tickets may be purchased through Wilbur E. Johnson, Johnson & Johnson; George E. Lestrange, Moore, Leonard & Lynch, is in charge of the grand drawing shares; Frank Ponicall, Singer, Deane & Scribner, is in charge of hotel reservations. The outing is free to members; guests $7.00 each.

The Pittsburgh Securities Traders Association has over 140 members.

TWIN CITY BOND CLUB

The 26th Annual Twin City Bond Club Picnic will be held on Thursday, June 12, at the White Bear Yacht Club. Bernard B. Knopp, First National Bank of St. Paul, is General Chairman of the Picnic Committee.

The following committees have been chosen to assist in the picnic arrangements:

Yacht Club: Charles C. Cook, Greenman & Cook, Inc.; Lael R. Abbott, J. M. Dain & Co.; and Charles W. Goodrich, Harold E. Wood & Co.

Prize Drawing: Fred S. Goth, Merrill Lynch, Pierce Fenner & Beane.

Cocktail Party: Kermit B. Sorum, Allison-Williams Co., and Douglas M. Warner, Paine, Webber, Jackson & Curtis.

Collection for Prizes: James P. Arms, J. P. Arms, Inc.

Invitations: Rollin G. Andrews, J. M. Dain & Co.; Robert L. John, Woodard-Elwood Co.; and Bert A. Turner, Kalman & Co., Inc.

Golf: Lawrence Shaughnessy, Park-Shaughnessy & Co. and Malcolm M. Aldrich, The Central Republic Company.

Tennis: C. M. Webster, J. M. Dain & Co. and Joseph E. Masek, Charles A. Fuller & Co.

Transportation: Carl J. Kall, First National Bank, Minneapolis; Harry W. Starn, Kalman & Co., Inc., and William J. Lau, C. S. Ashmun Co.

SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

Golfers interested in qualifying for the STANY Golf Team and have a handicap of 12 or less, should get in touch with Stanley Roggenburg, Roggenburg & Company, 29 Broadway, WH 3-3840.

SECURITY TRADERS ASSOCIATION OF NEW YORK

Leslie Barbier, G. A. Saxton & Co., Chairman of the Arrangements Committee, announces that over 1,500 members and guests will attend the 11th Annual Dinner of the Security Traders Association of New York, Inc., to be held at the Waldorf-Astoria, New York, N. Y., Friday evening, April 25, 1947.

This includes representation from all over the country and Canada. Some of the guests and the organizations are as follows: U. S. House of Representatives; U. S. Securities and Exchange Commission; Attorney General of State of New York; New York Stock Exchange; New York Curb Exchange; National Security Traders Association, Inc., and Presidents of its various affiliates; National Association of Securities Dealers, Inc.; New York Security Dealers Association; Corporation Bond Traders Club of New York; Association of Customers Brokers; Association of Stock Exchange Firms; Toronto Bond Traders Association; Montreal Bond Traders Association, and members of the press.

Michael J. Heaney, Jos. McManus & Co., President, will preside.

SECURITY TRADERS CLUB OF ST. LOUIS

The Security Traders Club of St. Louis will hold its annual Spring Party and Baseball Confab at the Coronado Hotel, April 23, with dinner at 7 p.m.

Dizzy Dean and Johnnie O'Hara, sports announcers, will be guest speakers. The program has been arranged by the Entertainment Committee, composed of C. T. Ayres, Edw. R. Oldendorph and Herman J. Zinzer.

Allen Trading Mgr. For J. A. White & Co.

CINCINNATI, OHIO—J. A. White & Co., Union Central Building, announced that Samuel S. Allen has been appointed Manager of the trading department. Mr. Allen has been associated with the firm for the past two years, in various capacities, principally as northwestern Ohio representative. Prior to that time, he was in the U. S. Armed Forces for 4½ years.

Leonard J. Daniels Reopens in Shreveport

(Special to THE FINANCIAL CHRONICLE)

SHREVEPORT, LA.—Leonard J. Daniels is again conducting a securities business from offices in the Giddens-Lane Building. Mr. Daniels was previously proprietor of Leonard J. Daniels & Co. and in the past was an officer of the First National Bank of Shreveport.

Missouri Brevities

G. H. Walker & Co. and Scherck, Richter Co., both of St. Louis, on April 3 publicly offered 25,000 shares of $10 par value 6% cumulative convertible preferred stock at $11.25 per share, 25,000 shares of $1 par value class A common stock at $2.90 per share and 100,000 shares of $1 par value class B common stock at $3 per share of the Automatic Firing Corp. of University City. The class B common stock did not represent new financing on the part of the company, and the net proceeds from the sale of the other two issues will be used to increase working capital and pay off short-term bank loans. Automatic assembles and finishes Stok-A-Fire (automatic coal stoker), Gas-A-Fire and Oil-A-Fire burners, the parts for which are manufactured by others.

* * *

The common stockholders of Missouri Utilities Co. of record April 1, 1947, were recently given the right to subscribe on or before April 16, 1947 for 15,000 additional shares of common stock (par $1 each) at $20 per share. The proceeds will be used to pay for new construction. The offering was underwritten by Edward D. Jones & Co., Reinholdt & Garner and Stix & Co., all of St. Louis, and was made on the basis of three new shares for each 25 shares already owned.

* * *

The merger of Ems Brewing Co. (an Illinois corporation) with and into Columbia Brewing Co., St. Louis, became effective at the close of business on March 31, 1947. One-half share of $5 par value capital stock of Columbia is being issued in exchange for each of the 93,660 shares of Ems $1 par value capital stock issued and outstanding.

* * *

The stockholders of Wagner Electric Corp., St. Louis, of record March 20, 1947, were recently offered the right to subscribe on or before April 9, 1947, for 97,846 additional shares of common stock (par $15 each) at $30 per share, on the basis of one new share for each four shares owned. The proceeds will be used for payment of plant extensions and new equipment, reduction of bank loans, increasing working capital, etc. This offering was not underwritten.

* * *

Interstate Bakeries Corp., Kansas City, had net sales of $41,669,918 in 1946, compared with $37,197,021 in the preceding year and $15,680,417 in 1937. Net profit after taxes amounted to $1,310,860, as against $367,870 in 1945 and $165,696 in 1937. To provide additional funds for fixed asset expenditures and other purposes, the company placed with private investors a new issue of $1,500,000 4½% 10-year sinking fund debentures, dated Oct. 1, 1946, of which $450,000 were exchanged for the then outstanding debentures, dated Oct. 1, 1945, the annual report reveals.

The stockholders will vote May 13 on approving a plan of recapitalization, which will provide for the elimination of dividend accumulations on the preferred stock, which at Dec. 28, 1946 amounted to $31.87½ per share, or a total of $2,020,556. It is proposed to issue four shares of new $4.80 preferred stock in exchange for each three shares of $5 preferred stock outstanding.

* * *

The present volume of business of Century Electric Co., St. Louis, is substantially higher than in prewar years, said E. S. Pillsbury, President. At the end of the year 1946, he added, the backlog of orders was much greater than at the end of 1945, when a record figure had been established. Net sales billed in 1946 totaled $14,020,320, compared with $13,863,077 in 1945. Net profit after charges and Federal taxes in 1946 was $1,198,453, as against $343,308 in the preceding year. The company's interest in the Hunter Fan and Ventilating Co. was sold in 1946.

* * *

Axelson Manufacturing Co., which has plants in St. Louis, Mo., and Vernon, Calif., for the year 1946 reported the largest earnings per share in any year since 1937. Net profit after taxes was $464,163, equal to $1.35 per share, and compares with $332,317, or 97 cents per share for 1945. Current assets at the close of last year amounted to $4,002,230 and current liabilities $2,085,203. Dividends are currently on a basis of 15 cents per share quarterly.

* * *

Consolidated net profit of The Long-Bell Lumber Co. (Kansas City) and consolidated subsidiaries for the year 1946 was $2.50 per share and totaled $4,985,390 compared with 87 cents per share and a total of $1,732,879 for 1945. Income from sales, services, rentals and railways totaled $48,869,629 for 1946, as compared with $40,096,517 for 1945.

* * *

The greatest activity ever experienced by the Southwestern Bell Telephone Co., St. Louis, took place in 1946, the first full year of peace. It handled more telephone calls, built more new telephone plants, and installed more new telephones than in any other year of its history. Total operating revenues in 1946 amounted to $180,890,639, as against $167,355,133 in the preceding year, and net income after fixed charges and Federal income taxes totaled $19,944,896, as compared with $16,429,820 in 1945.

* * *

The Arkansas-Missouri Power Co. (successor to Arkansas-Missouri Power Corp. effective Jan. 31, 1947), on March 13 declared a stock dividend of one-third of a share of common stock on each of the 166,165 shares of common stock of the company, payable May 15, 1947 to stockholders of record April 30, 1947. Scrip will be issued in lieu of fractional shares. Simultaneously with such action, the board also declared a cash dividend of 45 cents per share on the common stock to be outstanding after payment of the stock dividend, payable June 16, 1947 to holders of record May 31, 1947.

Forecasts in Building Construction

By L. C. HART*
Vice-President, Johns-Manville Sales Corporation

Building materials executive gives data indicating $12 billions of construction this year and $15 billions average for 1948 and 1949. Blames construction difficulties on government's control program and on defects in veterans' housing law. Says future depends on policies of Federal Government, and attacks Wagner-Ellender-Taft housing measure as political "trading sop," and urges its defeat.

There probably never has occurred a meeting of your organization which has faced such momentous problems as those which exist today. We are confronted with uncertainty, confusion, and to a considerable degree frustration. We are all vitally interested in the prospects for the full resumption of construction. The leading questions of the day in construction, real estate and banking circles are: What is the outlook for building materials production? How about building costs? Taxation? The availability, productivity and stability of labor? You want to know also: What are the prospects for housing? To what extent will restrictions be eased on industrial, commercial and institutional building? How soon will ceilings be lifted on new rental property?


L. C. Hart

It is impossible to discuss the materials situation without including numerous "ifs." The immediate situation is not too unfavorable. Production of almost every important building material has been increasing rapidly during the last eight months. The coal and railroad strikes held production back last year, and the output of many lines was retarded for months by inadequate price ceilings but the situation today is better than at any time since the end of the war.

How soon manufacturers can reach full capacity production will depend on, (1) the duration of raw materials shortages which are still handicapping many producers; (2) an adequate supply of plant workers to offset absenteeism and (3) the possibility of further wage difficulties.

Many materials shortages resulted from price ceilings under which manufacturers actually had to stop producing critically needed items because they were selling at a loss and the OPA refused repeatedly to grant price increases necessary to revive such production. Delays in construction at the site caused by lack of certain items have been one of the largest single factors in increasing the cost of completed homes. The unavailability of low cost doors, window frames, nails, and similar items can interrupt construction for weeks, during which time carpenters and other crafts are virtually subsidized by the contractor, thereby adding unnecessarily to the cost of the completed building.

The removal of price control is now enabling manufacturers to fill the "pipelines" of supply and re-establish inventories on a more equitable basis of distribution.

Reconversion is behind us. Manufacturers of building products have ample existing plant capacity to meet the probable requirements for all housing that can be got under way this year; with probably excess capacity for non-housing construction. Indeed, some manufacturers, who have progressed faster than others, are facing the possibility of temporary surpluses while waiting for other lines to catch up.

All of us have been hearing rumblings about a "boom and bust" in construction. There is talk to the effect that increased building costs may bring some part of slump in construction volume during 1947. Few people in the industry share these fears even though we may experience a temporary recession in general consumer purchasing. Perhaps the best assurance I can give on this point is the opinion of the Market Analysis Committee of the Producers' Council.

In terms of prices expected to prevail during the next few years, we estimate that the total volume of new construction will be $12 billions in 1947 (of which $9 billions will be private) and $15 billions on the average in 1948 and 1949. We find no evidence of a slump here. Instead the committee looks for a sharp rise this year and in 1948.

Building Estimate 1949

Our estimates end with the year 1949, in view of the economic uncertainties which stem from the **seeming inability of the Administration to bring the Federal budget into balance.**

The consensus of opinion among government agencies at Washington in their inter-agency report predicts the following construction activity for 1947:

	(000 Omitted)
New Residential	$7,124,000
Private non-residential	3,637,000
Public	2,420,000
Maintenance and repair	6,075,000
Grand Total	$19,256,000

In my personal opinion, that is too optimistic for any year prior to 1948 or 1949. Their estimate assumes the **initiation and completion** of 1,500,000 dwelling units, including 600,000 prefabricated houses. You can see that it represents no retreat from their exaggerated forecast of a year ago; 300,000 prefabricated units would be a liberal estimate and 1,000,000 completed units of all types would be an outstanding accomplishment.

And now, what about the production of building materials in 1947 to sustain such construction forecasts? I shall refer, in reply to this question, to the recent survey of production on 14 of the most critical products by the very able and well-informed Miles L. Colean. The production estimates represent volume, assuming the absence of government controls and subsidies and of any serious work-stoppages due to strikes.

Mr. Colean's estimate of the production capacity of American manufacturers on the following items is more than adequate to supply the materials required for one million residential units with

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*An address by Mr. Hart before the Eastern Mortgage Clinic of the Mortgage Bankers Association of America, New York City, April 15, 1947.

The Democratic Administration's Accomplishments and Objectives

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

Treasury Secretary lauds accomplishments of 14 years of Democratic party rule, but warns struggle for economic stability has not been won. Holds President follows economical fiscal policy and pledges Treasury will follow program. Praises foreign policy as one of firmness commensurate with U. S. world leadership, and calls for dedication of Democratic party to these principles.

Fourteen years ago, the Democratic administration, taking office, found the United States in the depth of depression. Ten million people were out of work. Industrial production was at a low ebb. Our banking structure was tottering. Growing numbers of persons feared that our social and economic system was ineffectual — that it had failed. But, the Democratic administration met the crisis with courage and imagination, and under its leadership, the fabric of our civilization grew stronger and more secure.


John W. Snyder

There were instituted vital measures of our social security system—the assumption of cooperative responsibility for the needs of the aged, the blind, the unemployed, and for the benefit of dependent children. National recognition was given to the rights of workmen to bargain collectively with their employers. The truth-in-securities act was passed, obligating sellers of securities to issue a complete prospectus, putting an end to an era in which a purchaser often invested blindly. Federal insurance of bank deposits was instituted, so that the many might not suffer for mistakes of the few.

Recognizing that the plight of agriculture played a part in bringing about the depression, the Democratic administration took energetic steps to place the Nation's farming industry on a sounder basis, and made provisions for the conservation of the land, and of other vital national resources.

These measures, and many other contributions of the present Democratic administration, have helped establish a firm foundation under our entire economy. Certainly, the country, regardless of party affiliation, who would ask for the removal of these laws from the statute books.

Progress Was Made

We cannot overlook the substantial progress on the material today, there are few persons in

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*Address by Sec. Snyder at Jefferson Day Luncheon, New Orleans, La., April 12, 1947.

Mexico—A Field for American Investment

By HON. RAMON BETETA*
Secretary of the Treasury, Republic of Mexico

Mexican Cabinet member reviews Mexico's economic and political progress and denies the present Constitution and Government of Mexico is communistic. Describes policy of land distribution and agricultural betterment, protection given to labor and exploitation of nation's natural resources. Says there is definite field for foreign investor at present time, and securities of both government and private industry can be acquired on favorable basis. Contends Mexican Government has completed its foreign debt settlement.

I believe that there exists an outstanding feeling at the present time with regard to Mexico's economic life: the feeling that we are living in an epoch of prosperity and accelerated growth. Even the casual observer cannot help but realize that there is an attitude of progress and confidence to be seen in all aspects of economic activity. Mexico came out of the emergency period of the war full of new projects, healthy ambitions and the resolution to become a country capable of feeding her own people without the aid of the importation of foodstuffs and determined to become industrialized at least to the point of being able to transform part of the raw materials which from time immemorial it has been exporting in their crudest forms.


Ramon Beteta

It has been no cause for wonder then that President Aleman, both during his political campaign and in his inaugural address, has been insisting on the necessity of increasing our agricultural production and strengthening our incipient industries for the purpose of raising substantially the standard of living of our people.

The insistence on the importance of production, the emphasis on order, peace and tranquillity to make this productive process a successful one is not new in Mexico. There have been other times when peace, order and discipline were the aims and when production was so all-important that the man who produced the labor was completely ignored. Such an attitude was responsible for certain material progress, but it was also the cause of discontentment among the people and for the creation of such an unjust distribution of wealth and such an unfair social and political organization that it finally culminated in a violent revolt to which in Mexico we refer as the Revolution. The social upheaval which began in 1910 and

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*From an address by Senor Beteta at the Convention of Texas Group of Investment Bankers Association of America, Monterrey, Nuevo Leon, Mexico, April 10, 1947.

Connecticut Brevities

On April 8, the Connecticut Light & Power Co. registered with the Securities and Exchange Commission, 336,088 shares of $2 preferred and 163,912 shares of $1.90 preferred, both issues having no par value and a stated value of $50 a share.

The new $2 preferred will be offered in exchange to holders of the company's presently outstanding $2.40 cumulative preferred and $2.20 cumulative preferred on a share-for-share basis plus a cash adjustment.

Shares of the $2.00 preferred not exchanged, and the entire issue of the $1.90 preferred, will be offered to the public by the underwriters. The principal underwriters are Putnam & Co., of Hartford; Chas. W. Scranton & Co. of New Haven; and Estabrook & Company of Boston.

Shares of the $2.40 and $2.20 preferreds not surrendered for exchange will be called for redemption.

* * *

Pitney-Bowes, Inc., in the 10 months ended January 31, 1947 reported net sales of $7,608,671 and net income of $732,501. This represents earnings of 80c a share on the common stock.

* * *

The New York, New Haven & Hartford Railroad showed total operating revenue of $12,686,288 for the month of January 1947 compared with $12,291,747 in January 1946. Net loss for the month was $623,961 compared with an income of $251,073 for January of 1946.

On April 21, 1947, the Federal Court at New Haven will hear a petition of the trustees, asking for authority to issue and sell equipment trust certificates in the principal amount of $5,265,000.

On April 10, the Interstate Commerce Commission authorized the road to increase its interstate passenger fares by approximately 10%, effective in five days.

* * *

Scovill Manufacturing Company reported net sales of $62,917,225 for the year ended Dec. 31, 1946 which compared with $85,079,895 the preceding 12 months. Net income was $3,207,203 or $2.61 a share on the common stock against $2,475,971 or $2.37 a share earned in 1945. Earnings on the 3.65% preferred were $32.07.

* * *

The income account of the Connecticut Power Company for the year ended Dec. 31, 1946 showed total operating revenue of $10,621,490 against $10,395,047 the preceding year. Retail electric sales amounted to $7,102,667; wholesale electric sales, $2,085,590; retail gas sales, $1,236,886; and wholesale gas sales, $196,347.

The amount available for fixed charges was $2,074,515 or coverage of 6.57 times against 6.14 times in 1945. Net income was $1,758,723 or $2.65 a share against $1,735,235 or $2.62 a share in 1945.

* * *

At a recent special meeting of the stockholders of the Connecticut Power Company, the merger of the Torrington Electric Light Company into Connecticut Power Company was approved, the effective date being April 30. Under the terms of the merger, each share of Torrington Electric Light stock will receive 1.1 shares of Connecticut Power stock plus a $50 3% bond of the Connecticut Power Company. Following the merger, H. B. Fussenich, secretary and treasurer of Torrington Electric Light and Charles P. Roraback, a director, were elected directors of Connecticut Power Company.

* * *

Hartford Rayon Corp. reported sales of $2,745,988 for the year ended Dec. 31, 1946 which compared with $2,142,859 the preceding year. Net income was $206,848 or 32c on the common stock against $91,710 or 13c a share in 1945.

* * *

The income account of the Hartford-Empire Company for the year ended Dec. 31, 1946 showed royalties earned of $4,682,442; license fees, $821,385; sales of machinery, etc., $2,779,005; miscellaneous operating income, $324,534; and interest and dividend income, $102,160; bringing the total income to $8,709,526. Net income was $1,582,588, or $3.38 a share.

The balance sheet showed total current assets of $9,440,915; total current liabilities of $2,377,806; and net working capital of $7,063,109. At the year end, the company had no funded debt, a reserve for contingencies of $2,000,000, and surplus of $6,305,990.

* * *

New Haven Gas Light Company showed total operating revenue of $3,322,958 for the year ended Dec. 31, 1946. The corresponding figure for 1945 was $3,170,492. Net income of $550,141 compared with $452,478 for 1945.

* * *

The year-end report of Colt's Patent Fire-Arms Manufacturing Company reveals a net loss of $753,895 against a profit of $532,008 the preceding year. Net sales were $5,059,577 compared with $30,206,928 for 1945.

Harry McDonald Honored in Detroit

DETROIT, MICH. — Griswold Street turned out in force April 9 to honor Harry A. McDonald, newly appointed Commissioner of the United States Securities and Exchange Commission. Detroit Stock Exchange members and other representatives of the investment fraternity are being joined by bankers, lawyers, accountants, and industrialists for a reception and dinner at the Hotel Statler. Guests of honor include James J. Caffrey, Chairman of the Securities and Exchange Commission and his assistant, Sherry T. McAdam, Jr., of Philadelphia, John Hueni of the Michigan Corporation and Securities Commission, Sherwin A. Hill, President of the Detroit Board of Commerce, and former associates of McDonald.

Milton A. Manley, M. A. Manley & Co., President of the Detroit Stock Exchange, was toastmaster.

Now Blean & Co.

DETROIT MICH. — The firm name of Lytle & Co., Inc., Penobscot Building, has been changed to Blean & Company. James L. Blean is President of the firm.

Cutter With F. S. Moseley

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Charles F. Cutter has become associated with F. S. Moseley & Co., 135 South La Salle Street. Mr. Cutter was formerly with Halsey, Stuart & Co., for many years.

Michigan Brevities

National Gypsum Company, which has operated the Kalamazoo mills of the Western Board and Paper Company since last July, has purchased the properties and work has started on a $750,000 modernization program.

* * *

Authority has been granted by the SEC to the Detroit Stock Exchange to extend unlisted trading privileges to 14 additional common stocks. They are: Alleghany, American Airlines, Baldwin Locomotive, Baltimore & Ohio, Canadian Pacific, Chesapeake & Ohio, Columbia Gas, National Biscuit, Niagara Hudson, Pan American Airways, Sterling Drug, Sunray Oil, United Corp., and Warner Bros. Pictures.

This brings to 190 local and national corporations now traded on the Detroit Stock Exchange.

* * *

First of Michigan Corp. headed a syndicate of investment bankers which has underwritten an issue of $2,225,000 University of Michigan revenue bonds. This issue will be offered as 2¼ and 2⅜% serial bonds and 2½ and 2.70% term bonds. Associated with First of Michigan are Paine, Webber, Jackson & Curtis, McDonald-Moore & Co., and Crouse & Co. Proceeds will be used to finance a construction program.

* * *

Griswold Street turned out in force to honor Harry A. McDonald, newly appointed SEC Commissioner, at a reception and dinner in the Hotel Statler. Guests of honor included SEC Chairman J. J. Caffrey, John Hueni of the Michigan Corporation and Securities Commission, Sherwin A Hill, President of the Detroit Board of Commerce, members of the Detroit Stock Exchange and many of the city's bankers and industrialists.

* * *

Seven investment bankers have been elected trustees of the Municipal Advisory Council of Michigan. They include Wm. M. Adams, Chas. C. Bechtel, Merle J. Bowyer, Douglas H. Campbell, Harold R. Chapel, Reginald MacArthur, and Harold W. Rademacher.

* * *

Harry Ferguson, Inc., of Detroit has registered with the SEC 100,000 shares of $50 par, 4.75% cumulative preferred stock and 250,000 shares of $1 par common stock for public offering. Watling, Lerchen & Co., will be one of the underwriting firms.

* * *

Soss Manufacturing Co. has asked the SEC to withdraw its registration statement because of "changed market conditions." The statement filed Sept. 3, 1946, covered 40,000 shares of 5% cumulative convertible stock, $25 par.

* * *

Directors of U. S. Radiator Corp. have approved the sale of 71,429 shares of the corporation's common stock at $14 a share and now held in the treasury. The sale will increase the company's working capital by $1,000,000. It must be approved by the stockholders at the annual meeting on April 30.

* * *

On its bid of 100.519 for a 2⅞% coupon, Harris, Hall & Co. has been awarded the $3,500,000 issue of new first mortgage bonds of the Michigan Gas & Electric Co. The bonds are due June 1, 1976.

* * *

Kaiser-Frazer Corp. has signed an agreement with the RFC, acting by and through the WAA, under which the auto firm has the option of extending its present lease on the Willow Run plant for 18 years up to Dec. 31, 1965.

* * *

Watling, Lerchen & Company was the successful purchaser of $75,000 School District No. 5, Warren Township, Michigan, bonds at a public sale. The bid specified an interest coupon of 1½%, plus a premium of $153.75, for bonds maturing Oct. 1, 1947-1951 inclusive, resulting in an interest cost to the school district of 1.41%. Proceeds will be used to construct and equip a grade school building.

* * *

The Detroit Stock Exchange reports that trading volume in March totaled 240,258 shares, having a market value of $3,601,297. This compares with the February volume of 301,467 shares or $3,794,852.

* * *

Charles E. Bailey & Co. headed a group of investment bankers offering a new issue of 30,000 shares of 6% cumulative convertible preferred and 30,000 shares of common stock, each $10 par value, of the Newburgh Steel Co., Inc. of Detroit. The preferred was offered at $10 and the common at $6.

Major Problems in Municipal Financing

By EDEN B. THIRKIELD

Economist for Wainwright, Ramsey & Lancaster, New York City

Former assistant to New York City Comptroller stresses new methods of municipal financing required by problems of expansion and need for improvements. Says era of practical consolidations of many municipalities is at hand and points out: (1) need for greater powers to local units; (2) flexible administrative supervision and (3) stable and larger sources of revenue.

During the war years from 1941 to 1945, cities of this country were affected in many ways. Some saw their population and business activities double, or more than double, while some remained stationary or even receded. All classes of communities are now faced with one or more conditions which need correction.

Eden B. Thirkield

Paradoxically enough, places which accumulated an influx of people out of all proportion to past records are now hoping to hold on to the new citizens but at the same time must find ways of providing facilities for them very soon if they do stay.

The spirited contest between powerful forces for a division of the limited supply of materials needed in construction has been going on at a lively pace since V-J Day and is by no means settled yet but there is not as much pressure as in the beginning. Reliable signs indicate that the materials situation will be considerably relieved before the end of 1947. Comments of certain building authorities and contractors point bluntly to the fact that the "law of supply and demand" is beginning to assert itself. In other words, the removal of artificial restrictions is permitting the freer functioning of production and distribution. Under these circum-

(Continued on page 43)

Railroad Securities

Earnings reports for March and the first quarter of the year will begin to appear next week. By and large it is expected that the comparisons with a year ago will make very pleasant reading. It will be the first interval for most roads in which a direct comparison with the operating results of a year ago will be possible. Last year the railroads did not accrue any wage increases during the first two months although these increases were later made retroactive to the beginning of the year.

Most of the roads accrued the major portion of the increases applicable to the first quarter in March. One or two roads did not even make any accruals in March —Nickel Plate for instance waited until May and then put the whole five month accrual through—but very few waited until the whole wage question was settled before charging the bulk of the increase. In reporting for the first two months of this year most of the major roads did not make any adjustment of last year's results to allow for the higher wages for January and February. There are two notable exceptions—Erie and Pennsylvania.

Erie for the first two months of 1946 actually reported net operating income of $1,099,000. When reporting for this year the figures for the first two months of 1946 showed a net operating deficit of $597,000. Similarly, for January and February 1946 Pennsylvania reported net operating income of $10,558,000. This has been revised downward to $961,000 in recent reports. It is obvious, then, that neither Erie nor Pennsylvania is apt to report the favorable March year-to-year comparisons expected of most other carriers. It is further notable that even after adjusting last year's figures Pennsylvania for the two months ended Feb. 28, 1947 showed considerably poorer results than those of a year ago.

By and large, and considering the lack of wage accruals last year, earnings thus far in 1947 have, in the opinion of most rail analysts, shown up very well. For the industry as a whole gross revenues were up 8.3% and net operating income declined 13.1%. Operating expenses were 10.0% above the year earlier interval and taxes were up 13.5%. In the Eastern District gross was up 13.6% and net operating income rose 10.7%. To some extent, of course, this showing may be traced to the fact that the dominant road in the territory (Pennsylvania) and Erie had restated their 1946 figures.

The Southern Region was next in line with a rise of 8.7% in revenues and a decline of 19.2% in net operating income. Operating expenses were up 14.0%. In net showing the Western Region was the poorest in comparison with the opening 1946 months. Revenues were up only 2.7%, operating expenses were up 6.8% and net operating income declined 22.4%. Considering the general level of earnings in the Western Region last year these roads could also best afford to suffer a year-to-year decline and still show a highly satisfactory net by any normal standards.

There are extenuating circumstances in the relatively poor showing of the western roads as compared with a year ago. For one thing, in the early months of 1946 passenger business of these carriers was at an all time peak reflecting redeployment of troops coming from the Pacific. Also, late January and February witnessed very severe weather conditions. In some sections of the west railroad operating men reported the most unfavorable weather in history. These storms cut traffic, resulted in heavy snow removal costs, and generally boosted transportation expenses.

Last year passenger business started to decline very sharply after the end of the first quarter. Revenue comparisons should therefore shortly be considerably more favorable. At the same time heavy weather expenses will not be recurring now that the winter has passed. It is generally expected that starting in April or May the performance of the western roads will come closer to matching that of the rest of the country. Many rail analysts have been puzzled by the disappointing action of rail securities in the face of definite indications of another year of high earnings. It is hoped that this negative attitude towards rail securities may give way to at least moderate enthusiasm when results for the full first quarter begin to appear.

No Egyptian Loan Request

WASHINGTON, April 16 (Special to the "Chronicle")—A press report to the effect that Egypt had asked the United States for a $100,000,000 loan for completion of the gold backing of its currency is described to the "Chronicle" Washington correspondent by an Egyptian as "absolutely incorrect.". Neither the Egyptian Embassy, the Fund or the Bank has received any information to substantiate the report, which gives as its source "the Washington correspondent of the weekly publication 'Akbar el Yom.'"

Balanced Budget With Lower Taxes and Debt Cut, Urges ABA Group

Urges at French Lick Springs meeting, cutting down of floating debt to reduce holdings of government obligations by banks.

A "sizable cut in Federal expenditures, a safely balanced budget, and a substantial debt retirement in the fiscal year 1947-48," were called for as "the first requirement for sound management of the national debt," by the Executive Council of the American Bankers Association at the closing session of its spring meeting at French Lick Springs, Ind.

"There should be a reduction in taxes as an incentive to enterprise to insure the maintenance of a high level of production and income," the Council said in its resolution. "This is especially needed to avoid a recession which might occur as the deferred demand for goods is met and accumulated savings diminish. This would also be an incentive for Congress and the people to carry through the very difficult operation of cutting the budget.

"The sale of Treasury bonds to the public should be encouraged by every means in order to distribute the debt more widely, spread maturities by cutting down the large floating and short-time debt, help reduce the amount of debt holdings by banks and the Federal Reserve System, stabilize purchasing power and aid in leveling the peaks and valleys of business. To facilitate this action the banks pledge their support to the Bond-a-Month program of the Treasury Department."

"Bawl Street Journal" Solicits Contributions

Contributions are being received for the 1947 "Bawl Street Journal," which will appear on June 6 at the annual field day of The Bond Club of New York, at the Sleepy Hollow Country Club, Scarsborough.

Material should be sent to J. Emerson Thors, Chairman of the Publications Committee, at Kuhn, Loeb & Co., 52 William Street, or to John A. Straley, Editor, at Hugh W. Long & Co., 48 Wall Street.

As in the past, the 1947 Edition of the "Bawl Street Journal" will contain many columns of illuminating, if somewhat satirical "news," comment and cartoons on events and people in the financial, political and business worlds.

News or advertisements will be welcomed from any member of the financial fraternity. It is not necessary to be a member of the Bond Club to become a contributor to the paper. Free copies will be sent to contributors whose material is published.

Deadline is May 15.

Dick & Merle-Smith to Admit W. E. Roosevelt

Dick & Merle-Smith, 30 Pine Street, New York City, members of the New York Stock Exchange and other national Exchanges, will admit W. Emlen Roosevelt to partnership on May 1st.

Melvin S. Arnold Is Forming Own Firm

SEATTLE, WASH. — Melvin S. Arnold is forming Arnold & Co. with offices at 1411 Fourth Avenue to engage in the securities business. Mr. Arnold was formerly a partner in MacRae & Arnold.

Can Britain Afford It?

By PAUL EINZIG

Dr. Einzig, in analyzing effects of replacement of British power and influence in foreign lands by United States, points out Britain's chief difficulty is lack of foreign exchange resources. Says there is belief U. S. is willing to assume Britain's previous foreign commitments in order to promote its own export position and predicts United States will be confronted with dilemma of assuming such burden or allowing Russia to control.

Can Britain afford financially to continue to play the part of one of the two great World Powers? This question dominated recent Parliamentary debates on compulsory military service, on Greece and other subjects. When it is asserted that Britain is tired and wants to curtail its overseas commitments what is really meant is that the British Treasury cannot find the foreign exchange needed for the maintenance of large military forces outside the United Kingdom, or that the maintenance of a large number of men under arms —whether at home or abroad— creates a scarcity of labor which reacts unfavorably on exports and imports.


Dr. Paul Einzig

It is this foreign exchange shortage that provides Little Englanders with a supreme opportunity to make their views prevail. Britain's loss of manpower through the war was moderate. It was not nearly sufficient to make Britain a tired country, such as France became after its enormous human losses during the World War I. It is the deterioration of the foreign exchange position more than anything else that compels Britain to relinquish its hold over important political, strategic or economic positions.

The result of Britain's financial weakness is that the United States feel themselves compelled to assume reluctantly the "white man's burden" which Britain can no longer carry. The replacement of British support by American support in Greece is but one of the instances. The experience is likely to repeat itself in Palestine and other parts of the Middle East. And a stage will be reached when Britain can no longer afford financially to continue to share in the occupation of Germany. The United States will then have to choose between assuming control of the British Zone or allowing Soviet Russia to push its frontiers beyond the Rhine.

This process cannot be halted by granting additional dollar loans to Britain. Beyond doubt the big dollar loan granted last year had a demoralizing effect on the British worker, and additional loans would lull him into the comfortable feeling that Uncle Sam would henceforth always systematically cover John Bull's deficits, so that there is no need for the latter ever to make any extra effort to achieve solvency.

There is a growing conviction in many quarters in Britain that the United States would not even like to see Britain solve its foreign exchange problem. This at any rate is inferred from what is regarded as the American policy aiming at depriving Britain of the means for doing so. By the terms of the Loan Agreement Britain is compelled to restore the converti-

(Continued on page 33)

NYSE Says Bulk of Business Originates in N. Y.

A survey of transactions of 350 firms covering week ended March 29 indicates Pacific Coast and Rocky Mountain region supply less than 9% of business. About one-half of transactions shown to come from New York State, but California ranks second.

Emil Schram, President of the New York Stock Exchange, released on April 12 the results of a survey, based on information supplied by 350 member firms, concerning the origin of all orders in stocks executed on the floor of the Exchange during the period March 24 through March 29. The investigation was made with a view to determining the amount of business originating on the Pacific Coast. Member concerns in this area had suggested that the Stock Exchange extend its trading hours to 4 p.m. in order to permit them to transmit orders in the afternoon, there being three hours difference in time between New York and San Francisco.

As a result of this petition all member firms carrying accounts for themselves or customers were requested to report all Exchange transactions effected on the Floor during the period March 24, 1947, through March 29, 1947, as follows:

(1) Total number of transactions.

(2) Total number of shares bought and sold (combined).

(3) The number of transactions and the number of shares representing full lots.

(4) The number of transactions and the number of shares representing odd lots.

(5) A breakdown of the above data by the State or foreign country of origin. The classification to be determined by the place where the customer was when he entered the order, if possible, or the customer's current address of record.

To avoid duplication of reported transactions, omnibus accounts for members were excluded from reports.

The 350 firms, representing all those which effected transactions during the period, reported as requested. The reported transactions were aggregated under the 48 States, the District of Columbia, the individual Possessions of the United States and individual Foreign countries. There were transactions reported for a total of 35 Possessions and Foreign Countries.

The reported volume of listed transactions on the New York Stock Exchange for the week of March 24, 1947, was 4,447,690 shares. The reported total of odd lot transactions by odd lot dealers for member firm customers during the period was 1,162,263 shares. In accordance with accepted procedure it was estimated that stopped stock accounted for 10% of the reported volume or 444,769 shares.

The estimated total shares transacted on the Exchange for the period was:

8,895,380	twice total volume
444,769	10% stopped stock
1,162,263	odd lot transactions
10,502,412	shares

The total shares reported by the 350 firms aggregated 10,497,569

(Continued on page 46)

Lays High Food Prices to Politics And Government Manipulation

Political policy and government manipulation of commodity markets are the largest single factors determining food price behavior today, according to Paul S. Willis, President of the Grocery Manufacturers of America, Inc., in response to President Truman's challenge to industry to keep prices down.

Paul S. Willis

"The peak of food prices appears to be past" Mr. Willis said. "For the past five weeks the Dun & Bradstreet wholesale food price index has shown a steady decrease from $6.77 on March 4 to $6.41 on April 8, the last date for which data are available. The overall price picture will undoubtedly continue to show a decline if business is left free from further government manipulation of the basic commodity markets.

"In a statement issued by this organization on Jan. 2, we predicted that prices were heading for a peak and would then decline steadily and moderately. This is what is now going on. But we had no way of knowing that the peak would be so high because we could not anticipate the fact that the government would step into the grain market and increase its requirement for overseas relief shipments from 275 million bushels to 400 million bushels.

"This raid on grains came as a bombshell on an already nervous market and sent prices sky high. It came at a time when supplies were relatively low. The government did not make its full demands for grains in November and December when stocks were highest but waited until Spring when reserves were low. So it was not only the amount of grain which America shipped abroad which brought an upward pressure on prices, but the maladroit manner in which it was done.

"Grocery manufacturers are in accord with President Truman in his desire to reduce the cost of living and to bring the whole story of the high cost of living out into the open. For that reason we believe that the whole story should be made available to the public.

"Last year America produced bumper crops—more than enough for our domestic consumption. But we shipped abroad some 2 billion dollars worth of American food. For the purpose of this discussion, the problem isn't whether we should or should not assist Europe, it is whether or not we are honest enough with ourselves to admit that our help is forcing up our food prices here at home. Take wheat for example. A 20-cent per bushel increase in the price of wheat results in a dollar per barrel increase in the price of flour to the consumer. As long as wheat is kept in short supply, and private industry must bid against the government for the available supply, abnormal prices must result.

"The grocery manufacturers have a strong, selfish motive for keeping prices down. This is a highly competitive mass production industry. It operates on an extremely narrow margin of profit. In some lines net profits run as high as five cents per dollar of sales, but in most lines profits are more nearly three cents on each dollar. It is thus apparent that we must maintain very high volume in order to earn a fair return on invested capital. In order to maintain high volume, we must keep our prices low enough so the American people can afford to buy our products.

"High prices do not mean high profits to business. Satisfactory profits were made possible last year only by the maintenance of extraordinarily high volume. It is to our interest to bring food prices down and hold our mass market, but this cannot be done while the overall price of farm products is 124% above the prewar average, labor is 34% higher, freight rates are 17% higher and containers and the other cost elements which go into a finished product are proportionately above prewar levels.

"In considering the overall price of food, a distinction should be made between the dry groceries which account for roughly 60% of the average family grocery budget and the fresh fruits, vegetables, meats and dairy products which account for about 40%. There are approximately 3,000 items in the grocery store. There have been some increases in some lines of dry groceries, but these increases have been insignificant as compared with the increases in the cost elements which go into the finished package.

"As we predicted at the first of the year, a chart of overall food prices during all of 1947 will show a gradual decline. There will be some price increases but more price decreases. Spring is here and new crops are coming on to the market. Dairy prices are already beginning to show a decrease, beef and pork prices are down, so are vegetables. The price of shortening was reduced two cents a pound this week, and the outlook for increased supplies of fats and oils is improving. This means that we may expect greater supplies of soap this year.

"Reports from many sections of the country indicate that canners are not meeting with success in inducing growers of canning crops to accept contract prices below those which prevailed a year ago. Contract prices in general thus far are reported close to 1946 levels. With higher prices ruling on cans, labels, cartons, labor, and shipping rates, the canners hope they can offer their 1947 output at no higher than the 1946 prices.

"One other important factor which must be kept in mind in considering food price behavior is the influence of subsidies. All during the war Uncle Sam paid part of our food bill at the grocery store and then collected the difference back by way of taxes. Now we are paying the full bill at the store.

"We fully share the desire of the President to reduce the cost of living. Grocery manufacturers will continue to do all they can to bring this about. This is a job in which all of us have a responsibility. The President and his Administration can be very helpful by creating a sane, long-range food policy under which the farmers, the grocery manufacturers and the distributors can operate normally."

CANADIAN PACIFIC RAILWAY COMPANY

Sixty-Sixth Annual Report of the Directors of Canadian Pacific Railway Company, Year Ended December 31, 1946 (Abridged)

COMPARISONS AT A GLANCE

	1946	1945
Gross Earnings	$292,495,828	$316,109,358
Working Expenses (including taxes)	271,652,778	280,055,024
Net Earnings	20,843,050	36,054,334
Other Income	22,779,794	15,106,957
Fixed Charges	18,488,113	19,547,129
Net Income	25,134,731	31,614,162
Dividends*	21,307,682	21,781,500
Balance Available for Modernization and Other Corporate Purposes	3,827,049	9,832,662
Ratio of Working Expenses to Gross Earnings	92.87%	88.59%
Payroll Charged Working Expenses	$140,874,155	$133,592,959
Average Annual Wage per Employee	$2,302	$2,168
Average Hourly Wage per Employee	92c	85c

*4 per cent. on Preference Stock, and 5 per cent. on Ordinary Stock of which 3 per cent. was declared after the close of the year.

To the Shareholders:

The year 1946 provided welcome opportunities for the re-establishment by your Company of services which were suspended during the war, and for introducing further improvements in the field of transportation. The difficulties which the transition period presented were largely surmounted. The Dominion enjoyed general prosperity and the demand for rail transportation was well sustained.

The distorted relationship between the price received for transportation service and the prices paid for labour and materials prevented your Company from earning the reasonable return, which might have seemed assured under these favourable business conditions. Although gross earnings in 1946 were 21 per cent. higher than in 1928, the previous peacetime record year, net earnings were 61 per cent. below the 1928 net and represented a return of only 1.6 per cent. on the investment in railway property, compared with 5 per cent. in that earlier peak year. It is necessary to go back to certain years of depression, or to the early days of your Company's operations when gross earnings were well below $100 million, to find net earnings as low as those realized in 1946; and there is no record of an equally low rate of return on investment.

Canadian freight rates, lower than those charged in any other country in the Commonwealth, in Europe or in America, have remained virtually unchanged for more than two decades. Throughout this long period freight revenues earned by your Company have averaged less than one cent per ton of freight hauled one mile. On the other hand, progressive increases have occurred in wage rates and material prices. As a result of such increases since 1939, the costs of operation in 1946 were $57 million greater than they would have been had prices and wages remained at their 1939 levels. Because this situation imperils the ability of the railway industry to continue to provide modern and efficient transportation service, your Company in association with the other railways in Canada has filed with the appropriate regulatory bodies an application for authority to make a general increase of 30 per cent. in freight rates, with some exceptions.

Fixed charges were reduced for the sixth consecutive year, being $1,059,016 less than in 1945. There was an improvement of $7,672,837 in income from investments and in the earnings from ocean steamships and other subsidiary operations. After providing for the four per cent. dividend on Preference Stock, the earnings per share on Ordinary Stock from all sources amounted to $1.53 compared with $1.98 in 1945 and $2.21 in 1944.

The accounts of your Company show the following results for the year ended December 31, 1946:

Income Account

Gross Earnings			$292,495,828
Working Expenses (including taxes)			271,652,778
Net Earnings			$ 20,843,050
Other Income			22,779,794
			$ 43,622,844
Fixed Charges			18,488,113
Net Income			$ 25,134,731
Dividends:			
Preference Stock			
2% paid August 1, 1946	$ 2,278,841		
2% payable February 1, 1947	2,278,841		
		$ 4,557,682	
Ordinary Stock			
2% paid October 1, 1946		6,700,000	
			11,257,682
Balance transferred to Profit and Loss Account			$ 13,877,049

Profit and Loss Account

Profit and Loss Balance December 31, 1945		$262,772,828
Final dividend of 3 per cent. on the Ordinary Stock, declared from the earnings of the year 1945, paid March 30, 1946		10,050,000
		$252,722,828
Balance of Income Account for the year ended December 31, 1946	$ 13,877,049	
Portion of steamship insurance recoveries representing compensation for increased cost of tonnage replacement	2,016,572	
Net exchange credit in respect of expenditures for new steamships and steamship insurance recoveries	708,746	
	$ 16,602,367	
Deduct:		
Miscellaneous—Net Debit	198,223	
		16,404,144
Profit and Loss Balance December 31, 1946, as per Balance Sheet		$269,126,972

(The final dividend of 3 per cent. on the Ordinary Stock for the year 1946 which was declared subsequent to the end of the year and is payable March 31, 1947, amounting to $10,050,000, is not deducted from the Profit and Loss balance shown above.)

Railway Operations

Gross Earnings in 1946 decreased $23,613,530 or 7.5% from 1945. The year's gross earnings have been exceeded only three times, in 1943, 1944 and 1945.

Freight Earnings accounted for $218,550,608, or 75% of the gross earnings. They were $9,156,878 or 4.0% lower than in 1945. Exclusive of earnings from grain and grain products, freight earnings were 3.2% higher than in the previous year, with the increases being recorded principally for such commodities as coal, paper, petroleum, fruits and vegetables and for less-than-carload traffic.

Grain handlings on your Company's western lines were 116 million bushels less than in 1945, and gross earnings from grain and grain products decreased $14,532,736. As a result of the early exhaustion of the relatively meager supplies of wheat provided by the 1945 crop, it was not until the 1946 crop had been harvested that a large volume of wheat became available for movement. By the time the crop began to move there was also an increased movement in other traffic, which put a heavy strain on the available equipment.

The volume of revenue freight traffic handled totalled 23,479 million ton miles, a decrease of 3,772 million from 1945. Revenue received for hauling one ton a distance of one mile averaged 0.93c. compared with 0.83c. last year. The average haul decreased by 40.3 miles. These two changes were the result, mainly, of the smaller proportion of grain carried.

Passenger Earnings accounted for $45,380,645, or 15.5% of the gross earnings. This represented a decline of $11,473,652, or 20.2%, compared with 1945. The sharp drop in revenues was due principally to the disappearance of military traffic. Civilian travel was at a very high level, and a capacity business was handled during the tourist season. During the year the repatriation of Canadian service personnel and the movement of their dependents to Canada were virtually completed. In handling both of these your Company played a major role.

Sleeping, dining and parlour car, and news service revenues all declined as a result of the decrease in passenger business.

A total of 15,583,990 passengers was carried an average distance of 136.4 miles, a decrease from the previous year of 12.2% in the number of passengers and of 25.3 miles in the average passenger journey. Revenue received per passenger mile averaged 2.12 cents compared with 1.97 cents in 1945.

Working Expenses decreased $8,402,246, or 3.0%. Wages and salaries increased $7,281,196. There was a decrease in total hours worked but an increase of 2 cents per hour granted to maintenance of way employees effective February 15, 1946, a further 8 cents to such employees and 10 cents to all other employees effective June 1, 1946, added approximately $8,700,000 to the year's expenses. Expenses for material and supplies, taxes and other items decreased $15,683,442.

The ratio of working expenses to gross earnings was the highest on record, with expenses absorbing 93 cents of every dollar earned for railway service.

Maintenance Expenses totalled $109,691,600 for the year, of which $50,492,658 was for the maintenance of way and structures and $59,198,942 for the maintenance of equipment. These expenses were $8,463,608 less than in 1945 and represented 37% of gross earnings, the same ratio as in the previous year.

Track maintenance included the placing of 1,021,942 untreated and 2,144,095 treated ties, the laying of 511 single track miles of new rails and application of 16.7 track miles of rock ballast. The Sperry detector car, which is used in the examination of rails for hidden defects, covered 8,687 miles of track.

Complete overhauls were given to 729 locomotives, 26,489 freight train cars and 1,169 passenger train cars. At the end of the year, 91.6% of locomotives and 97.8% of freight cars were in serviceable condition, compared with 90.9% and 97.4% respectively at the end of 1945.

Transportation Expenses amounted to $117,897,963, an increase of $3,172,602 over 1945. Chiefly as a result of the smaller volume of grain, in relation to other freight, the average freight train load declined from 1,790 tons to 1,688 and other indices of operating efficiency were affected similarly. The number of passengers per train also decreased. The modification of controls which existed during wartime and which had necessitated the full loading of cars, the increase in less-than-carload shipments, the higher proportion of short haul traffic and the widespread adoption of a shorter work week in industry all combined to impair operating performance and, with the increase in wage rates and material prices, to raise the cost of transportation in relation to revenues. Transportation expenses thus took 40 cents of every railway dollar as compared with 36 cents in 1945. The falling-off in operating performance may be seen from the following comparisons:

	1946	1945
Freight Train Load—gross tons	1,688	1,790
Freight Car Load—tons	30.8	33.7
Gross Ton Miles per Freight Train Hour	27,187	28,873
Freight Car Movement—miles per car day	44.3	48.2
Freight Train Speed—miles per hour	16.1	16.1
Passenger Miles per Train Mile	105	138

Railway Tax Accruals amounted to $16,877,264, including a provision of $13,000,000 for Dominion Income and Excess Profits Taxes, which was $5,200,000 less than the 1945 provision.

Net Earnings amounted to $20,843,050, a decrease of $15,211,284, or 42.2%, from 1945. They represented only 7% of gross earnings compared with 11% in 1945, 14% in 1944 and an average of 18% in the decade prior to the war.

Other Income

Other Income amounted to $22,779,794, an increase of $7,672,837.

The net earnings of ocean and coastal steamships increased by $2,139,299, due principally to the additional earnings derived from the five new Beaver ships which came into service during the year.

While net earnings of your hotels in 1945 were the highest up to that time, net earnings in 1946 were $383,800 higher. The summer resort hotels, which had remained closed during the war years, were all reopened and enjoyed the largest trade in their history. A record volume of business was done at your city hotels and the larger proportion of civilian business resulted in improved earnings.

There was a decline of $214,671 in the net earnings of the communications department, due wholly to increased wage rates.

Dividend income increased by $3,795,097. Dividends received from The Consolidated Mining and Smelting Company of Canada, Limited amounted to $7,150,625, and were at the rate of $4.25 per share, compared with $2.50 in 1945. An initial dividend of $2.50 per share was declared on the Minneapolis, St. Paul & Sault Ste. Marie Railroad Company Voting Trust Certificates from which your Company received $897,855.

Net income from interest, exchange, separately operated properties and miscellaneous sources increased $1,521,456. There was an increase of $373,237 in interest received on Dominion of Canada Bonds, and a decrease of $304,930 in interest received on farm land contracts. Exchange account showed an improvement of $882,475 as a result of the revaluation of the Canadian dollar in relation to the currencies of the United Kingdom and the United States.

Fixed Charges

Fixed charges amounted to $18,488,113, a decrease of $1,059,016 from 1945. The principal item contributing to this reduction was the redemption of the Thirty Year 4½% Collateral Trust Gold Bonds for which provision had been made at the end of 1945.

The present level of fixed charges is more than $8 million below the 1938 peak.

Net Income and Dividends

Net income for the year was $25,134,731, from which dividends aggregating $21,307,682 were declared. These comprised two half-yearly dividends on the Preference Stock of 2 per cent. each and dividends on the Ordinary Stock of 2 per cent. paid October 1, 1946, and of 3 per cent. payable March 31, 1947. At the time of the declaration of the last mentioned dividend, your Directors issued a statement which concluded as follows:

> "The Directors deem it desirable to point out that this dividend of three per cent. making a total dividend payment of five per cent. in respect of operations for the year 1946, is made possible only by a considerable increase in the income from investments and in the earnings from Ocean Steamships. Fixed charges have been sharply reduced but net revenue also was substantially reduced because of the impact of large wage increases established in 1946 and because of increases in cost of materials and supplies. Without the assistance from investments and Steamships the payment of a five per cent. dividend for the year would have been impossible. The Directors wish to add that future dividend action must necessarily depend upon a material improvement in railway revenues."

Land Accounts

During the year 212,170 acres of agricultural lands were sold for $1,141,102, an average price of $5.37 per acre. Included in this total were 175 acres of irrigated land, sold at an average price of $28.83 per acre.

Cash received on land account totalled $5,469,187, including $705,090 derived from the leasing of coal, gas and petroleum rights. Disbursements for land and irrigation expenses, including taxes, were $1,442,670 leaving net cash receipts of $4,026,517, a decrease of $2,353,948 from the previous year.

Certain concessions to contract holders were again approved for the crop year 1946-1947. The assistance to holders of farm contracts since this policy was inaugurated in 1932 has amounted to $26,852,140.

Balance Sheet

Total assets at the end of the year amounted to $1,622,445,668, an increase of $16,550,036 during the year. There was a net increase of $31,459,345 in Property Investment, details of which are shown in a supporting schedule to the Balance Sheet.

Effective November 7, 1946, Boston & Maine Railroad and your Company consummated with The Connecticut and Passumpsic Rivers Railroad Company the arrangements authorized in Resolution adopted at the Annual Meeting in 1945. As part of the transactions, there has been included under the caption "Improvements on Leased Property" $3,336,212 representing cost to your wholly owned subsidiary, Newport & Richford Railroad Company, of 69 miles of railway extending from Wells River, Vermont, to the international boundary.

During the year, certain machine tools which had been used for the production of munitions, and several extensions to buildings which had been made to your Angus Shops in Montreal, were purchased from the Government for $801,114.

Expenditures on five Beaver steamships, now in service, totalled $8,541,793, and on steamships under construction $1,551,515, payments being made from the Steamship Replacement Fund. The Great Lakes Steamship "Alberta", which had been in service since 1884, was sold during the year.

Current assets amounted to $139,681,085 and current liabilities were $48,717,809. Liability for payrolls included $6,342,322 covering the retroactive portion of the wage awards which was paid on January 13, 1947.

Finance

In February, in accordance with the terms of the Lease covering the 3% Equipment Trust, Series F, 1943, the total amount outstanding was prepaid. A new Equipment Trust, designated as Series F, 1943 (Refunding), was created (dated as of February 1, 1946) in the principal amount of $12,600,000. The certificates issued thereunder mature in equal semi-annual instalments from August 1, 1946, to February 1, 1953, inclusive, are payable in United States currency, and bear interest at 1⅜% per annum.

In June, in accordance with the terms of Lease covering the 2½% Equipment Trust, Series G, 1944, the total amount outstanding was prepaid. A new Equipment Trust, designated as Series G, 1944 (Refunding), was created (dated as of June 1, 1946) in the principal amount of $19,500,000. The certificates issued thereunder mature in equal semi-annual instalments from December 1, 1946, to December 1, 1953, inclusive, are payable in United States currency, and bear interest at 1½% per annum.

The net amount of serial equipment obligations paid during the year was $9,564,000.

During the year, $540,000 4% Collateral Trust Bonds, maturing July 2, 1949, were purchased and cancelled.

The 5% First Mortgage Bonds of your subsidiary, The Algoma Eastern Railway Company, amounting to $2,226,500 maturing March 1, 1961, have been called for redemption on March 1, 1947, under the terms of the indenture. At December 31, your Company had placed this subsidiary in funds to meet the call, which funds have been deposited with the Trustee for the issue.

The foregoing transactions resulted in a reduction in funded debt amounting to $10,104,000, the discharge of a contingent liability of $2,226,500, and a reduction of $943,000 in the amount of Consolidated Debenture Stock pledged as collateral.

Pensions

Charges to working expenses for pensions amounted to $6,995,794. This includes your Company's proportion of the pension allowances paid during the year, levies in respect of employees covered by the United States Railroad Retirement Act, and a special contribution of $1,750,000 to the Pension Trust Fund to assist in meeting the anticipated peak period of pension costs.

Wage Negotiations

In July, 1946, the National War Labour Board, acting on applications by the organized employees of Canadian railways for wage increases, referred the issues back to the railways and their employees for negotiation. During the course of these negotiations your Company found it necessary to withdraw because the existing level of its earnings made it impossible to offer any increase in wage rates unless compensatory increases in revenues were assured. However, the Canadian National and the Ontario Northland Railways concluded agreements with their employees granting them an increase of 10 cents per hour, or its equivalent, retroactive to June 1, 1946, and this agreement was approved by the National War Labour Board. Your Company's employees subsequently made an application to the Board for an order directing the same wage adjustments as had been provided for in the approved agreement.

In its presentation to the Board your Company recognized the long established practice of maintaining parity of wage rates for employees of the principal steam railways, but urged its inability to pay increased wages and the need for deferring any increases until effective steps could be taken with the approval of the competent authorities to provide the additional revenues required.

Notwithstanding these submissions your Company was directed to increase the wages of its employees by 10 cents per hour, or its equivalent, retroactive to June 1, 1946. The effect of this order was to add an annual charge of approximately $15,300,000 to working expenses on the basis of 1946 employment.

Canadian Pacific Air Lines, Limited

The general improvement in traffic which your Air Lines experienced in the latter half of 1945 continued in the current year with the result that operations showed a net profit, after depreciation, of $372,371. This compares with a loss of $308,066 in the previous year. The important factors in this improved showing were the continuance of greater mining activities throughout the country and the increased operations of the Survey Department. The improvement in the results of the subsidiary company—Quebec Airways Limited—also contributed to the favourable showing.

The aircraft operated by your Air Lines flew a total of 6,813,907 miles in revenue service during 1946, as compared with 5,373,403 miles in the previous year. Revenue passengers carried totalled 175,461 as against 125,110 in 1945, freight transported was 16,514,741 pounds compared with 9,419,556, and mail amounted to 1,722,733 pounds, as compared with 1,253,537 pounds. The 1946 operating ratio was 95.3%, as against 107.3% in 1945.

During the year, an arrangement was consummated whereby all engine overhaul work will eventually be performed by your Company at its railway shops in Winnipeg. Further economy has been effected through the centralization at Stevenson Field in Winnipeg of airframe overhaul work previously performed at four points—Winnipeg, Edmonton, Montreal and Lac a la Tortue.

The Air Transport Board is engaged in conducting an examination of existing air licences in Canada. Representations have been made to the Board to protect the interests of your Air Lines in those licences now operated and which it is considered should be retained. In addition, application has been made for licences to operate certain additional routes.

Minneapolis, St. Paul & Sault Ste. Marie Railroad Company

On March 13, 1946, a dividend of $2.50 per share was declared on the capital stock of this Company, amounting to $1,797,760. In declaring the dividend, consideration was given to the earnings for the sixteen month period from September 1, 1944 (date of reorganization), to December 31, 1945.

Gross earnings of the Soo Line in 1946 amounted to $27,970,148, a decrease of $575,382 from the previous year. Freight earnings were sustained to some extent by the authorization of an interim increase of approximately 6.5% in freight rates, effective July 1, 1946. Working expenses were $26,952,080, an increase of $1,210,784 attributable wholly to increased wage rates. Net earnings of $1,018,068 were $1,786,166 less than in 1945. Net income for the year, after provision for fixed and contingent charges, amounted to $154,188 compared with $1,754,433 in the previous year.

The Wisconsin Central Railway continues to be operated by the Soo Line as agent for the Trustees of the Wisconsin Central. A plan of reorganization which contemplates a continuance of the present operating arrangements was issued by the examiner of the Interstate Commerce Commission under date of August 1, 1946. Exceptions to the plan have been filed with the Commission by the parties in interest, and it is expected that the Commission's plan will be issued in the near future.

The Duluth, South Shore & Atlantic Railway Company

The plan of reorganization referred to in the last Annual Report was filed by the South Shore Company with the Interstate Commerce Commission and the Court, and a public hearing was held before one of the Commission's examiners commencing July 22, 1946. His report had not been issued at the end of the year.

The changes affecting earnings and working expenses referred to in connection with the Soo Line are also reflected in the results of the South Shore. Gross earnings were $67,152 higher than in 1945, but working expenses increased by $466,518. Net earnings for the year were only $10,775, a decrease of $399,366 from the previous year.

Improvements and Services

The service to patrons in branch line territory in certain areas of Western Canada has been improved by the inauguration of a system of co-ordinated rail and highway truck transportation.

The installation of automatic block signals for a further 242 miles of single track added to the safety, capacity and efficiency of operation of important sections of your Company's line. The principal installations were on the main line between Smiths Falls and Chalk River and between Calgary and Lake Louise.

New rolling stock placed in service during the year included 36 Pacific type steam locomotives and 14 Diesel switching locomotives; 623 steel box and 395 50-ton refrigerator cars. Two of the Pacific type delivered to your Company were the first Canadian locomotives to be equipped with all-welded boilers instead of the standard riveted construction.

Your Company has been represented in the Orient since 1886 and with the re-opening during the year of your offices at Hong Kong and Shanghai, a valued connection was re-established. Considerable repairs were necessary at the office buildings in both cities. Pending the resumption of Canadian Pacific Steamship service between the Pacific Coast of Canada and the Orient, the staffs in your two agencies are engaged in handling enquiries concerning passenger travel and freight traffic.

Development of Traffic

The need for continuous development of potential sources of traffic, both freight and passenger, has always been recognized by your Company. As Canada expanded industrially, the new areas developed for this purpose were serviced by appropriate trackage facilities, while no effort was spared to provide existing business with the best of service. Your Company's Steamship operations brought new traffic to the rails. The agricultural branch, always keeping abreast of the latest developments in the production of better crops, seeds and livestock, made substantial contributions to the growth of sound agricultural methods. Passenger traffic was encouraged through the building of hotels and the publicising of Canada's advantages as a vacation land. During wartime, however, these activities were necessarily curtailed.

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With the end of the war active solicitation of traffic was again undertaken and efforts have been redoubled in your Company's programme of assisting in the development of industry and natural resources. The results in 1946 were noteworthy; 665 manufacturing, warehousing and distributing concerns established or expanded their activities on your lines. A total of 34.7 track miles of sidings was constructed for the use of 242 of these businesses. Production of raw materials was commenced by 35 new firms on your Company's lines while 39 industries previously established expanded their production materially.

On the north shore of Lake Superior, where only a short while ago there was wilderness, extensive plants have been built for the production of chemical pulps, and such new towns as Marathon and Terrace Bay have been founded. These communities and their plants are served exclusively by your Company.

A large-scale advertising programme, featuring full-colour advertisements in leading American periodicals as well as a wide coverage of Canadian newspapers and magazines, again directed attention to your Company's complete transportation services. As has been noted, the tourist season brought capacity business to both your rail lines and your hotels.

Steamship Replacement

During 1946 your Company's ocean fleet was augmented by the addition of five ships—Beaverdell, Beaverglen, Beaverlake, Beaverburn and Beaverford. The first three of these ships were specially designed and built for your Company, for freight service between Canada and the British Isles. Beaverburn and Beaverford were purchased from the Government of the United Kingdom in May for operation in the Pacific but have been placed temporarily in the Atlantic service. These two vessels were completed in 1944 and have the same general dimensions as the other Beavers, but different cargo handling arrangements.

The five Beavers combined carried 216,339 tons of cargo to the United Kingdom during the year and returned with 64,252 tons.

The Beavercove, fourth of the Atlantic Beavers, was launched July 16, 1946, and is expected to commence service in the early summer of 1947.

The Duchess of Richmond, to be renamed Empress of Canada, is undergoing overhaul and reconditioning after extensive service as a troop transport. She is expected to return to the Atlantic service in May, 1947, with added speed and improved accommodation for the comfort of passengers.

The Duchess of Bedford has been retained by the Admiralty in transport service longer than had been anticipated but her release is expected at an early date. She will undergo overhaul and reconditioning before returning to regular service.

On August 2, 1946, the Princess Kathleen returned to Victoria, B. C., for overhaul and reconditioning, after five years of war service as a troopship. It is expected she will resume regular operations in the British Columbia Coast Steamship Service in the early summer.

At the end of the year, preliminary work on the two passenger steamships being constructed for the British Columbia Coast Service was well in hand. They are to be delivered in 1948.

Capital Appropriations

In anticipation of your confirmation, capital appropriations in addition to those approved at the last Annual Meeting were authorized by your Directors during the year in the amount of $1,514,798.

Your approval will be requested also for capital appropriations of $30,489,352 for the year 1947. The principal items are as follows:

Additions and betterments to stations, freight sheds, coaling and watering facilities and engine houses	$ 924,702
Replacement and enlargement of structures in permanent form	214,838
Tie plates, rail anchors and miscellaneous roadway betterments	1,118,763
Replacement of rail in main line and branch line tracks with heavier section	134,422
Installation of automatic signals	792,206
Additional terminal and side track accommodation	196,567
Additions and betterments to shop machinery	148,617
New rolling stock	25,158,898
Additions and betterments to rolling stock	1,106,267
Additions and betterments to communication facilities	620,818

The appropriations for new rolling stock make provision for 13 Diesel switching locomotives, 3,345 freight train cars and 26 passenger train cars.

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Directorate

Mr. Louis L. Lang was appointed a Director to fill the vacancy created by the death of Mr. Selwyn G. Blaylock and Mr. George A. Walker, K.C., Vice-President of your Company, was appointed a member of the Board to succeed Mr. Morris W. Wilson, C.M.G. Hon. F. Philippe Brais, C.B.E., K.C., was appointed a Director in place of the late Mr. Aime Geoffrion, K.C.

Mr. George A. Walker, K.C., and Hon. Charles A. Dunning, P.C., were appointed members of the Executive Committee of the Board to succeed Mr. D. C. Coleman, C.M.G., resigned, and the late Mr. Aime Geoffrion, K.C., respectively.

After the close of the year Mr. D'Alton C. Coleman, C.M.G., Chairman and President of your Company, expressed his desire to retire from active service on February 1, 1947. His request was acceded to with regret. Mr. Coleman resigned, as of the date named, as a member of the Executive Committee but your Directors are gratified that he continues as a member of the Board.

Your Directors record that for a period of more than forty-seven years Mr. Coleman, by his sound and practical knowledge of railway operation, and his executive ability, rendered outstanding service to your Company. After occupying successively higher positions in the Operating Department of the railway from those of junior grade to that of Vice-President of Western Lines, he was called to Headquarters in Montreal in 1934 as Vice-President of the Company and appointed a Director and a member of the Executive Committee of the Board. In 1942 he was elected President and, in the following year, Chairman and President of your Company; in these capacities he was responsible for the chief directional control of your Company's vast and varied contribution to the war effort.

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Mr. W. M. Neal, C.B.E., Vice-President of your Company and a Director and member of the Executive Committee of the Board, was elected Chairman and President effective February 1, 1947.

The Undermentioned Directors will retire from office at the approaching Annual Meeting. They are eligible for re-election:

Mr. Edwin G. Baker
Mr. Louis L. Lang
Mr. Howard P. Robinson
Mr. Robert C. Stanley

Officers and Employees

The work of the Safety Bureau and Safety Agents has been intensively directed toward prevention of train accidents and personal injuries. Further improvements were made in the operation of the Employees' Suggestion Bureau, as a result of which a substantial increase in suggestions was obtained, with a corresponding gain in the ideas it was found possible to use.

Before concluding this Report your Directors again desire to record their sincere appreciation of the continued loyal cooperation of officers and employees in all branches of the service, which is so essential to your Company's welfare.

For the Directors,

W. M. NEAL,

President.

Montreal, March 10, 1947.

CANADIAN PACIFIC RAILWAY COMPANY

General Balance Sheet, December 31, 1946

ASSETS

PROPERTY INVESTMENT:		
Railway, Rolling Stock and Inland Steamships	$ 855,594,043	
Improvements on Leased Property	105,533,177	
Stocks and Bonds—Leased Railway Companies	134,170,939	
Ocean and Coastal Steamships	49,950,819	
Hotel, Communication and Miscellaneous Properties	97,780,479	
		$ 1,243,029,457
OTHER INVESTMENTS:		
Stocks and Bonds—Controlled Companies	$ 70,379,542	
Miscellaneous Investments	46,805,482	
Advances to Controlled and Other Companies	6,013,140	
Mortgages Collectible and Advances to Settlers	1,346,430	
Deferred Payments on Lands and Townsites	13,501,905	
Unsold Lands and Other Properties	14,041,912	
Unexpended Equipment Trust Deposit	5,614,623	
Maintenance Fund	25,200,000	
Insurance Fund	11,789,329	
Steamship Replacement Fund	39,275,550	
		233,967,913
CURRENT ASSETS:		
Material and Supplies	$ 34,987,234	
Agents' and Conductors' Balances	12,800,272	
Miscellaneous Accounts Receivable	14,023,405	
Dominion of Canada Securities	31,861,000	
Cash	46,009,174	
		139,681,085
UNADJUSTED DEBITS:		
Insurance Prepaid	$ 247,983	
Unamortized Discount on Bonds	4,556,321	
Other Unadjusted Debits	962,909	
		5,767,213
		$ 1,622,445,668

LIABILITIES

CAPITAL STOCK:		
Ordinary Stock	$ 335,000,000	
Preference Stock — 4% Non-cumulative	137,256,921	
		$ 472,256,921
PERPETUAL 4% CONSOLIDATED DEBENTURE STOCK	$ 326,124,729	
Less: Pledged as collateral to bonds and equipment obligations	30,636,500	
		295,438,229
FUNDED DEBT		83,565,000
CURRENT LIABILITIES:		
Pay Rolls	$ 12,728,003	
Audited Vouchers	8,375,608	
Net Traffic Balances	3,387,007	
Miscellaneous Accounts Payable	8,496,302	
Accrued Fixed Charges	1,031,995	
Unmatured Dividend Declared	2,278,841	
Other Current Liabilities	12,420,053	
		48,717,809
DEFERRED LIABILITIES:		
Dominion Government Unemployment Relief	$ 1,447,223	
Miscellaneous	2,791,824	
		4,239,047
RESERVES AND UNADJUSTED CREDITS:		
Maintenance Reserves	$ 25,200,000	
Depreciation Reserves	302,224,698	
Investment Reserves	3,363,502	
Insurance Reserve	11,789,329	
Contingent Reserves	5,188,998	
Unadjusted Credits	6,024,992	
		353,791,519
PREMIUM ON CAPITAL AND DEBENTURE STOCK		34,458,562
LAND SURPLUS		60,851,609
PROFIT AND LOSS BALANCE		269,126,972
		$ 1,622,445,668

ERIC A. LESLIE
Vice-President and Comptroller.

TO THE SHAREHOLDERS,
CANADIAN PACIFIC RAILWAY COMPANY:

We have examined the above General Balance Sheet of the Canadian Pacific Railway Company as at December 31, 1946, the Income and Profit and Loss Accounts for the year ending on that date and other related schedules, and have compared them with the books and records of the Company.

The records of the securities owned by the Company at December 31, 1946, were verified by an examination of those securities which were in the custody of its Treasurer and by certificates received from such depositaries as were holding securities in safe custody for the Company.

In our opinion the General Balance Sheet, Income and Profit and Loss Accounts and the other related schedules are properly drawn up so as to present fairly the financial position of the Company at December 31, 1946, and the results of its operations for the year then ended according to the best of our information and the explanations given to us and as shown by the books of the Company.

PRICE, WATERHOUSE & CO.,
Chartered Accountants.

Montreal, March 7, 1947.

Belgium's Progress

By HERBERT M. BRATTER

Belgian financial official cites favorable factors in his country's situation, as expanding production, decreased rationing, rise in domestic bond market, increase in gold holdings, and strengthening of currency.

Visiting Washington on his fourth trip to America within two years, Mr. Maurice Frere, Governor of the Belgian National Bank, Governor of the World Fund and Alternate Governor of the World Bank, expressed himself as very gratified over the economic and financial progress made by Belgium during the past year or so. Mr. Frere, who is also Chairman of the board of directors of the Bank for International Settlements, is accompanied on this visit by Mr. Roger Auboin, General Manager of that institution.

Future of BIS

Asked to comment on the future of the BIS, Mr. Frere told this correspondent: "We have had some talks about the BIS here."

By coincidence, Mr. Frere's trip coincides with the announcement of the resignation from the World Fund of Dr. Harry White, U. S. Executive Director who, during the war, was an outspoken critic of the BIS and actively pushed the resolution of the BW conference which sought the liquidation of the BIS as soon as possible. At that time the President of the BIS was Mr. Thomas H. McKittrick, now Vice-President of the Chase National Bank.

Mr. Frere confirmed that the World Bank has made some use of BIS research facilities since its inception last year and gave the impression that the BIS would willingly render the Fund and Bank any services within its power.

Questioned about Belgium's borrowing plans, the eminent Belgian financier stated that, while his country had been studying the possibilities both in Washington and Wall Street, Belgium is under no pressure to seek a loan at this time.

On the subject of the Belgium-Netherlands-Luxemburg Union, Mr. Frere said that, although there is a Belgium-Luxemburg monetary and customs union, there is no financial tie-up between Belgium and the Netherlands, either existing or contemplated. Amalgamation of the florin and the Belgian franc has not even been discussed, Mr. Frere added, nor is there likely to be a single currency so long as there are separate political sovereignties, any more than parity between the U. S. and Canadian dollars means that there is a single currency.

The Florin-Guilder Relationship

At present there is no parity between the florin and the guilder. Nor is there identity between the official and unofficial exchange rates. As expressed by Mr. Frere: "I have stated to my Dutch colleagues, 'The day you have stabilized the florin and freed from all controls your financial transactions with the whole world, with the result that there is no longer a difference between the official and the free-market exchange rates, we may begin to study a single currency for the two countries.' Shortly a tariff union between Belgium and Holland is to become effective, but this will have no direct effect on my field of interest—central banking and currency."

The Belgian Political Situation

In response to questions, Mr. Frere told the writer that the present Belgian Government has a strong majority, the largest in a long time. The Belgian franc is rather strong, as indicated by the test of free-market rates. In Switzerland, for example, the Belgian franc has been rising steadily. The official parity is 43.80 Belgian francs per U. S. dollar. Today the free-market rates for dollar notes in Belgium is 50 to 51, whereas a year ago it was 75 to 80. The pound, on the other hand, is in Beligum's free market quoted at 145-150 francs, Mr. Frere said, compared with parity of 176½ francs.

Belgium's general economic situation is good, the Central Bank chief stated.

"The Government's effort has been to bring prices down, "and we have held them," Frere stated.

"We are trying to control credit," he continued. "We must keep pace with increases in production. Production has been expanding. In one year it has gone up about 50%, but since consumption has not increased during this period, a bigger share of our output is available for export. Production of textiles is above the prewar rate, and in iron and coal and most other industry is about 80% of prewar.

"Belgium thus far has not done much to assist in the repair of war damage, as we have had no materials for this purpose. We want to finance reconstruction as much as possible through internal loans. In recent months the domestic market for government bonds has been improving. If we do have to apply for foreign loans, we want to limit our borrowing reasonably in proportion to our capacity to repay. The main weight of reconstruction we must carry ourselves.

"The Government wants to adhere to a sound financial policy and a sound currency. Today our currency reserves are about 50% of the note issue.

Internal Rationing Reduced

"Rationing in Belgium has been reduced to very modest proportions. It is still used for bread, meat, butter and sugar — but all other items are now unrationed: shoes, clothing, textiles. Food rations on the whole are quite large; and fish and mutton, I might mention, are unrationed.

"Under the present agreement with the UK," Mr. Frere observed, "Belgium can obtain dollars by offering sterling. But in the field of foreign exchange we must go ahead towards more liberty. For example, in the matter of the transportation of notes across the borders, our policy is never to be more strict than other countries. Thus, when the UK raised the import limit on sterling notes to £20, we fixed our export limit to correspond." Indicative of Belgium's strong currency position, Mr. Frere cited the reserves of 38 billion francs against a note issue of about 75 billions on March 20. Of the 38 billions, about 28 billions were gold, held in various places. The gold reserves have increased, notwithstanding the BW participation of 2.46 billions in gold.

N. Y. Curb Exchange Appoints Realty Comm.

The New York Curb Exchange announces the appointment by Francis Adams Truslow, President, of a special committee to be known as the realty committee, with David U. Page as Chairman. Other members of the committee, which will administer exchange realty and building operation and maintenance matters, include Charles M. Finn, Fred C. Moffatt, Frederick J. Roth, Wm. B. Steinhardt and Edward C. Werle. Wilmont H. Goodrich has appointed director of the building department.

Curb Exch. Realty Assoc. Elects New Officers

David U. Page has been reelected president of the New York Curb Exchange Realty Associates, Inc., it is announced. William A. Steinhardt was elected vice president and Christopher Hengeveld Jr. was re-elected secretary-treasurer. Frederick J. Roth was appointed to serve as assistant treasurer for the next year. Mr. Roth and Mr. Steinhardt were elected directors to serve three-year terms.

With Merrill Lynch Firm

LOS ANGELES, CALIF.—Edward M. Skowrup is now affiliated with Merrill Lynch, Fierce, Fenner & Beane, 523 West Sixth Street.

New Issue for Duffy

BOSTON, MASS.—Jim Duffy, Paine, Webber, Jackson & Curtis, Boston, Mass., announces the arrival of Jimmy Jr., 7 lbs., April 1.

Henry R. Mathias Promoted By McGraw-Hill Pubs.

Henry R. Mathias, sales manager for the McGraw-Hill publications, "Coal Age" and "Engineering and Mining Journal," has been appointed general manager of those publications.

Mr. Mathias has been with McGraw-Hill since 1943, and previously, had been with the Standard Oil Company of Indiana for 19 years. He is a graduate of the University of Illinois.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

The bank stock market has been anticipating and discounting poor first quarter reports for many months. The American Banker Daily Index has been steadily declining since early January, from 44.8 on Jan. 6 (it was 44.3 on 12-31-46) to 39.1 on April 11, a drop of 12.7%. Since April 1, when the bank statements were beginning to be released, the decline has been from 40.8 to 39.1, a drop of 4.3%. By way of comparison, high grade industrial stocks, as measured by the Dow-Jones Industrial Average, have moved from 177.20 on 12-31-46 to 173.43 on April 11, a decline of only 2.1%.

First quarter earnings for 1947 vs. 1946 of 17 leading New York City banks are shown in the accompanying tabulation:

	First Quarter Net Earnings (Per Share)							
	1946			1947			1947	
	Oper. $	Secur. Profits $	Total or Indicated $	Oper. $	Secur. Profits $	Total or Indicated $	Projected Annual Rate $	Div. Rate $
Bank of Manhattan	---	---	0.68	---	---	0.47	1.88	1.20
Bank of New York	---	---	6.50	---	---	5.40	21.60	14.00
Bankers Trust	---	---	0.90	---	---	0.64	2.56	1.80
Central Hanover	---	---	1.50	---	---	1.50	6.00	4.00
Chase National	0.64	0.23	0.87	0.44	0.03	0.47	1.76	1.60
Chemical Bank & Tr.	0.81	0.09	0.90	0.68	0.20	0.88	2.72	1.80
Commercial National	---	---	0.97	---	---	0.80	3.20	2.00
Continental	---	---	0.47	---	---	0.32	1.28	0.80
Corn Exchange	---	---	1.33	---	---	1.24	4.96	2.80
First National	---	---	25.94	---	---	18.38	73.52	80.00
Guaranty Trust	5.41	0.02	5.43	3.84	1.76	5.60	15.36	12.00
Irving Trust	---	---	0.32	---	---	0.28	1.12	0.80
Manufacturers Trust	---	---	1.21	---	---	1.16	4.64	2.40
*National City	0.80	0.47	1.27	0.76	0.41	1.17	3.04	1.60
New York Trust	2.00	0.47	2.47	1.55	0.05	1.60	6.20	4.00
Public National	---	---	1.11	---	---	1.06	4.24	2.00
U. S. Trust	---	---	9.22	---	---	9.10	36.40	35.00

*Includes City Bank Farmers Trust.

Earnings of all but five are as indicated by balance sheet changes between 12-31-46 and 3-31-47, inclusive of dividends, but excluding funds transferred or credited to reserves. Five banks reported net operating earnings and net security profits, viz: Chase National, Chemical, Guaranty Trust, National City and New York Trust. The average decline in total or indicated earnings per share of the 17 banks from the first quarter of 1946 is approximately 16%.

However, several of the banks have maintained their earning rate remarkably well. For example: Chemical, with 88¢ vs. 90¢; Corn, with $1.25 vs. $1.33; Guaranty, with $5.60 vs. $5.43; Manufacturers, with $1.16 vs. $1.21; National City, with $1.17 vs. $1.27; Public, with $1.06 vs. $1.11; and U. S. Trust, with $9.10 vs. $9.22. The average decline for these seven banks is only 3.4%.

Bank of Manhattan, Bankers Trust, Chase, Continental, First National and New York Trust, on the other hand, show the largest drop, their average decline being 33.6%.

The last two columns of the table show the current quarterly earnings projected as an annual rate, compared with the present annual dividend rate. In the case of the five banks which report a break-down of earnings, net operating earnings alone are considered and security profits ignored; in all other cases "indicated earnings" have been projected. It will be observed that only one bank, First National, failed to cover its dividend the first quarter of the year, whereas in 1946 it covered it by nearly 30%.

An outstanding situation is that of National City Bank (combined with City Bank Farmers Trust), which reports net operating earnings only 4.5% lower than a year ago. National City alone, however, had higher net operating earnings by approximately 2.5%, viz: $4,542,181 compared with $4,435,852 a year ago, or 73.5¢ vs. 71.5¢; but City Bank Farmers Trust's net operating earnings dropped from $495,683 to $166,569. It is of interest to note the following changes in National City's sources of earnings for the two quarters:

	1946 $	1947 $	Change $	Change %
Interest on loans	3,772,566	4,500,363	+ 727,797	+19.3
Interest on securities	10,175,714	8,988,663	—1,187,051	—11.8
Other operating earnings	2,861,206	4,047,743	+1,186,537	+41.5
	16,809,486	17,536,769	+ 727,283	+ 4.5

The third item is reported to include net earnings of foreign branches, but how large a factor these constitute is not stated.

Total "Current Operating Expenses" increased by $620,954, or 4.8%, from $12,373,634 to $12,994,588. Payroll charges rose from $4,574,245 to $5,395,285, an increase of $821,040, or 18%. This payroll increase was larger than the increase of total operating expenses and appears to indicate a betterment in the bank's overall efficiency of operation.

Interim earnings as calculated from quarterly balance sheets are frequently misleading, and cannot be interpreted as conclusive evidence of a bank's current earning rate. The impression of this writer is that, in many cases, the balance sheets are conservatively stated and that, unless the "prophets of gloom" are correct and business suffers a severe decline, future quarterly balance sheet statements this year may very likely indicate an improvement in earnings.

There are a number of factors in the situation which point to this. For example: there is evidence of an increase in banking efficiency and economy; it is generally believed that the unpegging of short-term interest rates is inevitable; the banks can improve income from their Governments by lengthening maturities; and commercial interest rates, in the opinion of some observers should be raised. It is pertinent to remark that calculations show the average interest rate on the national debt to be heading upward.

Heimann Wants Careful Study Made Before Aiding Greece

Executive of National Association of Credit Men lists eight points requiring consideration before carrying out Truman proposal.

The President's proposal for immediate aid to Greece and Turkey will have such a far reaching effect upon the future of our foreign policy, Henry H. Heimann says in his April Monthly Business Review, that while the decision should take precedence in matters considered by Congress, it should be reached only after full and mature discussion of all the factors.

Henry H. Heimann

He offered the following eight items as a basis for consideration by the average citizen:

"First, we should take our own balance sheet and analyze it carefully to determine our ability to assume these new responsibilities. It has frequently been said that we who constitute 6% of the people of the world produce half of its goods and services. Can this 6% take on added responsibility for the entire world? If they do not, will their own way of life be jeopardized? If they do, will they lose their leadership and end in collapse?

"Secondly, how far-reaching will the demands upon us go? Must we help France, China, Greece, Turkey, England and every other nation which is now denied or finds itself liable to lose the freedoms to which it believes it should have a right?

"Third, is there to be a program of education to help the nations we aid in understanding that the freedom we enjoy and to which they aspire can never be purchased with money? Our own history reveals the shedding of much blood, sweat and tears to gain our position. Are other people willing and determined to earn their freedom and pay the price if given the opportunity to do so? After the first war, the serious mistake was made of introducing a representative form of government in nations where the people were not prepared to pay or work for it. The result was a failure of that type of government without a fair trial.

"Fourth, it is exceedingly important that we carefully evaluate the effect of our decision upon the United Nations Council.

"Fifth, is it a practical plan, or the best plan to attain the objective? Remember that all the desire for freedom will be of little avail unless it is practical of attainment. If we fail through moral suasion and relief measures, are we to force it? If we attempt to force it, are we guilty of practices we now condemn? You need only look at the fate of Finland, Czechoslovakia, Poland and China to realize that the matter of practicality is of importance.

"Sixth, since the philosophy we are fighting has yet to demonstrate its ability to make for a satisfactory way of life, is it possible that its certain failure would suggest our aid would be more beneficial if it were given at a later time? Many people feel that in the end the communistic regime will hang itself and that it is better to give it a bit of rope to that end. As against this, we have the evidence of the ruthlessness of such powers that would tend to support the argument that before they collapsed they would destroy everything and plunge the nations they controlled into inextricable chaos.

"Seventh, how many American lives are involved in enforcing our plan? It is not idle to speculate some may be sacrificed. We may hope not and sincerely believe it is not now intended to use our own people to police the world, but we would be blind to realities if we did not give this probable eventuality our careful thought.

"Eighth, it is well to remember that on the record some of the nations with whom we are dealing have little regard for treaties, agreements or world peace plans. We must look to performance rather than promises.

"It is not intended in the above suggestions to reach a conclusion on this subject. A sound conclusion can only be reached after a full disclosure of all the facts and a careful analysis of all the consequences. It is a matter, I repeat, of great import. It is suggested that there be, so far as possible, a frank disclosure of the means and directions of aid. The manner of presentation to Congress is heartening in this respect.

"Here is a policy, therefore, over which we should not only carefully deliberate, but about which it would not be amiss to pray for divine guidance so that whatever decision we make will stand upon honest, clear thinking and a spiritual foundation."

SEC Drops Charges Against C. Massie & Co.

SEC announces there is no evidence that firm caused Investors group to omit material facts from proxy statement.

The Securities and Exchange Commission on April 11 dismissed proceedings against Charles A. Massie, operating as Charles Massie & Co., New York City. The SEC had charged Massie with wilful violation of Section 14(a) of the Securities Act, and Regulation X-14 in connection with the solicitation of proxies for the annual meeting of security holders of Third Avenue Transit Corp. of New York, held on May 9, 1945.

It was alleged that Investors Group, a proxy soliciting group formed and controlled by Mr. Massie, John A. Kaye and Malcolm W. Armstrong, filed with the SEC and mailed to security holders a proxy statement which failed to disclose material facts and omitted to state other required data.

After holding hearing, the SEC announced the evidence did not establish that Mr. Massie participated in or caused the Investors Group to omit from its proxy statement the material facts set forth in the order for hearing.

Bond Club of N. J. To Have Outing

NEWARK, N. J.—The Spring Field Day of The Bond Club of New Jersey will be held on Friday, June 27, at the Echo Lake Country Club, Westfield, New Jersey.

This annual outing is for members only, and a full day of activities will be climaxed by the serving of a special beefsteak dinner in the inimitable Jersey Bond Club style.

The Field Day Committee is headed by J. William Roos, MacBride, Miller & Co., and includes William H. Boland, Boland, Saffin & Co., Clarence M. Haight, Jr., Tripp & Co., James B. Kirk, Harris, Upham & Co., James F. Musson, B. J. Van Ingen & Co., Foy W. Porter, Estabrook & Co., John J. Ryan, Ryan & Co., John R. Schermerhorn, Milliken & Pell, C. Wallace Smith, Smith Barney & Co.

Phil Gullette Opens

DENVER, COLO. — Philip L. Gullette has formed Phil Gullette, Inc. with offices at 434 South Broadway, to engage in the securities business.

Alfred J. Mitchell Dead

Alfred J. Mitchell, President of A. J. Mitchell & Co., Ltd., Toronto, and a former Vice-President in charge of finance of the Canadian National Railways, died on April 12 at the age of 68.

Mutual Funds

By HENRY HUNT

"Picking the Wrong Stock"

For some reason, it seems to be a lot easier to pick the wrong stock than the right one. About three years ago, when the scales in the fortunes of war were definitely swinging in our favor, we asked one of the senior partners of a prominent stock exchange firm which *one* stock he would select as a long-term holding. His answer was unhesitating: "United Aircraft, one of the largest and most diversified units in the aircraft construction industry, seems to me to possess outstanding attraction either as a 'war baby' or a peacetime holding."

Since 1944, United Aircraft has reduced its dividend rate from $3 to $1 a share, and has declined some ten points in price. Most common stocks purchased at that time would show you a profit today. Some, however, have done worse than United Aircraft. On the other hand, we know of no mutual fund issue that has performed nearly as badly as United Aircraft during the past three years.

While the portfolio diversification of a Mutual Fund does not in itself guarantee satisfactory investment results, it virtually eliminates losses caused by the investor's unfortunate habit of picking the wrong stock.

Selling Cash and Governments at a Premium

That mutual fund investors are willing to pay a premium for cash and government bonds if they like the management is evident from the sales record of Wellington Fund in recent months. *Wellington*, which for more than a year has maintained a cash and government position ranging from 25 to 30% of assets, boasts the largest monthly sales volume of its shares during March in its history. *Wellington's* total assets are at a new peak, close to $40,000,000.

Another sponsor that is doing well is the *National Securities & Research Corporation* whose gross sales of National Securities Series for the first quarter of 1947 ran 19% ahead of the rate for the preceding six months, with net sales up 53%.

For Millionaires Only

In "These Things Seemed Important," published by *Selected Investments Company*, of Chicago, the following paragraph is of interest: "You are a rich man. You see an opportunity to invest $1,000,000 in a venture which should earn 20% before taxes. Pretty good. But the "Chicago Tribune" shows it's really not so attractive under present tax laws. Your new venture company will pay 38% taxes. If it pays you 70% of the remainder in dividends, and if you're in the 70% bracket yourself, you'll end up with net income of only 2.6% on your investment. Not much if you're right. And you could be wrong. So, what's the use?"

That's why tax-exempt municipals sell to yield less than 2% today.

Distributors Group Still Bullish

Distributors Group in its April Investment Report states: "In view of the historical tendency of the market to discount the future, it is likely that the converse may now occur as readjustments are taking place. In other words, just as the market declined when everything was apparently serene businesswise, so may the market very likely look beyond immediate difficulties by going higher when business news is disquieting."

Many stocks appear to offer good values today, but the market won't go much higher until investor psychology changes.

A Deflated Group

Calvin Bullock, sponsor of Aeronautical Securities Inc., has issued a new folder on this fund and comments as follows: "It has been a stormy year, so far, for the aviation industry. The difficulties of manufacturers and airlines have been well publicized. Earnings have suffered; financing problems have been encountered. This has been reflected in the market evaluation placed on aviation securities as a group. . . But there is no doubt that the industry as a whole has a bright future for growth and good earnings ahead. It should progress on its own merits; in addition it must be maintained in healthy condition as a vital part of national defense."

Frequently, the best time to buy into an industry group is when its current earnings are the poorest.

Motors Losing Favor

During the first quarter of 1947, portfolio changes of *Incorporated Investors* of Boston included the complete elimination of its holdings of General Motors and Chrysler. New securities added were: Consolidated Steel, Kennecott Copper, Minnesota Mining and Manufacturing, and Phillips Petroleum.

Eaton and Howard Reports

As of March 31, 1947, *Eaton and Howard Balanced Fund* reported net assets of $26,630,000, up $4,500,000 from a year ago. On the same date, net assets of the *Eaton and Howard Stock Fund* amounted to $1,652,000, slightly under the figure a year ago.

F. S. Yantis Pres. of Illinois Sec. Dealers

CHICAGO, ILL.—F. S. Yantis, President of F. S. Yantis & Co. Inc., Chicago, was elected President of the Illinois Security Dealers Association to succeed Owen V. Van Camp, of Enyart, Van Camp & Co., at the organization's annual meeting April 10. Herbert B. White, of Peoria, was named Vice-President to succeed William H. Flentye, of William H. Flentye & Co., of Aurora.

New directors named were Mr. Van Camp; Boyd J. Easton, Rockford; A. R. Hughes, A. R. Hughes & Co.; L. B. Nay, First Securities Company of Chicago; Joseph J. Rice, Daniel F. Rice and Company, and William H. Sills, Sills, Minton & Company.

Phila. Customers Brokers Elect Officers

PHILADELPHIA, PA. — The Customers' Brokers Club of Philadelphia has elected William H. Arnold, Eastman, Dillon & Co., President. Other officers named were Henry H. Hallowell, Hallowell, Sulzberger & Co., Vice-President; and R. G. Sinclair, Secretary-Treasurer.

Nominations for Gov. Board of NYSE

The following nominations for the positions to be filled at the annual election of the New York Stock Exchange to be held on Monday, May 12, were reported by the Nominating Committee for 1947:

Robert P. Boylan

For Chairman of the Board of Governors: Robert P. Boylan, at E. F. Hutton & Co., for the term of one year.

For seven members of the Board of Governors for three-year terms. (Four members of the Exchange residing and having their principal places of business within the Metropolitan area of the City of New York):

William K. Beckers, Spencer Trask & Co.; Syney P. Bradshaw, Clark, Dodge & Co.; David S. Foster, Pershing & Co.; Joseph Klingenstein, Wertheim & Co.

One allied member or nonmember residing and having his principal place of business within the Metropolitan area of the City of New York, who is a general or limited partner in a member firm engaged in a business involving direct contact with the public:

Ranald H. Macdonald, Dominick & Dominick.

Two members, allied members or non-members of the Exchange, residing and having their principal places of business outside of the Metropolitan area of the City of New York, who are general or limited partners in member firms engaged in a business involving direct contact with the public:

Sidney L. Schwartz, Sutro & Co. (San Francisco); Jay N. Whipple, Bacon, Whipple & Co. (Chicago).

For two trustees of the Gratuity Fund for three-year terms:

Thatcher M. Brown, Brown Brothers Harriman & Co.; Laurence M. Marks, Laurence M. Marks & Co.

For five members of the Nominating Committee for one-year terms:

Three members of the Exchange: Harold W. McEvoy, Winslow, Douglas & McEvoy; Benj. F. McGuckin, Brinton & Co.; John O. Middlebrook, Harris, Upham & Co.

Two allied members of the Exchange:

William D. Dana, Burton, Cluett & Dana; George J. Leness, Merrill Lynch, Pierce, Fenner & Beane.

Now Ross, Low & Co.

The firm name of Rosenbaum, Low & Co., 120 Broadway, New York City, members of the New York Stock Exchange, was changed to Ross, Low & Co. effective April 8, on which date the name of Richard Rosenbaum was changed to Richard Ross.

Horace Dunham Dead

Horace E. Dunham, a former member of the board of governors of the New York Curb Exchange, died suddenly April 12 of a heart ailment at his summer home in Point Lookout, Long Island. Mr. Dunham, whose New York City residence was at 205 East 78th Street, was fifty-five years of age.

White & Co. Now Incorp'd

ST. LOUIS, MO.—White & Company, 506 Olive Street, member of the Chicago and St. Louis Stock Exchanges, is now doing business as a corporation. Officers are Julian M. White, President; L. S. White, Vice-President; and Julian M. White, Jr., Secretary-Treasurer.

Much Activity in Foreign Loan Field

United States position likened to "a department store of finance."

WASHINGTON.—For anyone attempting to keep up with foreign loan developments in the United States these are hectic days. This is indicated by a few headlines culled from news stories in four Washington and New York newspapers over the past weekend:

Dewey Signs Measure to Let Insurance Firms Invest in World Bank

Monetary Fund, Open Six Weeks, Lacks Loan Bid

Peruvian Debts

Italians Hopeful on Big U. S. Loan

100 Million U. S. Loan to Norway Backed

Egypt Asks $100 Millions

Half Billion aid to Korea Next on U. S. Agenda

Wallace Wants $50 Billions Spent to Prevent War . . . 10-Year Outlay by World Bank Urged

Two-Year Foreign Aid Exceeds $16 Billions

Aid to China in 12 Years Put at $3 1/3 Billions

U. S. Bankers Plan to Assist Mexico

Uncle Sam's financial position today reminds one of a big Japanese bank's description of itself as a "department store of finance." It may be interesting to be around when the loans now being made commence to fall due in volume.

Greater Research Urged by Wesley Mitchell

Noted economist cites availability of improved data and techniques for solving domestic business as well as world economic problems. Sees possibility of economics becoming science.

The pressing need for intensified use of modern research techniques to solve problems facing the world economy is stressed by Dr. Wesley C. Mitchell, former Director of Research of the National Bureau of Economic Research and Professor Emeritus of Economics, Columbia University, in a report released on April 13. Better data on needs and resources of the United States and other countries are available than after World War I, and research techniques are more powerful. Yet tasks facing economists are more numerous than ever before.

"More carefully than before must a bitterly impoverished world husband its inadequate resources," says Dr. Mitchell. "The nations that are relatively well off are sharing with the nations whose needs are direst. While instituting relief measures we hope will be temporary, we are striving to develop a world economy that will fitly complement and support world political organization. The United States, perhaps in greater degree than other democracies, faces novel problems of world trade and finance."

Sees Beginning of Economics As a Science

Dr. Mitchell believes that economists as a group have benefited professionally from participation in the war effort. Since the war ended many have left government service and returned to teaching or private business. "Economists will not revert wholly to their old ways," he says. "The practice of thinking realistically. . . . will not be lightly abandoned. . . . Men who think of themselves as theorists will absorb into their work the methods and findings of realtistically minded investigators, while the latter will make such free use of the concepts and procedures of theorists that no one will know on which side of the old line of demarcation he stands. In fine, the years near at hand may see the beginnings of an economics worthy to be called a science."

Recommends Use of Marketing Data

Among recent developments in empirical research, Dr. Mitchell stresses the value of measures of national income and gross national product which are now available. He points out, however, that data for the distribution of income by size, and for international comparisons of national income, are still defective.

Dr. Mitchell believes, on the other hand, that research economists have not always made full use of data available to them. He cites marketing data as an example. "Many marketing campaigns are skillfully planned, pushed with vigor; the results are systematically recorded, and carefully studied. From an economist's viewpoint, this vast and varied effort is an attempt to influence the valuation processes of potential customers. When a laboratory scientist finds out how a process can be changed, he is well on his way toward finding explanations. By analyzing the records of relative success and failure in selling goods, competent investigators should be able to learn much of scientific as well as practical interest about mass responses to different types of appeal."

Volume Celebrates Twenty-fifth Anniversary

Dr. Mitchell's paper is one of twelve published today by the National Bureau of Economic Research in a Twenty-fifth Anniversary volume entitled "Economic Research and the Development of Economic Science and Public Policy." Founded in 1920, the research agency was forced by the war to postpone the celebration, which should have been held in 1945.

Contributors to the volume include Harold G. Moulton, President of the Brookings Institution; E. A. Goldenweiser of the Institute for Advanced Study; Lewis W. Douglas, formerly President of the Mutual Life Insurance Company of New York and now United States Ambassador to the Court of St. James; and Joseph S. Davis, director of the Food Research Institute, Standford University. Foreign scholars who contributed include Alexander Loveday of Nuffield College, Oxford, England; Per Jacobsson of the Bank for International Settlements; Charles Rist, director of the Institut Scientifique de Recherches Economique et Sociales, Paris; Jan Tinbergen of the Rotterdam School of Economics, Holland; and R. H. Coats of the University of Toronto, Canada.

Seasongood & Haas To Admit Townsend

Seasongood & Haas, 63 Wall Street, New York City, members of the New York Stock Exchange, will admit Robert C. Townsend to partnership in the firm on May 1.

Preston M. Marble Is With Merrill Lynch in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Preston M. Marble has become associated with Merrill Lynch, Pierce, Fenner & Beane, First National Bank Building. Mr. Marble in the past was a partner in Marble & Co., New York City.

John B. Cornell, Jr. With Dallas Rupe

DALLAS, TEX.—Dallas Rupe & Son, Kirby Building, announce the association of John B. Cornell, Jr., of New York City with the firm's trading department.

John B. Cornell, Jr.

A specialist in public utility, railroad, and industrial stocks and bonds, Mr. Cornell was most recently with Bonner & Gregory, New York brokerage concern. He entered the the banking business in 1926 with J. P. Morgan & Co., thereafter joining the securities trading division of Hoit, Rose & Troster. He subsequently managed the Railroad Department of Roggenburg & Co., as well as the Trading Departments of Hammons & Co., Inc. and R. M. Horner & Co. His lengthy experience in the securities business has included the operation of his own firm, Duval, Cornell & Company, which engaged primarily in selling securities to insurance companies and other institutional investors.

A Trustee of the Staten Island Academy, Mr. Cornell has been for many years a member of the National Security Traders Association and the Corporate Bond Club of New York. His new connection with Dallas Rupe & Son will further expand the scope of the firm's wholesale and retail trading activities.

Norway to Float New Money Issue Here

The first postwar public offering of bonds in the United States by a European nation is in prospect as a result of the filing with the Securities and Exchange Commission April 15 by the Kingdom of Norway of a registration statement covering an issue of $10,000,000 10-Year 3½% Sinking Fund External Loan Bonds, due April 1, 1957—according to an announcement by the Norwegian Ambassador, His Excellency Wilhelm Munthe de Morgenstierne.

The offering is to be underwritten by a group of underwriting houses headed up jointly by Kuhn, Loeb & Co., Harriman Ripley & Co., Inc., Lazard Freres & Co., and Smith, Barney & Co., with Harriman Ripley managing the books.

Norway will use the proceeds from the sale of the new bonds to increase its United States dollar exchange reserves.

The bonds, which will be direct obligations of the Kingdom, will be redeemable at the issuer's option at prices to be filed later by amendment. They will also be redeemable at par for the sinking fund, which is calculated to retire 34% of the bonds prior to maturity.

At no time in the past has the Kingdom of Norway defaulted in the payment of interest and amortization upon its external obligations except that, during the war, it was not able to make certain payments to holders of its securities in countries occupied by Germany. Also, there were limitations on payments to enemy interests.

Following the invasion of Norway by the Germans in 1940, the King and his government left Norway and ruled from London through decrees until the capitulation of the Germans. While there situated, the government had at its disposal the net profits of the Norwegian shipowners as well as all available insurance moneys received on account of Norwegian ships lost. During that period the equivalent of approximately $480,000,000 was thus transferred to the government. The total expenditures of the government in London were the equivalent of approximately $288,000,000, including interest and amortization payments on Norway's external debt of about $80,000,000. The direct external funded debt of the Kingdom at the end of 1946 amounted to approximately 500,000,000 kroner, or about $100,000,000 at the current official rate of exchange. About 60% is outstanding in U. S. dollar bonds, which is just one-half the peak of the dollar indebtedness of the Kingdom reached in 1928.

The Norwegian gold holdings are deposited almost entirely outside of Norway and are substantially all owned by the Bank of Norway. About 60% are held against the Bank's note issue. At the beginning of the current year they amounted to about $91,000,000, of which over 80% was located in the United States and Canada. The Bank of Norway also held the equivalent of about $45,000,000 in foreign balances and securities, all in U. S. dollars or, in general, convertible into dollars without restriction. The Norwegian Government had U. S. dollar exchange reserves approximating $20,000,000, while the Norwegian shipowners held an additional $28,000,000, the latter being earmarked largely for use in making payments under contracts for merchant vessels.

Canadian Securities

By WILLIAM J. McKAY

The "Key Currency" approach to the stabilization of the world's currencies was and still is the only practical plan for the solution of the universal monetary and commercial problems. The airy Bretton Woods scheme devised by theoretical global planners has failed to meet the basic issues.

Not only in the field of finance and trade but also in the political domain the "league of nations" approach has once again only served to high light existing differences and difficulties. Even the simple problem of the Canadian dollar has not been solved, and moreover has actually been aggravated as a result of the multilateral approach. The Canadian dollar should never have constituted a problem. On the contrary it should have been the lynch-pin between the U. S. dollar and the British pound.

It is still not too late to build again on this sound basis. The existing Canadian technical exchange difficulties have arisen from the Dominion's bold efforts in company with this country to bolster by generous lending the war-shattered economies of Europe. These individual efforts were in the same direction but were not made following concerted planning.

In order to produce adequate results the two countries must work on a joint plan of action. As a preliminary step it is first necessary to put the Dominion's own house in order. Canada can no longer afford to have two rates of exchange, one stabilized at par, and the other left to its own devices at the mercy of remote influences.

The free market for the Canadian dollar has outlived its previous dubious usefulness. Originally conceived as a convenience to non-residents it has since become a source of annoyance and confusion to those whom it was intended to assist. Instead of a relief to the official market and the Foreign Exchange Control Board it now operates to throw doubt on the existing level of the official rate and it has also constituted a detrimental influence on the standing of Canadian Government bonds in this country.

It is no longer a convincing argument to state that this unofficial market is so insignificant in relation to the official market that it can be ignored as a major factor. On the contrary it is the free market in which non-residents operate that is closely observed abroad, and not the official market. With its erratic behavior constantly in the limelight a false impression is given abroad of Canada's economic and financial state.

To correct this situation Canada can readily arrange with this country to re-institute the Hyde Park Currency Agreement or a similar practical arrangement whereby the Dominion would be assured of an adequate supply of U. S. dollars. Canada has the food and goods for export to soft currency countries but the machinery is now lacking for the immediate conversion of such currencies into U. S. dollars. Such an arrangement would also permit the Canadian authorities to bring the level of the Canadian dollar free market in line with the official rate. In this way the world would have at least two obviously sound currencies on which foundation the universal monetary edifice could be constructed. Furthermore the strengthening of the Canadian dollar and the elimination of the wild fluctuations in the free market would raise the level of Canadian Government bonds in this country. Their recent depreciation can not fail to have impeded the issuance of World Bank bonds here and in Canada at the contemplated coupon rate.

During the week interest was centered in the external issues which are now eligible for purchase by savings banks in New York State, but in view of the scanty supply of available bonds activity was not on a large scale. Internals after earlier strength were inclined to weaken with the sharp decline in the stock markets, although following the recent amendment of the Canadian securities regulations Dominion internal bonds are now divorced from the direct influence of movements in stocks.

Freehling, Meyerhoff Form New NYSE Firm

CHICAGO, ILL. — Freehling, Meyerhoff & Co. will be formed effective May 12th with offices at 120 South La Salle Street. The new firm will hold memberships in the New York Stock Exchange and Chicago Stock Exchange. Partners will be Norman Freehling, Irving E. Meyerhoff, Harry Newman, Ferdinand A. Straus, Philip Plesofsky, Willard M. Freehling; and William D. Goodman.

Mr. Meyerhoff and Mr. Plesofsky, both members of the Chicago Stock Exchange, were formerly partners in Irving E. Meyerhoff & Co. Mr. Straus, member of the New York Stock Exchange, previously did business as an individual floor broker. Mr. Freehling, a member of the Chicago Exchange, Willard Freehling and Mr. Goodman were formerly of Norman Freehling & Co.

The Democratic Administration's Accomplishments

(Continued from page 12)

side we made in this period. Our economy has regained and surpessed its previous levels. National production has increased, and we have attained the highest standard of living the world has ever known. Far-sighted, too, was the leadership of the Democratic administration that launched a preparedness program so that when war came, we could set into motion production that startled our friends and confounded our enemies the world over. Under the guidance of Franklin D. Roosevelt, the rapidity of the mobilization of our national resources for war added a new page to the record of American spirit and achievement. At the climax of our war effort, we lost a great leader, but there was not the slightest slackening of our determined endeavor. For Harry Truman grasped the torch of leadership with firmness. He has since carried it high. He brought to the Presidency courage, practical competence, and a national perspective developed by years of distinguished service in the United States Senate.

One principle now guides the earnest efforts of President Truman—and that is to place the welfare of the American people above every other consideration.

The end of fighting found our President, and the Nation, facing problems fully as serious as those of warfare itself. We had to reconvert industry to ways of peace. We had to stage the greatest demobilization in history. The orderly dismantling of our vast military machine, and the absorption of returning service men into civilian life are today recognized among the greatest achievements in all the annals of free people anywhere. We had to guard, at the same time, against the perils of deflation and the threat of inflation. We had to insure a speedy balancing of the budget, and to provide properly for the post-war management of our national debt.

It might be well to remind some people that the administration actively prepared for the transition period, even while concentrating upon the war effort itself. It was feared by many that it would take years to accomplish the re-weaving of our economy into a peacetime pattern. In actual fact, our accomplisments in this respect since VJ-Day have been phenomenal.

Accomplishments

Demobilization and reconversion for all practical purposes have been completed. The war plants are cleared, and the war contracts nearly settled. Industrial production is at new peacetime highs, and the pipelines of industry are filling up. Steel production, electric output, carloadings—virtually all the significant indices of trade and production are at spectacularly high levels.

Unemployment is at a peacetime minimum.

Today, we have a magnificently prosperous America. And certainly, we Democrats can take full pride in that fact, for it has been accomplished under the leadership of Democratic Presidents, guided by the principles of the Democratic Party. As rapidly as was consistent with the public interest, President Truman has done away with the necessary wartime controls over our economy. He prudently seeks to retain controls still essential to our national well-being. He urges continued wise restraint in wages, prices and rents, and in the distribution of those commodities which persist in critically short supply.

Our struggle for economic stability is not entirely won. But the dangers of ruinous inflation have been minimized, and we may have confidence that with the exercise of moderation and good sense, the soaring national production will result in a true and lasting stability. There have been, in recent weeks, significant price reductions in some vital fields, trends that hold promise of an easing of inflationary pressures. In the wake of war, it was inevitable that the country should face pressures for higher prices and higher wages. This, of course, meant labor-management disputes. President Truman's policy was one of fairness, and conciliation, yet one of firmness when the welfare of the Nation was at issue. His courageous actions saved the country from disastrous strikes in rail and coal industries. Yet he was diligent and will remain alert to protect the rights of labor in this time of stress, even as he was diligent to protect the Nation against the impact of industrial warfare.

Fiscal Affairs

Our fiscal affairs provided further challenge to the Democratic administration. There was the problem of liquidating the war machine, of meeting the financial burden of the aftermath of war, of managing our swollen public debt. The President has sought to effect all possible economies without danger to our national security, without injustice to our veterans, and without curtailing the necessary social services to which our people are entitled. The budget expenditures of our government were reduced from a peak of more than $100,000,000,000 for the 1945 fiscal year, to $63,700,000,000 in fiscal 1946. Expenditures for the fiscal year 1947 will be lower than the January estimate of $42,500,000,000. The President has recommended a further substantial reduction, to $37,500,000,000 for fiscal 1948.

This economy was effected during the difficult transition period from war to peace. Billions of dollars in expenditures previously authorized by the Congress were frozen, and recommendations for rescission of this previously approved spending were made to the Congress.

When I took office last June as Secretary of the Treasury, I stated my conviction that it was the responsibility of the government to reduce expenditures in every possible way, to maintain adequate tax rates during the transition period, and to achieve a balanced budget—or better—for 1947. I considered the furthering of the President's program in that respect to be a most important goal for the Treasury Department. I can proudly tell you that we are going to end this fiscal year 1947 with the Federal budget in balance. Moreover, we are going to have a surplus.

I know that you who are here today, share with me the gratification at our having reached this goal of a balanced budget so soon. This accomplishment has been the direct result of the policies of President Truman and the Democratic administration.

The President has placed fiscal soundness ahead of any political expediency. He has strongly advocated a reduction in our huge national debt during this time of high national income. The American people understand the necessity for a sound fiscal program. Prudent retrenchment of government expenditures, along with adequate provision for reduction of the public debt, is the continuing policy of this administration.

Foreign Policies

In the field of foreign political relationships, the President has set a course of tolerant firmness that has won the endorsement of the Nation and of its political leadership.

Support of the United Nations and its various commissions and committees has been a vital part of our foreign policy. At times, progress toward world amity under the charter of the United Nations seems painfully slow, but with full consideration of the great basic diversities of the countries involved, we may be encouraged with our progress along the road to lasting peace.

Our foreign economic policy has been one commensurate with the position of world leadership that of necessity falls to the most powerful nation in the world. This administration has played a most important role in the organization of the International Monetary Fund and the International Bank, in which institutions we confidently expect to assume a major part in world reconstruction and development, and in the promotion of a prosperous world trade and monetary stability. We have met the more urgent relief needs of the liberated countries through such media as UNRRA, and the more pressing reconstruction needs of foreign countries with credits of the Export-Import Bank and with direct credits to Great Britain and the Philippines. This assistance has also served to stimulate greatly our foreign trade. Through the International Trade Organization, and through reciprocal tariff negotiations, we are making a further contribution to a healthier world economy, which in turn helps to insure a prosperous United States.

The President in recent weeks has taken a new and most important step in implementing our world leadership. Recognizing the vital concern of the United States in the cause of freedom everywhere in the world, he has asked the Congress, and the American people, to support a program of assistance to Greece and Turkey.

The United States has contributed its wealth, and its blood, to the winning of military victory. We must preserve the fruits of that victory, or our struggle will have been to no purpose. Just as the President has resolutely placed this country against the forces of totalitarianism abroad, so at home he has stood unalterably against the exponents of ideologies subversive in character, and foreign to our way of life. And in these endeavors, a great Democratic leader has succeeded in giving to our country a conspicuous unity of ideals and purpose.

We can take honorable pride in the record of the Democratic Party. But, we cannot rest on any past glories or achievements. What is accomplished in the immediate present, and in the future, will determine the strength of our party. Let us then dedicate ourselves anew to those principles upon which the Democratic Party has become great, principles, which in the final analysis are based on the premise of the greatest good to the greatest number. In these Jefferson Day rallies throughout the country, Democrats turn with a renewed pledge of faith toward the man who carries out standard toward that goal. We gratefully and enthusiastically say: "Thank you, Mr. President."

Abbott, Proctor Co. Admits Hartshorne

Abbott, Proctor & Paine, 14 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, have admitted Robert D. Hartshorne, a member of the New York Stock Exchange, to partnership in the firm. Mr. Hartshorne previously did business as an individual floor broker.

Carroll B. Haff Dead

Carroll B. Haff, a member of the New York Stock Exchange and a partner in Abbott, Proctor & Paine, New York City, died at his home at the age of 55.

Roots and Fruits of Boom

(Continued from page 2)

is the real meaningfulness of that fact.

Perhaps the proper point to start an analysis of the boom is with its origin. I think the immediate war origin of the boom is far better understood in America today than were the postwar inflationary booms of previous times. Therefore, I shall take only a few moments to review it. In such a review I find it helpful to distinguish between the physical and the financial factors that are involved, although the two are, of course, closely tied together, each influencing the other.

Physical Basis

When a nation goes to war its major purpose is to win it. In terms of physical things, this means that it must divert much of its manpower to the waging of the war and much of its remaining manpower to the providing of the materials of warfare. When, however, large proportions of its manpower are transferred from peacetime pursuits to prosecuting war, the output of goods for non-war purposes must relatively decline. The decline tends to be concentrated on certain types of goods. They are those durable goods of which the nation already possesses a considerable stock, further additions to which can be postponed because those already in existence can be made to last a little longer. They are such things as consumers' houses and house furnishings, automobiles, clothing and the like. They are industries' plants and machinery, especially those not needed for producing war goods. They are the public's roads, schools, buildings, equipment, canals, parks and other projects—except, again, as they are needed to prosecute the war. In wartime we make these things last longer or do without them—we have to if we are to wage the most effective war.

This is the central, physical fact about war that is of economic significance to postwar boom and depression. It means that when the war is won there are big backlogs of demand for these goods. The demand is one of the most assured demands in economic life. It is based on people's lack of things which they are accustomed to have, know how to produce, are sure they want, to which they believe they are entitled and for which they have the money to pay.

When the war is won it is wholly natural that the people should turn their hands to making good the shortages accumulated during the war in peacetime durable goods.

This process of shifting back into the production of peacetime goods has come to be called "Reconversion." That is a satisfying word, but it hides as much as it reveals of what really happens. The truth comes out if we ask: Reconversion to what? Reconversion to a normal, peacetime distribution of labor and resources? Certainly not! It is, instead, transition to one of the most abnormal situations, conceivable in peacetime. This derives from the simple fact that there is a great shortage of production in a big segment of economic life. The conversion swings far past any point that could be considered normal in order relatively to concentrate productive effort in the areas where activity was deeply sub-normal during the war. Reconversion amounts, then, to a transition from deeply *sub*-normal production of peacetime durable goods to a highly *supra*-normal production of them.

The significant and often overlooked fact is that return to normal distribution of manpower and resources, instead of being behind us, remains ahead of us.

In this connection, please note that the shifting of production from peace to war goods has behind it all the imperatives of a war of survival. Remember, also, that the swing back into abnormal production of peacetime goods has behind it, as I have noted, the most insistent imperatives of peacetime life. Then note, lastly, that the final transition to normal has no such imperatives at all behind it. When shortages accumulated during the war have been made good, and people have been provided with relative abundance instead of scarcities of durable goods, a redistribution of resources and manpower is then required to provide for the maintenance and expansion of production in *all* areas of economic life. No one of these areas necessarily represents compelling demand, since most people are comparatively well supplied at that time with customary goods and can be quite choosy about additional accumulations.

I think there is substantial evidence to support the view that failure to make this third transition historically represents the onslaught of the long, dreary depressions which have come to be known as secondary post-war depressions. The long depression of the '70's was the secondary post-war depression following the Civil War, and the long depression of the '30's, from which we were pulled out only to fight World War II, was the secondary post-war depression following World War I.

Financial Basis

So much, then, for the physical basis of the boom. Consider, next, the financial basis. This is not so easy, for the economics of money is obscure to most people. Yet matters pertaining to money *must* be comprehended if there is to be judicious thinking about causes, controls and consequences of inflationary boom. In fact, were it my habit to indulge in admonitions, I would say that the American people had better find out about money—and quick!

That which people use to pay for things they buy consists of their coin and paper currency in hand and their check deposits in banks. These add up to a certain number of dollars which is what I call the money supply. This is the item usually tabulated in monetary statistics under the caption, "Total demand deposits adjusted and currency outside banks." Most people come into possession of some of this money only by selling their competitively acceptable goods or services to others. The supplying of goods and services is their method of acquiring dollars. If that were *always* true for *everybody*, America would be rid for always of inflationary booms and their reactionary busts. To the extent that this is *not* true America has a boom-and-bust money system.

"Honest" Money

Thus suppose no one could get money to spend except by concurrently selling goods or services. Then it follows that the money each one gets to spend in markets equals the goods or services he supplies to markets. Hence the total of goods and services going to markets is matched by the total money going to market. There is balance. This is true even if some lend or give their money to others, for the lender takes himself out of the markets to the extent that his loan enables the borrower to enter them. Money would then be a medium of exchange for goods and services—and that only. It would also meet my personal definition of "honest" money because each person could then be sure that with the money he got from selling his services or goods he could obtain, over time-spans, equivalent goods and services of others. The buying power of his money could not be taken away from him during the periods he held it; and money contracted to be received in the future would represent buying power over goods approximately equivalent to that currently relinquished in entering into the contract. This would be the kind of money that gold would be in a community in which payments were exclusively made by its physical transfer and the total supply of which could only be increased very slowly, if at all, by its mining.

In this sort of situation the prices and costs of some goods and services in markets could go up while others went down, reflecting shifts in customer preferences, inducing corresponding shifts in production. These would be desirable. They would represent the competitive markets efficiently at work, keeping production continuously and closely adjusted to the shifting demands of a nation at work and progressing. Prices in general could even trend gradually downward, reflecting technical achievement in the efficiency of production.

Interest rates on loans between members of the community could also be expected to fluctuate in continuously and flexibly balancing the eagerness of some to get money to spend or invest against the willingness of others to forego current consumption in favor of later larger consumption. And this too would be good, for it would be part of the main point which is that *through it all the over-all balance between money coming to market and goods coming to market would be substantially maintained.* There could be no such thing as inflationary boom in prices, profits and wages *in general;* nor could there be reactionary deflation and unemployment. That can only happen when the over-all amounts of money coming to market exceed or fall short of the goods and services coming to market—when the balance is destroyed, instead of maintained. It is as simple as that in principle.

In practice and in America it is not, of course, a purely mechanistic matter; psychology is important. America has learned how to meet its basic living needs with smaller proportions of its manpower than any other nation. A substantial proportion of expenditures is thus optional rather than obligatory. People cannot spend money unless they have it to spend; but, having it, they do not, in America, have to spend all of it to live to the extent required of people in other times and places. America is thus subject to psychological magnification of unbalance in markets. That only makes the preservation of basic balance the more important.

I have sketched this brief word-picture of an economy functioning without boom or bust under what I call "honest" money for three specific reasons:

The first one is that I suspect a large number of people of thinking that this is the kind of money system we actually have in this country.

The second one is that, although there is nothing in our laws to prevent our having substantially that kind of money if we want it—a simple directive by Congress to the Federal Reserve Board would almost be sufficient—we distinctly do not have that kind of money now; nor have we had anything closely resembling it in functioning since the beginning of World War I. And, since that time, we have had the biggest booms and busts of our grown-up life as a nation.

The third reason is more important to my present purpose of examining the financial basis of the inflationary boom we have on our hands. It is that we need some common ground of understanding, or benchmark of reference, against which to cast the financial developments which engender or permit inflationary boom and warp the economy away from the type of one I have described. We need to know from where we start in order to observe how far we have got.

Inflation and Deflation of Money

As I have already intimated it is, in a going economy, arithmetically impossible for prices *in general* to advance in an inflationary way if people can get money to spend in markets only by simultaneously putting goods into markets to be bought. That way the goods always keep up with the money and over-all prices cannot shift very much. It follows, then, that only when extra money is both created and poured into markets does the amount of money coming to market exceed the amount of goods, with the resultant bidding up of prices in general which we call inflation. The analysis of the financial basis of inflationary boom thus comes down to, first, a consideration of how and why extra money is created and poured into markets; and, second, an examination of consequences demonstrable by close reasoning and verified by historical record.

Extra money is created by a process that is the modern equivalent of the money printing press. It depends for its functioning upon the American habit of paying most bills by writing checks against demand deposits in commercial banks. The deposit, in a gold standard country, is the bank's promise to pay in gold, or something readily convertible into gold, if called upon to do so. Since everyone expects that the bank would pay if called upon and allowed by law to do so, these liabilities, or deposits, are themselves used as money. We transfer them to each other by writing checks to pay for the goods and services we get from each other.

Everybody knows that one way for a check deposit to come into existence is to take coins and paper money, or checks drawn in one's favor, to the bank and "deposit" them. Not everybody knows about the other way, which is the one significant to our purposes. It is for the bank to trade promises with its customers. A borrower gives to the bank his promise to pay in the future (with interest), in exchange for which the bank agrees to pay the same amount to the borrower at once. The bank does this by instructing its bookkeeper to set up in the records a deposit in favor of the borrower. And so a deposit comes into existence that was not there before. This constitutes brand new money against which the borrower can draw checks and pay for things like any other depositor.

Please note especially that this promise of the bank to pay—this deposit which its owner can spend in the markets—was *not* secured by the owner through concurrent and equivalent contribution of acceptable goods to markets.

The reverse operation of extinguishing deposits should be equally observed. This happens when a depositor draws a check to pay off his loan to the bank. It results in a canceling out against each other of the bank's deposit-promise-to-pay-to-the-customer and the customer's promise to pay to the bank. Please note that in this case the deposit, presumably secured by selling goods or services in the market, cannot go back

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Securities Salesman's Corner

By JOHN DUTTON

One of the fundamentals of successful salesmanship is KNOW YOUR LINE. In fields of salesmanship other than securities, it is essential for a salesman to understand how the product he is selling is made, what it can do for his customers, its advantages over other competitive products and how his customers can obtain maximum advantages from its use.

When you apply this to security salesmanship you may go into the fields of security analysis and you will find out that it is of vital importance in building and keeping a clientele, that you know which securities you should offer to clients who have varying needs. This can be subdivided into general headings such as: (a) Those whose primary need is safety of principal and continuous income; (b) those who can assume greater risks and who are best served by speculations for capital appreciation; (c) combinations of the foregoing two groups.

There are many other forms of investment besides securities, such as real estate, commodities, oil royalties, building and loan associations, life insurance, savings banks, postal savings deposits, government bonds and cash. There are advantages in each form of investment and all have their place. A good securities salesman places his customer's welfare first. He doesn't knock other forms of investments. For example, there are times in the business cycle when cash is a preferred investment. The security salesman who advises his customer to convert stocks into cash because he believes that the general price level of securities will decline is building up his business for the future. THE SECURITY BUSINESS IS NOT A DAY TO DAY, OR WEEK TO WEEK BUSINESS—RESULTS MUST BE JUDGED OVER A PERIOD OF YEARS. The salesman who then advises the conversion of cash into government bonds is also doing his customer a good turn because he is providing a source of income while waiting for a more promising time of reinvestment for these funds. He is also protecting his client against entry into the securities market at an inopportune time if these funds are in the securities rather than cash. CASH BURNS SOME PEOPLE'S POCKETS.

When it comes to advising your customers how to obtain maximum advantages from their investments in securities, the field is wide open for salesmen with ideas that are based upon sound fundamentals. Some salesmen say "ask for a list of holdings." That is the correct idea but you have to show your prospect the benefits he may be able to obtain from an analysis of his holdings. This is how you do it. Show your prospect how to increase income without sacrificing security. Build up quality where such is needed. Place emphasis upon capital gains if this is called for. A list of securities is a confidential matter to most people. It is no wonder that so few people do not wish to hand one over to any salesman who might ask for it.

In order to build up an investment account you have to know: What an investor needs and what are his interests. After this is determined you can make suggestion for supplying these needs. By doing this you obtain lists and you can do it without using high pressure. After you have explained to your customer that each security which he owns has a definite place in his investment program, changes in individual securities become an automatic procedure. The suggestion to sell security A, and buy security B, no longer starts a controversy as to why one security is more attractive than the other BUT SHOWS WHY A WEAK SPOT IN THE LIST AS A WHOLE SHOULD BE STRENGTHENED AND A STRONGER SECURITY PUT IN ITS PLACE. Selling out 25% of an entire list to put the proceeds into some very high grade temporary investments at a time of uncertainty then becomes a logical step connected with the longer term preservation of capital. These things are the very heart of a progressive investment program. If we can sell practical ideas to our customers we can count upon a sustained volume of business even in today's very uncertain times.

Roots and Fruits of Boom

(Continued from page 25)

to market to buy things because the deposit has been extinguished.

By this process of creating and offsettingly extinguishing check deposits, commercial banks perform a vital function that is substantially equivalent to, but inaccurately described as, lending other people's money. As one man pays off his loan to the bank a new loan to another is made. For commercial banks to perform this function they have to have the power to create and extinguish deposit-money.

But *if*—and it is a very important "*if*"—a bank creates deposits and it or some other bank is not simultaneously and equivalently extinguishing deposits then two inescapable conclusions arise which are as important as they are generally unobserved by most people.

The first one is that to their useful functions of acting as clearing houses for payments and as agents for what amounts to lending other people's money, the banks have added the function of creating new money without goods to match it. If, on the other hand, the banks are retiring more deposit-promises-to-pay than they are creating they are extinguishing existing money needed to balance existing goods offered in markets. Let me add instantly that this conclusion is not made in derogation of commercial banks or bankers. Banks, like other enterprises, have to compete to survive. They are powerless to control their functioning in this respect. They, too, are victims rather than originators of this blowing up or collapsing of the money supply. If there is blame to be placed it does not fall on the commercial banks.

The second important conclusion is that when the banks are employed either to create or to extinguish money on net balance, then the balance between money going to market and goods going to market tends to be destroyed. The road to inflation or deflation is then opened.

Wartime Inflation of Money

With this money mechanism in mind, the central financial features of this inflationary boom can be pretty quickly stated. The first feature is that during the war the government made extensive use of the printing press function of the commercial banks in order to get money to spend in paying wartime bills. It did it by printing promises to pay in the future—that is, bonds—and lodging them with the commercial banks in exchange for deposits currently to spend, in the manner I have just described. The result was a tremendous increase in the supply of money. It rose from $33 billion in 1939 to $110 billion recently.

This is a monetary inflation of historic proportions. We have no modern parallel for it in this country's records. Many economists excuse monetary inflation during war as an emergency measure. Others condemn it. Virtually all of them recognize it as one of the most cruel, unjust and hidden forms of taxation with long-lasting evil aftermaths. That is controversy with which I am not here concerned. My point is that we are confronted with a significant fact dispassionately to be recognized in analyzing the boom.

A second, and I think unique, financial feature in the boom is that after the government had got the money and used it to pay its bills, it actually succeeded in preventing people from re-spending substantial parts of it in markets by imposing price and ration controls and by making psychological appeals. This maintained something of a fiat balance between goods and money coming to market — and hence control over prices. But since there were no goods to match the unspendable part of the money and never will be—they were taken by the government and used up or given away in fighting the war—the controls served to hide but not to change the extent of dollar multiplication and depreciation involved. It is impossible for the held-back money to come into markets nowadays and get goods without causing now much of the bidding up of prices which (aside from intervening increases in productivity) it would have previously caused if it had been freely respent when first issued. This is true no matter how greatly we increase current production, for that production by itself generates enough income in the way of payrolls, dividends, rents, etc. to clear the markets. The extra money will always have to compete with buying that is already sufficient at the given price.

This presents a puzzling question to those who would interpret the financial aspects of this boom. It is the question of how much of the held-back money has come and is yet to come to market. The question is rendered more noteworthy by the fact that increases in the supply of money have slowed down or disappeared in recent weeks even though the door to further increases remains wide open. Yet at the same time prices have continued to rise, indicating a generally greater availability of money than of goods in markets. The identity between the creation and the spending of new money in markets has been broken, thus leaving to conjecture how much of previously created money is yet to find its way to market. Since there are no reliable and convincing precedents I can only give you my guess from an analysis of the monetary and income statistics that there is still a lot of it to come.

The third significant financial feature of our inflationary boom is that the "easy money" policy, as it is called, of permitting the continued expansion of the money supply, is still being continued as this is written. Virtually complete power to check the inflation of the money supply lies with the Board of Governors of the Federal Reserve System. The reasons for the policy must, therefore, be sought there. Others can only indulge in conjectures. I have two conjectures. The first one is that it is perfectly human to be fearful of being blamed for stopping an inflationary boom in which everyone ssems to be happy, even though, where extensive monetary depreciations have occurred in the past, it has been the one who stops them who is finally acclaimed as hero, and the one who started them who is blamed as villain, rather than vice versa.

My second conjecture is that to stop the money inflation would cause government bonds to decline in price somewhat. People, not being able to get new money so easily at banks or having to pay higher interest costs if they did, would sell their bonds to each other at lower prices when they tried to get money to spend. This would mean that government bonds coming due and having to be re-financed would have to carry higher than the present artificially low interest rates. This would mean that slightly higher taxes would have to be levied to pay the added interest cost on new issues. In the meantime, the authorities are trying to reduce taxes. If this be a correct conjecture, then we should recognize that the decision made is not just an all-by-itself decision not to collect more taxes from people to pay back to people as better interest on their bonds. It is also decision that, to the extent continued monetary and price inflations are involved, the bonds when they are finally paid off will buy fewer goods. The $100 bond and its accumulated interest cashed in now will already buy only about four-fifths of what it would in 1940.

"This Time It Is Different"

So much, then, for the physical and financial origins and bases of inflationary boom. One's interest next turns naturally to the question of whether the boom has to come to an end and, if so, what then. If we are to get the answer by reference to historical precedent it is easy: All inflationary booms have ended. Their ending has been attended by economic disruption and maladjustment. In the case of the bigger and better booms and busts there have frequently been social disturbance and institutional change sometimes reaching the proportions of revolution.

There is another facet of the history of inflationary booms that to me is almost hypnotic in its fascination. It is that always they seem to have been attended by popular rationalization to the effect that "This time things are different and so we can have the advantages of inflationary boom while escaping the consequences." This we-can-have-our-cake-and-eat-it-too philosophy has something so insidiously seductive and so destructive of reverence for the lessons of history about it that it seems that nearly every generation just has to learn all over for itself in the same old hard way that monkeying with printing-press money is playing with economic and social dynamite.

Analogous rationalizations and proposals, buttressed by hope, are abundantly present today. There is, for example, the frequently heard postulate that we are a mature economy. It is proffered not only as justification for but as necessity for various forms of government controls over money and other things supposed to be beneficial. Then there is the we-must-not-rock-the-government-bond-market fetish. There are also various groups of earnest and sincere business men proposing full employment guarantees in terms of incentive taxation, compensatory public spending, functional finance and various schemes to freeze government bonds into commercial banks which verge on their partial repudiation. There is urging that inflation be hidden at sellers' expense and buyers' benefit by artificially holding prices below competitive levels for which I find the amusing analogy that to keep the tub from overflowing it is better to drink up the water pouring into it than to shut off the tap. By some it is even deemed almost sacrilegious to find fault with the picture or challenge capacity to have our cake and eat it too. Why, I even find myself hopefully wondering whether it would not be possible to escape, this time, the consequences of notable boom such as the factual evidence and my own eyes inform me, however reluctantly, we are now experiencing!

What one does *not* hear is general resolve to obtain for ourselves "honest" money and stick to it through thick and thin. That resolve seems to come, if it comes, only after the hard consequences of not having hard money have been demonstrated anew to the new generation.

Under Cover of the Boom

There must be something that goes on during inflationary boom that sets the stage for its aftermath, but which, being hidden from ordinary observation and measurement, permits people to view and tolerate the presence of boom with present delight rather than foreboding fright. I think there are such things. They are in the nature of production, price, profit and wage maladjustments. They are costs that are deferred but real; they are costs that are current but whose disclosure is deferred. They are misconceptions and deceptions of who gets what and they all tend to be obscured in superficial satisfaction in an over-all picture of apparently prosperous production and employment. I think it worthwhile briefly to note some of these things that lie beneath the surface of boom.

Go back, for a moment, to the hypothetical economy in which people get money to spend only by concurrently supplying acceptable goods to markets—or by borrowing it from others who got it that way. Then suppose that someone comes into the market with newly printed money and buys things. Then see what happens: In terms of real things, of course, the new buyer gets something for nothing—that is why we have laws against private counterfeiting. He gets the goods by bidding prices up so that the money of others fails to cover the purchase of goods produced by the amount of the new buyer's taking. But that is only the beginning. The prices and apparent demand for the goods taken by the new buyer improve in the eyes of their supplier. He then has bigger profits. He is able to pay higher wages and prices for what he in turn buys, thus pulling workers and materials away from other uses to supply the synthetically enlarged demand for his product. His larger profits make it possible and seemingly desirable for him to increase investment of savings in larger plant, inventories and working capital.

But please note that this shifting of manpower, materials and capital is based on synthetic demand—on the entrance into market of new money not matched by goods. The shifts in production and investment are dependent for their validation on a continuing supply of new money. That is why starting an inflation is like catching a bear by the tail.

When the supplying of new money stops—and sooner or later it always has to — the demand stops; the additional investment is proved to have been wasted, the inventories to be excessive. The supplier reduces his employment and purchases from others. Thus unemployment spreads.

There are numerous other maladjustments that develop under cover of inflationary boom. Incomes do not rise evenly. There are great groups of incomes which are relatively fixed or slow moving. They include those of pensioners, of life insurance beneficiaries, and the incomes of educational and charitable institutions based on investment for interest return of donated funds. There are the incomes of the "white collar" groups, such as school teachers, whose situation has recently had startling illustration in school teachers' strikes against constituted civil authority. As agricultural and industrial incomes rise and their cost is reflected in prices, these groups are blocked out of their customary buying of the products of other groups. Thus channels of distribution are warped and wrenched.

There are deceptions involved for both investors and workers which result in the unwitting consumption of capital through over-estimate of real profits and wages. Thus corporations count as costs, and reserve out of sales as depreciation, the amounts of plant and equipment deemed to have been used up in the year. But they measure it in terms of the *original* cost of the items. Later on when they come to replace the items they find that they have not reserved enough to cover the replacement at the inflated prices. They discover they have been hoaxed on their real profits and have to go into debt to banks to get more dollars. Commercial, industrial and agricultural loans of weekly reporting member banks have increased a record-breaking 46% in the past year.

Or take industrial labor—it also discovers that substantial segments of its wartime "gains" and savings turn out to have been a hoax. Thus, although its weekly wage advanced faster than the controlled cost of living did during the war, the wage could not be fully translated into real things wanted because the goods were not there to be had. When, after the war, workers try to exchange their money savings and current wages for real things they find that the extra money has bid up the prices and much of that which was thought to be savings or gain is not there. They were, in reality, subjected to taxation for which the extra money they were allowed to hold was a receipt, not real purchasing power. The belated discovery of these hidden costs is not pleasant to either management or labor; and it is not surprising, therefore, that one of the fruits of inflationary boom is management-labor controversy.

There is, in fact, a general deception inherent in an artificially low interest rate policy with respect to the extent of real savings and who is benefited or hurt by it. Consider, for example, who are the real lenders in America. Many people would assume them to be the so-called wealthy people. But there are some $50 billion of savings bonds; the investments of life insurance companies amount to another $50 billion or thereabouts; time and savings deposits in banks account for approximately $50 billion more. Then there are the untabulated funds invested at interest upon which pensioners and many charitable and educational institutions are dependent. The people involved would scarcely be classified as "economic royalists." It is, indeed, the "little folk" of America who provide its interest-bearing capital. The so-called "capitalists" have their wealth in property and equities and, aside from government bodies, they are, either directly or indirectly through corporate enterprise, the principal borrowers—not lenders.

When extra money is supplied to hold interest rates down and push prices up it is these "little folk" who are hurt—and in three ways: First, their interest income is reduced in dollars; second, the dollars will buy still less because of higher prices—these two combine to squeeze down their current savings margin in dollars; and third, their previous dollar savings are evaporated in terms of real things because, when their dollars are returned to them, they will buy less than they would when first saved and loaned. The borrowers, on the other hand, are advantaged, first, by being able to get money at artificially low rates and, second, by being able, later on, to pay off what they have borrowed in cheapened dollars.

In the meantime, the issuing of new money and indebtedness can be used by statisticians, if they desire, to make it appear that savings are increasing instead of being undermined. Each time, for example, that a new billion dollars is issued it belongs to somebody and so it can be said that savings have increased a billion dollars. If they also add in the billion dollars of bonds on which the money was based, they can make the savings appear to be two billion dollars. Thus the easy money policy can effect the hidden consumption of real savings while appearing to do the opposite. It can seem to benefit the "little folk" while accomplishing the opposite.

There is one further phase of inflationary boom worth noting because it is an element often responsible for endorsement of inflationary or "easy money" policies. As prices increase it becomes possible to re-hire disemployed workers at unreduced dollar and cents wage rates. This is because, in terms of real things, the rising prices really constitute a relative wage rate reduction, often unrealized by workers. The wage rate when it is too high serves to price workers out of markets, just as goods can be priced out of markets. But the wage rate as a dollar and cents figure is institutionally highly resistant to downward readjustment. Hence there is always public temptation to accomplish its relative reduction by the indirect inflation method as a means of bringing about re-employment. What people have to ask themselves is whether the boom and bust method of adjustment, with its other consequences to the economy, is really preferable to the direct dollar and cents adjustment, when unemployment is present. If the inflation method is adopted it should further be noted that it will not work as a means to re-employment if the wage rate is institutionally advanced as fast as the inflation proceeds. This was abundantly illustrated during the 1930's. Unemployment was as great at the end of the decade as at the beginning despite great "pump-priming" during the period.

After the Boom

I have wondered why it is that when the boom is over it has not seemed historically possible quickly to shift manpower back to the condition where people *do* produce things competitvely acceptable ot each other in markets and *do* get their money to buy each other's products exclusively from that production — in short, why cannot the maladjustment wrought by inflation be readily reversed and balanced economy quickly restored?

Part of the answer is that by reason of hidden consumption of capital and misdirected investment, we come out of the boom short of the right distribution and maximum amount of the tools of production needed for full employment at high wages in a balanced economy. The capital that was over-invested, for example, in order to produce for the boom's synthetic demand, would have been better invested elsewhere. **Lacking these tools we have to get them by consuming less, saving more and widening profit prospects to attract investment in them. This means that costs have to come down and, since costs are only the other side of income, it means that incomes have to come** down too. Farm incomes and profit incomes come down fast, but wage costs—which is about three-quarters of all costs—is very resistant by reason of wage rate rigidty and so its reduction takes the form of unemployment.

Another part of the reason is that in the course of inflationary boom, bank created money often tends to be based on customers' notes secured by commodities or collateral the prices of which are rising. When the boom is over and prices start down, banks, being fearful that the value behind the customers' obligations will no longer cover them, are competitively compelled to require their customers to repay their loans. This compels customers to sell the commodities or securities on falling markets to get the money to pay off their loans—the deposits thus being taken out of markets and extinguished by the process reverse to their creation. But the compulsory selling speeds prices downward thus putting other similar loans "under water," and so, like a row of dominoes, a vicious spiral of deflation and money extinction gets started. These vicious spirals were notable in the deflations beginning in 1920 and 1929. They increased the magnitude of the readjustments in prices, profits and wages to be made to restore a balanced economy. Deflation may be the consequence of inflation, but it is not its cure. The only cure I know for deflation is not to have the inflation out of which it is bred.

Guide Posts

In discussing this inflationary boom, its origins and evolution, the causes and the consequences, there is always one question that comes up. It is the question of when it is going to end. That is a question about the answer to which I do not believe that any one is wise to be dogmatic. Although there are powerful and compelling similarities between the inflationary booms of different times and places, each boom also has its differentiating characteristics. I have indicated the one that to me seems most unique with respect to this boom. It is the presence of previously created and held-back money yet to come to market, but in amounts not readily measurable. Instead, then, of trying to time the boom's top in terms of precedents it seems preferable to note the major development which would indicate its approach.

That development is, of course, one which derives directly from the definition of inflationary boom as extra money going into markets. The boom—certainly its inflationary aspects—will be over when the flow into markets of extra money ceases. The flow is coming from two sources: There is the coming to market of new money previously withheld from the wartime inflation; and there is the continuing freedom of banks and borrowers further to expand the money supply at artificially low interest rates. The control of the latter lies within the discretion of the monetary authorities, as, indeed, does discretion to contract existing money supplies to offset the coming to market of the previously held-back money.

Roots and Fruits

I come now to a concluding comment on the roots and fruits of boom. One root of this boom is war. If we wish to escape having to live in a boom and bust economy, then I think we must recognize that the first requisite of stabilized and prosperous improvement in living scales is peace and the enduring prospect of peace.

The other root of this inflationary boom, and I think of all inflationary booms and busts, is resort to the equivalent of the money printing press, instead of to the competitive sale of goods and services in markets, as a means of getting money to spend. If one does not like the idea of boom and bust money then it is human to try to find some one on whom to place the blame for its presence. In such a search it is easy to place the finger on the government or the monetary authorities or the banks. But I have no desire whatsoever to collaborate in that kind of a selection of a "goat." It is too easy and I do not think it is quite honest. If people think they would like to have an inflationary boom, regardless of consequences, then no one can blame these institutions for yielding to the temptation to give them one. They are servants of opinion in these matters and should be in a land of freedom.

I think the ultimate truth is a little different. It goes something like this: The roots of inflationary boom are public ignorance about or indifference to the meaning of honest money and the means of maintaining it; the fruits of boom are injustice, wasted resources and economic maladjustment while it lasts, and deflationary depression, unemployment and social unrest when it is over.

A Balanced National Budget

(Continued from page 3)

weighed, the number of pages, and so on. The budget bureau did not produce so big a book just to be impressive. Its size reflects the great scope and complexity of the Federal government. There are hundreds, even thousands, of Federal administrative units, large and small. Perhaps all were necessary during the war, despite the duplication. The Jap spy reported, you remember, that it was no use to attempt a quick end of the war by bombing Washington, because we had two of everything. We certainly do not need two of anything now, and there are many agencies which should be completely closed up. This is a "must" job for Congress if we are ever to get the Federal spending down to a reasonable level. As long as the agencies exist, the budget will contain some recommendation for their support.

There has been a three-way clash over fiscal policy in the present Congress. The three angles are: reduce spending, reduce taxes, reduce the debt. If it were possible to operate government according to straightforward economic principles, all of these things could easily be done. But government is seldom operated in that way. Much of our trouble can be laid to political expediency.

The key to the situation is the spending. It is impossible to have any reduction either of taxes or the debt, unless we can reduce the budget to a sensible level. Some recognition of this fact occurs in the Legislative Reorganization Act of 1946, which required the taxing and spending committees of both Houses to produce, by February 15, a "legislative budget." The term is not accurate, for the joint committee did not, and cannot, produce a budget in the true sense. It announced a total of expenditures, but the two Houses differed, in their separate votes, on what this total should be for 1948, and there has been a long delay in adjusting the difference. In any case, the total agreed upon is in no sense binding, and it is entirely possible that the authorized spending may exceed this total. Its only effect, if any, is a moral one.

Aside from the congenital and incorrigible spenders, every one wants to see taxes reduced and the debt paid off. It is my firm conviction that both of these ends can be achieved, provided we live right and make our government live right. Let us review the situation briefly.

Reduce Spending

As I have just said, the key to our fiscal log jam is the size of the Federal budget. Many people were shocked that the President's budget for 1948 was as high as $37.5 billions. The Committee on Postwar Tax Policy published an outline budget for 1948 with a total of $31,577,000 shortly before the joint committee agreed upon and reported its total of $31.5 billions. This total seems entirely feasible. For 1949 the Committee on Postwar Tax Policy suggested a budget of about $25 billions, and for later years it advised that the total be set even below that figure.

Every category of expenditure in the President's 1948 budget is open to challenge in greater or less degree. The two functions which have evoked most controversy are (1) national defense, and (2) foreign relief and related commitments. Uncertainty over these requirements may be one reason for the delay in adjusting the difference between House and Senate legislative budget figures. A third factor which has been emphasized by the President in the influence of the budget total upon the inflationary situation.

Every one wants adequate defense and no one wants to impair national security by undermining the defense establishment. Our difficulty is that we have no authoritative judgment as to how much we really need to spend to attain this security. This difficulty is not confined to defense. I have shown you that the Federal government has become so large and unwieldy as to involve huge wastes and inefficiencies. As long as the people continue to pay taxes without too much protest, there will be no incentive to seek more efficient organization or procedure, in the defense establishment or elsewhere.

With respect to national defense, the testimony of the professional soldier cannot always be taken at face value. In testifying before the House sub-committee on the 1947 naval appropriation bill, Admiral Nimitz was asked if he was satisfied with the amount that the budget bureau had proposed for 1947. His reply was frank and revealing. The Admiral said: "No naval or military man is ever satisfied with what is made available." Stories have gone around that both Mr. Forrestal and Mr. Patterson have been saying, in confidential, off-the-record conversations, that their respective departments could operate effectively on what they would get under the House budget total. In the correct, bureaucratic tradition, they had to make loud squawks about the proposed reductions.

There is one aspect of the proposed defense expenditures and requirements that needs fuller exploration. The President's estimate for defense in 1948 was $11.2 billions net. Of this amount, about $10 billions was to cover the actual operations of the year. Much of the balance, it was explained, was to meet unliquidated obligations of prior years, which means bills incurred in 1947 or earlier and paid in 1948. The important question here is the extent to which these bills of prior years are valid commitments, or just an earmarking of unlapsed appropriations to hold the money. The New York "Times" of Jan. 22, 1947, had a leading story on this earmarking practice under the headline—"Army and Navy buy heavily in June to hold the money." Note the emphasis upon holding the money rather than upon the need for the things bought. A careful audit of the unliquidated obligations to be paid in 1948 would no doubt reveal extensive commitments to spend merely to prevent the money from getting away. If we were to stop this practice, and also to comb out other wastes, we could have an adequate defense establishment in 1948 for $10 billions. One small but no doubt typical example of waste is the recent announcement that the army plans to install a presidential suite in Walter Reed hospital, with a separate elevator, although the naval hospital already has a presidential suite, with separate elevator, that had been installed for President Roosevelt. Viewing the defense cost in terms of average cost per man, it is highly suggestive of unnecessary spending to find that in 1945, at the peak of the war effort, the cost was an average of $6,960 per man in service, while in 1948, under the President's budget, the cost would be $6,790 per man, or only $170 per man less than was needed when we were fighting all around the world.

Foreign Relief

The Federal government has provided billions of dollars for foreign relief, recovery, and rehabilitation. Many of the earlier commitments have been met, but other demands continue to emerge. Mr. Hoover's estimate of $475,000,000 for German relief, and the British request that we assume the liabilities of the situation in Greece and Turkey, are the most recent. Some have said that these new obligations will upset the House budget, or even the larger Senate budget.

This is not a necessary or inevitable result. $31.5 billions is a lot of money, and there should be room in it for various readjustments. These new developments mean that certain items in the budget have acquired a higher priority than they once had. High or low is a relative matter. If some things become more important, then other things become less important. If we must spend more abroad, then we should cut down on some of the spending we had planned to do at home. As individuals we always face this problem of relative importance in our spending. When the average family must meet exceptional medical bills, or when it decides to buy a new car, there must be a rearrangement within the family budget. The medical expense demands a higher priority or the new car is given a higher one; and in consequence, the spending for other things is curtailed or eliminated entirely.

I say there is plenty of room inside of $31.5 bililons to make these readjustments without going over the total. But it cannot be done unless we are willing to reduce or eliminate some of the less necessary things. Here are two examples of the kind of unnecessary spending which we could avoid if we wanted to keep the total budget down and yet do our share for world relief. The New York "Times" of March 16, 1947, reported a vote, by the Senate Agricultural Committee, to give corn and wheat farmers a bonus of 30¢ a bushel on last year's crop of corn and wheat if they had not already got it. While they were taking this vote the price of wheat went above $3.00 a bushel, a price not realized since 1917. The cost was said to be at least $313,000,000 and possibly $1 billion. A second example is the scheme for Federal financing of housing, education, health, and other aspects of welfare, to cost possibly $1 billion a year for a number of years. My point is that these and various other bonuses, gifts, and subsidies should be whittled down, deferred, or eliminated entirely, if our obligation to support the rest of the world is made a first rank duty. There just isn't money enough, or wealth enough, in the United States for us to do everything for everybody that somebody would like to do.

The Budget and Inflation Control

In the August, 1946 review of the budget the President said:

"The tax reductions and adjustments made last year fully met the needs for adapting the wartime revenue system to the reconversion period. I repeat, no further tax reductions should be made until the present inflationary situation has passed. Our tax policy should be designed not only to check inflation but to prevent any particular group from profiting by it."

We must deal especially with the statement that taxes should not be reduced until the present inflationary situation has passed. The inference is that high taxes will, in some way, help end the inflation. The cause of the price tendencies which we call inflation is the creation of new purchasing power through bank loans or the issue of paper money. The reason for doing this is the excess of governmental spending over tax receipts. As you know, there were large deficits during the war, to say nothing of the deficit that had been piled up during the 10 years preceding the war. From July 1, 1941 to June 30, 1946, the government obtained $383 billions for its spending and its cash balance needs. It collected $169 billions in taxes and borrowed $214 billions. Non-bank investors — individuals, insurance companies, and other institutions — loaned $128 billions. The Federal Reserve Banks loaned $22 billions, and the commercial banks supplied $64 billions.

The loans made by non-bank investors were non-inflationary, since the money came directly or indirectly out of current income. The inflation was caused by the bank loans, since they created new purchasing power. As a result of the vast volume of payment transactions, the increase in the supply of purchasing power from 1941 to 1946 was as follows:

Money in circulation (principally Federal Reserve Notes), $18.6 billion.

Time deposits in commercial and savings bank, $24.8 billion.

Demand deposits in commercial banks, $42 billion.

Government deposits, $12.6 billion.

Total increase in purchasing power, $980 billion.

Since the inflationary situation was caused by the creation of a large number of dollars out of nothing, this pressure can be reduced only by reversing the process and getting rid of some of these dollars. Just as the dollars were created by borrowing from the banks, they can be canceled only by handing them back to the banks in retirement of debt held by the banks.

We can do this in one or both of two ways. One way is to collect dollars from the people through taxation and redeem bank-held debt. The other is to get dollars from the people by selling them more bonds and use this money to retire bank-held debt. The first method would mean reduction of debt out of surplus revenue, the second would mean transfer of the debt from the banks to non-bank investors. Coming back to the President's statement, there would be more point to keeping taxes at high levels if the spending were to be reduced enough to assure a substantial surplus for debt retirement. This would eventually relieve the inflationary situation. But the budget programs for 1947 and 1948 did not provide a surplus for debt repayment. On the contrary, the official estimate for 1947 indicated a deficit, and that for 1948 showed only a microscopic surplus. The inflationary situation would never be terminated by keeping taxes high merely to support a high level of federal spending.

Tax and Debt Reduction

This brings me to the second and third angles of our current fiscal problem, namely the reduction of taxes and of debt. Superficially it would appear that these objectives are in conflict. That is, granted that the spending will be reduced, we still face a choice between reducing taxes and making payments on the debt. This conflict of purposes is not inevitable. I think we can and should do something about both.

Debt Reduction

In my opinion, if we can do only one thing or the other, then by all means we should proceed with debt reduction first. The present debt is a heavy burden. The interest cost, even at the current low interest rates, is around $5 billion, which is more than the total federal expenditure in any peacetime year prior to 1935. We can throw off this burden only by retiring the debt. This debt is also a menace to our solvency as a nation and to the security of our institutions. We must bolster the morale of the people as bondholders and prevent them from losing faith in the stability of the debt and in the values which it represents. Citizen morale as bondholders will be broken if we revert to further large deficits and additional debt increase. It will be preserved and strengthened by a resolute policy of debt retirement.

For these reasons we should do something about the debt. But we must also consider the morale of the people as workers, taxpayers, and consumers as well as their morale as bondholders. A fiscal policy which permits some tax reduction and some debt retirement at the same time will be a better morale builder than a policy which concentrates on either of these objectives to the exclusion of the other.

This double-barreled policy should be applied while we are easing our way down from the dizzy heights of war taxation. Eventually, when the federal budget has been reduced to a feasible minimum, say somewhere below $25 billion, we should then stop trying to provide further tax relief and hold the federal tax revenues at a level which will assure a substantial surplus above current budget requirements for debt payment.

Tax Reduction

As a preliminary to a discussion of tax reduction, we should pause to consider the kind of economy we want. My conception of the kind of world we here in the United States want to have, in economic terms, is one that is characterized by high level employment, ample production, a substantial national income, and a rising scale of living for all. There will be no disagreement on this. There will be very little disagreement on the proposition that our best chance of having this kind of world is through the efforts and achievements of the private economy rather than through what government does or can do to provide jobs, create goods and income, or raise the scale of living. The private enterprise system operates well or badly according to the strength of the incentives which motivate individuals to work, to save and invest, to take risks, to plan and assume the responsibility for carrying out the plans.

This brings us directly to the matter of tax reduction. Taxes are always burdensome. The higher they are, the greater is the part of each person's income that is taken from him and spent by some one else. When any one has to give too much of his income over for others to spend, his inclination to get more incomes lessens. And when enough people lose the incentive to get more income, production declines, unemployment increases, despair replaces hope and enthusiasm. So I say, taxes must come down, tax burdens must be lightened, if we are to sustain the economic vigor that makes us prosperous. Even debt reduction, important as it is, will become less likely if we keep taxes so high as to check the economic motives.

The four major areas of federal taxation are: (1) the individual income tax; (2) the corporation income tax; (3) the excises; and (4) the estate and gift taxes. In all of these areas the tax rates are at or near the wartime peaks, even after repeal of the excess profits tax. In all of them there is need for revision of rates and other improvements. General agreement exists on the point that as tax reduction becomes possible, the individual income tax should be dealt with first. Differences of opinion exist, however, as to how and where this tax should be lightened. My own formula is as follows:

(1) All should share in the tax relief. As income taxpayers we are all high up on the barren, bleak mountainside of war taxation, only 5% below the summit. We should not lead some of the people down into the pleasant valley of lower taxation while

leaving others far up on the sterile mountain.

(2) The federal revenues must be protected. We must keep the budget balanced and we ought to do something each year about the debt. Hence we cannot go as far as some have proposed, either in raising exemptions or reducing rates.

(3) The incentives to work, to save, invest and take risks, must be promoted. On this I quote from the 1947 report of **the Committee on Postwar Tax Policy:**

"A Tax Program for a Solvent America, 1947, p. 81:

"Every citizen has a vital stake in the welfare of the economy in which he lives and works. Regardless of what he does or what his own income may be, he will be better off with respect both to cash income and real income in proportion as there is vigor and growth throughout the economic system. The essential condition of this vigor and growth is a reduction of the tax load, not merely for small incomes, but for all incomes."

Methods of Income Tax Revision

The most important step, one which must eventually be taken, is a revision of the tax rates. These rates themselves make a better case for revision than can be made in any other way. Under the Act of 1945, the total tax rate equals 50% at the taxable income bracket, $16,000 - $18,000. This means that as to any income received above that level, more than half is taken by the government. The total tax rate equals 75% at the income bracket $60,000 -$70,000, which means that beyond this level, more than three-fourths of any additional income is taken. There can be no question of the repressive effect of such rates upon all of the economic incentives that motivate individuals. No one is going to work harder, take greater responsibility, run the chances of acquiring a nice set of stomach ulcers or a coronary thrombosis, merely to give the government far more than half of any additional income he may earn.

There is no ideal rule of progressive taxation. Yet it does not seem unreasonable to say that the maximum tax rate, even under present fiscal needs, should not exceed 50%, on the ground that no one should be expected or required to give the government more than half of any part of his income. The bad effects of excessive taxation spread far beyond the taxpayers directly involved, for the jobs and incomes of many persons with small incomes are affected when some one in the higher tax brackets decides to slow down.

The point at which this maximum rate of 50% should apply must be determined by the revenue needs, for it is necessary that we protect the revenue. For the present, it would be reasonable to apply this rate to taxable income above $100,000. Eventually, it should be possible to raise the amount and also to lower the maximum rate.

The discussion of recent months produced numerous suggestions that the tax reduction be made only, or in large part, at the bottom of the income scale, through an increase of exemptions. The CIO, for example, demanded that the present allowance of $500 per person be raised to $2,000 for a married person and $1,000 for a single person.

There are good reasons why we cannot and should not concentrate all of the tax relief at the bottom. For one thing, this would afford only trifling relief in the upper income brackets. You have heard the outcry that has arisen against tax reduction for the rich who, it is said, will still have plenty to live on even after taxes at present rates. If the only function of income were to support the recipient, it would be true that those in the middle and upper brackets would not starve if taxes were not reduced. But income has other functions. Some of it must go into the formation of capital, without which none of us could gain more than a bare subsistence. Fully as important as its function of motivating the recipient to work, to assume responsibility, to invest and take risks.

The low income groups can have only a short-lived advantage from a "soak the rich" tax policy. England has been applying this policy with increasing severity over the past 40 years. Under their system of skimming off more and more of the cream, England's productivity has declined until the economic condition of the people is worse, even, than it was during the war, and the lowest incomes are taxed far more heavily than are similar incomes in this country. The English politicians and demagogues didn't think they were doing any harm, but it was another case of not missing the water till the well went dry. Having shared the wealth through extortionate taxation, the Laborite socialist government now has the unpleasant task of sharing the poverty, which is about all that remains of the glory that was England.

Another reason for opposing a change of exemptions is that it would cut heavily into the revenue, even if the amount allowed were small and it would destroy the income tax yield if the allowance were substantial. An increase of exemptions by only $100 per person would reduce the tax yield $1.6 billion, and would exempt entirely 4,728,000 persons who now pay income tax. The CIO proposal would cost $11 billion in revenue and would reduce to a mere handful the number of income taxpayers.

Our income tax does not now oppress the very lowest incomes. About one in every four income recipients pays no tax. Total taxable income is only about $69 billion, out of total national income payments of $166 billion. The married person with two dependents does not begin to pay income tax until his income passes $2,220 or about $43 a week.

It is not wholesome, politically, to have a tax system under which only a small proportion of those who receive income contribute directly to the support of the federal government. This government serves all sections and all groups. The coverage for its support should be equally widespread. Since we have elected to use the individual income tax as a major source of revenue, we should keep the personal exemptions at a level which will subject a substantial proportion of all income recipients to income tax in some amount.

The foreign relief problem has its bearing on our tax situation. It may appear that if we are to make large loans, or grants, to foreign nations, we must increase our own taxes in order to do so. The first requirement is for money, but the foreign need is for food, clothing, machinery, materials, etc. Much of this must be bought here, since there is no other source of supply. Our support will consist, fundamentally, in providing large shipments of various kinds of goods. The government will pay American producers for these goods by using money collected from American taxpayers.

In the basic economic sense, therefore, foreign relief involves more production here. If we are to feed much of Europe as well as ourselves, more food must be grown. If we are to supply machinery, it must first be produced. The question is—Are we as likely to get this increase of production under the existing heavy tax rates as we are under more moderate rates? The answer is "no." Our philanthropic inclinations may carry us part of the way, but we shall need for this job a far more tangible incentive than a general spirit of good will.

It follows, therefore, that we cannot discharge effectively either our domestic responsibilities for maintaining standards of living, or our foreign obligation to assist other nations to recover from poverty and despair, under our existing tax rates. They must come down.

I come now to that hotly debated issue, the percentage tax cut. It is strange that this should cause such excitement, for a flat 25% cut was made in 1924 with no opposition. Nor was there resentment at the flat 5% cut made in the 1945 Act. Now there are loud cries and even screams over the alleged favoritism to the larger incomes.

From what I have said, this matter should fall into its proper perspective readily enough. In a long-range view, it is less important than a revision of the income tax rates. All advocates of the percentage cut admit this. It is clear, however, that the ultimate goal of surtax revision will involve prolonged public hearings and discussion. When the 20% cut was first proposed, it seemed to offer the merit of quick enactment. You are familiar with the reasons for delay, but these influences would operate so much more powerfully to hinder Congressional action on a broad program of general tax revision as to make the 20% plan, by comparison, a "quickie."

The exact form which the tax reduction plan will finally take is not now clear. It started as a 20% cut across the board, which was reasonable and equitable in that it simply multiplied by four the 5% cut across the board that the law now authorizes. As the bill was first written the percentage reduction in the case of incomes above some $300,000 was limited to 10½%. The latter was political window dressing, for the Treasury has estimated that the loss of revenue in the net income classes subject to the lower rate would be only $37.2 million.

Increasing pressure developed as the subject was discussed for giving the smallest incomes a larger cut than any others. The principal argument was that it is harder for those with small incomes to pay tax than for those with larger incomes. We can sympathize with the plight of the small income, but it certainly is a frustrating experience to work as hard as some of us do to earn a reasonable income and to watch so large a share of it being commandeered for public spending which is in part wasteful, in part unnecessary, and in any case an inordinate share of the income.

The low income groups comprise an impressive proportion of all taxpayers. For 1947 it is estimated that there will be 48,545,000 persons with taxable incomes. Of this number, 26,491,000 will have net incomes $0-$2,000, or 54.6% of the total. Another 14,322,000 will have net income $2,000-$3,000, or about 30% of the total number. 52% of total taxable income will be in the net income range, $0-$3,000, and 40% of the tax will be paid by persons in this income range. The tax is heavy there, and as long as the entire relief is not concentrated at the lower end of the income range, we should not be grudging about helping them.

Neither should we withhold reasonable, even substantial tax relief from those whose incomes rise into higher income brackets. From 1939 to 1945 the rates on incomes from $38,000 to $50,000 were more than doubled. At these levels we encounter the managerial group, on whose vigor, energy, and enthusiasm the success of our highly organized, machine civilization so largely depends. There should be no "dog in the manger" attitude in our tax revision. The present winter of our discontent comes from too much false doctrine about ability to pay, which has been taken to mean "soak the rich." England has demonstrated that "soaking the rich" means "soaking" the poor also. Few people know what is meant by ability taxation, and no one can devise a tax rate scale that will exactly fit the abilities of the several taxpayers. We should discard this moth-eaten slogan and say, instead, "Taxation to bring forth and make fruitful the abilities of men."

Urge Repayment Plan for TVA

The Audits Division of the General Accounting Office on Apr. 7 recommended that Congress establish a schedule for the Tennessee Valley Authority to repay Government funds invested in its power operations, Associated Press Washington advices stated. The auditing report said no law had been passed requiring repayment of either principal or interest, and that no schedule had been prepared fixing times and amounts for repayment. The report according to the Associated Press further suggested:

1. That the TVA be required to pay interest on the whole government investment in its power operations, and that the rate be the current one paid by the Treasury—about 2½%. The report said the TVA now pays interest on only about $56,500,000 and the rate is only 1%.

2. That the TVA keep books on power operations separately from other activities such as flood control and resource development, thus insuring that power operations are self-supporting and will assure repayment of the government's investment.

3. That appropriations for flood control, development and other non-income producing programs be made separately so as to strengthen Congress' control over expenditures of funds derived from taxes instead of power corporations.

A House committee has already recommended, the same advices stated, that repayment be required from the fourteen-year-old TVA within forty years. President Truman has estimated that TVA repayments from surplus operating revenues by June 30 will total almost $30,600,000. According to the Audits Division report outlay on power facilities accounts for more than $400,000,000 of the government's $718,000,000 investment in TVA.

The Economic Outlook

(Continued from page 2)

will be no **serious depression** in 1947.

(2) Buyers' markets will succeed sellers' markets in all lines with but few exceptions. Housing, of course, will be the big exception.

(3) The keenest competition the world has ever known is getting under way—and it will be much more savage than in the past.

(4) The demand for good quality merchandise, fairly priced, will continue so great that the volume of trade in 1947, despite a tapering off later in the year, will probably be as great as in 1946. **But** this demand will be more for hard goods and less for soft goods!

(5) We are at or very near the top of the upward price movement with the prospects favoring a decline.

(6) While ordinarily declining prices would herald a depression, under present abnormal conditions, moderate price declines would actually have a beneficial effect on the economy of the country through stimulation of demand. By the same token, a further increase in prices would seriously endanger the economy of the country.

(7) The year 1947, on the whole, should be a good year with the national income twice as great as the 1929 total.

Reasons for Statements

I shall now give my reasons for each of the categoric statements I have just made.

First, why do I say that the world's best-advertised depression will be a "flop" so far as 1947 is concerned?

Our apparent assumption of wide global responsibilities for food, relief, and political support is reflected by the strong demand in commodity markets which would otherwise, by now, have been at the stage of government support or violent market disruption. The removal of nearly all export controls also has had a buoyant effect. The prospect, or shall I say hope, of legislative solution of some of our labor-management inequities has given industry new impetus. For example, capital outlays for new plant and equipment rose from the rate of $8.8 on an annual basis in the first quarter of 1946 to the rate of $14.6 in the fourth quarter.

To these new international demands and the better psychology on the part of industrialists must be added our previously existing basic demands for housing and durable goods in general. In particular, as indicated before, the demand for machinery and equipment is very great at home. From abroad, the demand is only limited by capacity to pay and the International Bank for Reconstruction should be making dollar credits available in volume for this purpose by the end of the third quarter of the year. Also, the demand for home furnishings and men's clothing and apparel, in general, is great.

While the backlog of demand is by no means as great as many believe, the demand from factors just summarized should create **satisfactory** employment. However, this does not mean that the present abnormal condition of "over-employment" will continue. In fact, while employment is holding up well in Buffalo, the total is down in New York City and it is down for the entire state. An indication of the trend is given by the New York State Employment Service which reports approximately 500,000 people as seeking the 78,000 job openings listed in January.

These demand factors assure a continuation of a high national income although it will drop from the present extremely high rate. Present indications are that the total 1947 income will approximate the $165 billion produced in 1946. As prices are higher, this will mean less actual goods produced unless there is a substantial downward revision of prices sometime later in the year.

This all adds up to a continued high standard of living. And, even though the recession which most economists anticipate materializes in the third or fourth quarter of the year, **business activity will be at boom levels compared with anything before the war.** Or, to put it dramatically, business could drop 30 to 40% and still be above the levels of the great boom of 1929!

A Coming Buyers' Market

My next conclusion was that sellers' markets are rapidly being converted into buyers' markets. This is especially true in the soft goods field where there is very little accumulated domestic demand. Demand from abroad under the guise of army procurement or UNRRA relief distribution, or direct purchasing by foreign governments and our own government—all of which are in addition to conventional export demands—have caused many to draw false conclusions as to the relation of production capacity and normal demand in the soft goods field. The plain fact is that our capacity to produce in most branches of soft goods is far greater than any peak demand ever experienced before World War II. Furthermore, both production and productivity are increasing!

Prices on most soft goods are high and are continuing to increase on an index basis; but what is more serious is that people in general are convinced that prices are too high. This deep-seated conviction has caused buyer's resistance to develop in practically all lines against poor quality and in several lines against high prices. This consumer resistance has been most clearly seen in foods, where prices are far out of line; it has been most seriously felt in the fur industry which has had such difficulties since last summer.

While the meaning of a buyers' market may not be clear to some of your clerks, especially the younger ones who may never have seen any real, old-fashioned sales courtesy and service, I am sure it is an open book to you businessmen. Merchandise once more will be sold rather than bought. "Only one to a customer" will be succeeded by "Sir, may I send you a dozen?" Salesmen will have to go back to work.

In manufacturing, jobbing, and wholesaling, the salesman's feet will have to come off the desk, and chairs once more will rest on four legs. The salesman will not only have to be on his feet to greet buyers who come in, he will even have to leave the pleasant atmosphere and warmth of the show room to look for orders from buyers who don't come in!

While these changes will not come until later in the year, or possibly next year in the durable goods field, even there the demand is not inexhaustible nor is it indestructible.

Competitive advertising and display, up-to-the-minute styling, and the courtesy of bygone years will come back all along the line. Merchants and manufacturers who make these adjustments and offer good quality at reasonable prices have nothing to fear in the foreseeable future **if they will but keep their inventories in line.**

Keen Competition Ahead

My third conclusion was that the keenest competition you have ever known is ahead. If I had to characterize the year 1947, I would use the phrase "rebirth of competition." This return of competition to its former importance as the most powerful factor in business affairs is of vital significance to all of you. Too many businessmen, after long years of government price-fixing in sellers' markets, will refuse to adjust their thinking, pricing, cost and expense controls, and their operations in general to the new and highly competitive conditions which lie ahead. Far too many businessmen got the idea in the war years that **costs** directly determine **price.** These businessmen think that prices have to stay up because costs have gone up. In a competitive economy that, of course, does not necessarily follow.

Demand determines your price and your supply. Normally, the price so determined allows a margin over all costs. This margin we call profit. But, at certain stages of the business cycle this margin, in the case of many enterprises, turns into a deficit, known as loss. And, gentlemen, to paraphrase the old song, demand "is the cause of it all!" The current emphasis on costs and disregard of long-term market implications in setting prices worries me. It is causing many businessmen, in my opinion, to price themselves out of the market. In too many lines, prices are outrunning long-term demand. True, the cream of the pent-up demand will pay the prices asked, but the long-term effect will be a reduction in volume, and that is a very serious matter because we have excess production capacity in nearly all lines. Moreover, the productivity of labor is beginning to increase from the low levels which have prevailed. Excess productive capacity and increasing production, in a free market with wide-open competition, will create many problems and cause many headaches for businessmen, but the consumer will benefit and in the long run these developments will be good for business, too.

Our ability to produce goods in utterly fantastic quantities is recognized more clearly in other countries than here at home. Thus, last July a writer in the "Eastern Economist," New Delhi, India, expressed the opinion that our productive capacity is so great that our only solution will be to continue as the world's Santa Claus. While I do not agree with his solution, nor with his underlying philosophy, his statement of our problem is so pointed that I quote his view as follows:

"The productive power of America has multiplied itself so fast that it is now admitted that she cannot continue to give 60 million jobs unless she is able to have a large export trade. But in the long run—not so long as even a decade—exports cannot continue unless imports are allowed to flow in. But U. S. economic organization is such that the possibilities of her being paid in imports are not very bright. But imports will, or at least might, create unemployment. In such circumstances it would not be such a foolish thing (as some might imagine) to give away goods to other countries, for on balance it would be better to part with surplus goods than to create unemployment."

Viewing the competition ahead as an individual matter, even more problems appear. New products are coming on the market, old products are being improved. New manufacturers and distributors will compete with the old established units. For example, New York led all other states in the number of new enterprises started in 1946 as well as in business loans to veterans. Think of it, last year there were 38,000 new businesses incorporated in New York State as compared to a previous high record of 27,000 in 1928. To put it on a comparative basis geographically, 29.1% of all the businesses started in the entire country were started in New York, one of the 48 states. As I have remarked on other occasions, we are developing a first-class backlog of failures; in fact, it is probably the greatest backlog in the country today!

Competition will cause chains and mail order houses to put in new lines. Super-markets will invade other fields and sell lines other than food. Automatic vending machines, which will give change, stand ready to challenge the indifferent, high-cost personal salesmanship we have inherited from the war.

And, whatever methods of distribution the future brings, the customer will once more be "king." Those businessmen who have neglected customer relations and consumer goodwill unquestionably will have cause to regret their shortsighted policy.

Business Volume Will Be Satisfactory

My fourth conclusion was that the volume of trade will be at satisfactory levels despite the keen competition which will be faced. As stated before, current income from wages, salaries, and profits will be at a high level for the year. Our standard of living is higher than in the past. Quality of goods will improve, which will mean, for example, that some of us, at long last, can once more buy a shirt, particularly one with a neckband! And, most importantly, the sale of durable goods will be in greater volume than in 1946. These all mean that trade volume will be satisfactory if quality and price are such that people feel they are getting good value for their money.

Reasons for Declining Prices

My fifth conclusion was that we are at or very near the top of the upward price movement with prospects favoring a decline. Despite the behavior of the wholesale price index during the last three months, I doubt that any of you would want to seriously question that conclusion. In any event, I certainly hope I am right because of the probable serious consequences of any further price increases.

Agricultural prices would have experienced a sharp decline before now if it were not for government intervention. Farm product prices are 175.6% of the 1929 level. The cash income received by farmers in 1946, due to a combination of bumper crops and high prices, was three times the prewar high total. With increased crop acreages planned for this year, these prices are clearly out of line and, in my opinion, cannot continue even if we do feed the whole world!

Soft goods prices have already displayed considerable weakness in many lines. Department store stocks advanced in February to a level of 280% of the 1935-1939 average. Textiles, soft woolens in particular, are now being produced at a rate above any reasonable expectation of consumption at current price levels.

In New York City, the knitwear industry is experiencing its first slump in several years. Cutlery, tools, and general hardware production is at a low ebb in the city also, and it is expected to remain low for six months because of big inventories. Furthermore, in New York City, to quote the New York State Employment Service local labor market letter, "All but two of 28 trucking and warehousing firms visited reported merchandise overflowing, with little movement."

Price reduction sales and prices in retail display windows have returned. There must be a reason!

Luxury lines such as furs, jewelry, cosmetics, and nylons have already entered the cutthroat competition stage.

While durable goods prices are holding so far, there is mounting evidence of pressure. One refrigerator manufacturer recently cut the price of the two highest priced models. Another manufacturer completely redesigned its line of refrigerators to offer better value for the same money. The great improvement in the household durable goods supply situation may be summarized by saying the current radio receiver output is nearly double the prewar high; electric irons, also, nearly double; vacuum cleaners, 70% above; and washing machines, 38% above. And this high production is with prices much higher in comparison with the pre-war level than most people realize. In a talk before electrical appliance dealers on March 13, General Jeffe, Vice-President in charge of sales of the Consolidated Edison Company in New York, stated that, and I quote from the New York "Times," "average retail unit prices of electrical appliances in 1946, compared with 1941, show that many items have more than doubled. Non-automatic toasters jumped from $2.65 to $7.50; non-automatic irons from $2.25 to $6; glass coffee makers from $3.75 to $8.75; waffle irons from $5.50 to $11; automatic irons from $5 to $13; heating pads from $3.25 to $6; radios from $18.50 to $50; automatic toasters from $9.50 to $18.50; washing machines from $75 to $115; mixers from $18.50 to $31; and refrigerators from $150 to 220."

Enough Margin for Further Price Reductions

The magnitude of these price increases indicates that, despite higher taxes and higher labor and material costs, there is enough margin to make substantial price reductions in many items. The manufacturer who fails to meet consumer resistance with better quality or lower prices will fall by the wayside because of reduced sales. The producer who does not use all his ingenuity to reduce his costs will likewise lose out in the competitive race ahead because his costs will be out of line.

Looking ahead, then, it seems we face a period of lower average mark-up with both manufacturers and retailers seeking volume to compensate for the lower margin.

My sixth conclusion was that a reasonable decline in prices from today's high level will have a favorable effect on business in general. (Of course, the boys who are hoarding inventory will not like it!) **A price decline, if it does not get out of hand, will increase the real income of our people and** reduce the pressure for higher wages. Price reductions, within reason, will widen demand because of the larger purchasing power of savings. Price reductions will prevent the widespread unemployment which is inevitable if producers price themselves out of the market.

The American success formula, which many seem to have forgotten, is ever higher production, ever higher wages, and ever lower prices. The greatest economic problem confronting the country today is how to have an orderly reduction of prices to bring about an increase in real purchasing power.

My entire talk comes to a focus in the last conclusion, which holds that 1947, on the whole, will be a good year. **While a recession is to be expected, it will not be very pronounced nor of long duration, unless prices go still higher.** Labor will be much more tranquil than in 1946. Business will be more risky and failures will increase. Manufacturers and retailers who have the good sense to forget the lotus fruit of the sellers' market and adapt themselves to the hard realities of a changing, competitive market will have a very good year. The problems of free enterprise are with us again; don't let them get you down!

Federal Reserve System and the Commercial Banks

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serve requirements, and because, in the main, these requirements are defined in the Federal Reserve Act and administered by the Federal Reserve System, its member banks are inseparable from the System. Since they are inseparable and since they are so intimately identified with the country's vital credit and monetary affairs, the System and its member banks are necessarily subject to the close scrutiny and active interest of Society as represented by our Federal Government.

The extent to which this interest is translated into additional restrictions depends in no small degree upon bankers themselves. While it is fair to say that bankers and the banking system often are blamed for far more than their share of the evils of serious economic difficulties, we should not minimize the importance of banking as an influence on economic conditions. Public opinion concerning a business whose activities can contract or expand the purchasing medium used in all economic affairs is something that must be followed closely and understood. Throughout the history of this country, every major encroachment upon the freedom of action of bankers has been a direct result of some economic breakdown attributed, justly or unjustly, to the unwise or inadequate conduct of banking.

The National Bank Act aided in financing the Civil War, but it also eliminated wildcat banking with its unstabilizing economic effects. The Federal Reserve Act, with its centralization of reserves and other changes in the established order, followed upon a demonstration of the close connection between so-called money panics and the inability of the money supply to respond readily to seasonal and other changes in requirements under the National Bank Act. The banking law changes of the middle thirties were a primary result of the Great Depression. Considerable responsibility for the onset of that depression was attributed to banks because of their failure or inability to prevent the speculative use of credit. And, later, considerable responsibility for the length and depth of the depression was attributed to banks for their failure or inability to avoid what were regarded as needless foreclosures and to stimulate the earlier revival of activity through effective credit-granting operations.

To bankers who wish to forestall the ultimate imposition of unwanted governmental competitive legal requirements or controls, these illustrations indicate the desirability of avoiding errors of either commission or omission which can be demonstrated as contributing factors to serious economic instability. In our form of democracy, institutional continuity and survival depend to a large degree upon how well the institution, banking for example, serves its purpose without the necessity of too much governmental interference. Initiative, adequate performance, and self-restraint are three essentials for the preservation of the private enterprise system in banking.

Federal Reserve and Our Democratic Ideals

Now I should like to point out how admirably the Federal Reserve System with its member banks is adapted to the preservation of our democratic ideals in the monetary and credit realm. The System is designed so that its central banking functions are subjected to a minimum of governmental and a maximum of member bank influence. The capital stock of the Reserve Banks is owned by the member banks and two-thirds of the directors of each Reserve Bank are elected by its member banks. Each regional Federal Reserve Bank is a semi-autonomous institution. There is a Federal Advisory Council, with a representative from each Federal Reserve District, to advise the Board of Governors. There is a Federal Open Market Committee, with representation from the Reserve Banks, to conduct some of the more important credit control operations of the System. Then there is the Board of Governors of the Federal Reserve System. It excercises general supervision over the Reserve Banks and coordinates the activities of the System as they touch upon credit expansion or contraction and affect the public welfare.

Powers of Federal Reserve

To this group of organizations, which is essentially a federated cooperative institution, Congress has given certain powers. As originally conceived, the basic power lies in the ability of System authorities to take actions which influence the amount of reserves available to banks. You are all familiar with the instruments used for this purpose. There is the discount rate which can be raised or lowered to discourage or encourage member bank borrowing at the Reserve Bank. Open market operations are more complex and they normally endow the Federal Reserve System with more initiative in the matter of contraction or expansion of banks' reserves. They are not mysterious, however. Funds paid by the Reserve Banks for security purchases made in the open market, whether paid to a bank or to some other security holder, find their way back to the Reserve Bank as a deposit to the reserve account of some member bank. On the other hand, sales of securities by a Federal Reserve Bank are ultimately paid for by a charge against some bank's reserve account and bank reserves are reduced correspondingly. In addition to the power to engage in open market operations and to establish the discount rate, the System has authority, within certain limits, to make direct changes in reserve requirements themselves.

The increase or decrease of the reserves of banks normally influences the amount of bank credit and deposits. Banks, particularly during a period of prosperity, tend to lend or invest up to the limits set by the amount of their reserves and the applicable legal reserve requirements. This tendency of banks, whether the lending takes the form of direct loans or the indirect form of purchasing securities from non-bank holders or issuers, builds up the volume of the country's principal purchasing medium—deposits. In enacting the Federal Reserve Act, Congress has expressed the opinion that banks in the United States should have this ability to expand or contract bank credit brought under disinterested control, at least to some extent. In order to do this, the over-all credit granting operations of the banks were, in effect, subjected to review by a non-profit-seeking agency, the Federal Reserve System.

Discount rate changes, open market operations, and changes in reserve requirements exercise a quantitive or blanket influence over all sectors of commerce and industry. The stock market inflation of the late twenties, the ravages of the Great Depression, and the apparent ability of the banking system, including the commercial banks and the Federal Reserve, to stop an expansion with greater facility than to induce the beginning of a recovery movement, furnished the setting out of which came the banking law changes of the middle thirties.

One important characteristic of these changes is illustrated by the authority given the Federal Reserve to establish loan values of securities under certain conditions. As you know, Regulations T and U were the result. These regulations were the first concrete step on the part of the Federal Reserve System in the direction of qualitative or selective control as contrasted with the quantitative or blanket type of credit control operation which was developed earlier. They were followed in another field and under a somewhat different authorization by Regulation W. This was a further step in the direction of selective rather than quantitative or blanket control. At its inception, Regulation W was an attempt to exer-

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Federal Reserve System And the Commercial Banks

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cise a dampening influence on the extension of installment credit and thus to reduce consumer demand for goods made scarce by wartime necessity. It attempted to do this without restricting credit for productive uses, as would have been necessary under the quantitative or blanket type of control.

Another important characteristic of the changes affecting banking during the thirties was the spread of direct lending by governmental agencies and the development of the practice of guaranteeing loans made by banks. The Federal Reserve System played a minor part in this development through its Section 13b loans to industry.

Recent Developments

This highly condensed review of the history of Federal legislation affecting the relations between the Federal Reserve and its member banks brings us up to the present period. Two aspects of these developments are of particular interest at this time. First, the people of the United States, as represented by their lawmakers in Congress, have decided that the monetary functions of their banking system shall be subject to general, over-all control by a non-profit-seeking, disinterested body. That body, the Federal Reserve System, is charged with the responsibility of pursuing policies in the interests of the public welfare. Second, the System has been authorized to make its regulating activities effective through the use of certain quantitative or blanket devices which impinge upon member bank reserves. The System has also been empowered to use certain selective or qualitative devices which deal more directly with particular segments of economic activity, such as the securities markets, without necessarily involving every phase of the economy.

As bankers and citizens, we all know that the last war saddled a tremendous public debt on this country. It amounts to $258,000,000,000, or, roughly, $1,800 for each man, woman, and child in this country at the present moment. It represents about 60% of the country's total public and private debt. We also realize that the cost of the war's aftermath can not yet be determined. If these costs do not actually increase the public debt once more, they are at least likely to retard public debt retirement. In addition, it is clear that heavy refunding operations by the Treasury will be necessary during the next few years; 17 billion dollars of Treasury bills are outstanding that must be turned over at the rate of 1.3 billion dollars a week, and 21 billion dollars of other interest-bearing marketable securities mature between now and the end of this year.

The size of the public debt and the amount of refunding require the continuance of a ready and stable market for Government securities if we are to maintain a reasonable degree of economic stability. We cannot afford the thrills of a widely fluctuating interest rate. Too much is at stake. Every Government bond, except those few held by the Government itself, is an asset of some individual or financial or fiduciary institution. The fluctuating capital values that would accompany rate fluctuations of any great magnitude would be intolerable.

During the war, the Federal Reserve System began the practice of purchasing or selling particular issues or types of Government securities whenever market rates seemed to be getting too far out of line with a generally established pattern. This was desirable and necessary during war time in order to insure a ready market for the mounting debt at reasonable rates. To a considerable degree that practice is still in force, and in a sense the Federal Reserve System is confronted with a dilemma as a result of it.

Member banks all hold large portofolios of Government securities. As long as the System acts to stabilize the market, the member banks can at any time force the Reserve Banks to buy their holdings of Governments. This means, in turn, that the initiative in determining the amount of bank reserves lies with the member banks and not with the Federal Reserve authorities. Under the circumstances, the question is posed whether the Federal Reserve should withdraw its rate-support program and risk the possible disruption of the Government bond market or whether it should maintain that program and continue to permit banks to obtain reserves on their own initiative with the possibility of undue credit inflation through the loan route.

Maintaining Stable Interest Rates

It is my belief that the System should look to the goal of a less rigidly supported market, but that it must avoid the serious consequences of material changes in rates or of instability. As long as commercial banks continue to have the ability to obtain additional reserves virtually at will, they should give thought to the responsibility thus imposed on them. Further inflationary developments, were they to be followed by a prolonged recession, would be an invitation for some new and more drastic control legislation.

Commercial Loan Activities

With this in mind, it may be of interest to note the rate of increase in loans of commercial banks, particularly in the Twelfth Federal Reserve District.

During 1946 total bank loans in the United States increased 18% despite a considerable drop in loans for purchasing and carrying securities. Four-fifths of the year's increase occured in the last half of the year. Over the year commercial loans rose about 50%, real estate loans 55%, and consumer loans 60%. Loans for purchasing and carrying securities receded sharply from the Victory Loan drive high, and agricultural production loans showed little change. Banks in the Twelfth District were in the vanguard of this loan increase. Their total loans increased more than 50%. Consumer loans in the District doubled last year, real estate loans advanced about 55%, and commercial loans increased by 80%. The next largest District increase in commercial loans occured in the Fourth Federal Reserve District, where the increase was only 68%. In both the nation and the District, the dollar increase in commercial and industrial loans was very much greater than in any other type of loan.

Loans have also increased relative to capital accounts. The ratio of capital accounts to loans banks in the Twelfth District was significantly lower at the end of 1946 than the same ratio for all banks in the United States. In this district, the ratio of capital accounts to loans of all banks at the end of 1946 was 19½% compared with 27% at the end of 1945 and 18% at the end of 1928. It is interesting to note that the ratio as of the end of 1946 is about the same as the ratio on Dec. 31, 1928, although the ratio of capital accounts to total assets is much lower now than it was eighteen years ago because of the expansion of Government security holdings.

In speaking of this loan expansion, it may also be interesting to digress for a moment and remark about its effects upon bank earnings in 1946. Twelfth District member bank earnings on loans rose, on the average, from 36% of total earnings in 1945 to 40% last year. Primarily because of higher loan earnings, both total earnings and net profits of Twelfth District members banks increased substantially. The average ratio of net profits after taxes to capital accounts was 14.4% last year as against 12.3% in 1945.

Nothwithstanding these large loan increases during 1946, the amount of bank loans is not as large relative to the national product as it was in the 1920's. Bank loans plus investments, however, are considerably larger, even relative to a much greater national product. To be sure, in 1946 there was a substantial amount of Treasury debt retirement and a reduction in commercial bank holdings of Government securities of 18.8 billion dollars. Since the funds used by the Treasury to retire the debt came from War Loan accounts, however, there was not a corresponding reduction in bank deposits in the hands of the public. Actually, deposits and currency held by the public increased by about 13 billion dollars during 1946, half of this expansion resulting from the transfer of funds from Treasury balances to the public and the other half resulting from the expansion of bank loans. An increase of 13 billion dollars in deposits and currency on top of record holdings by the public of about 150 billion dollars at the end of 1945 does not exactly reflect a strong anti-inflationary program. Since the Treasury cash balance is down to about a working level, additional debt reduction can occur only out of tax surpluses, which would tend to reduce deposits in the hands of the public. Consequently, Treasury debt reduction, if continued, will tend to offset the increase in deposits resulting from further loan expansion, but if it is not continued, the avoidance of undue bank credit expansion will be much more difficult.

From January 1 to March 26 of this year, Twelfth District bank loans increased about 7%. This expansion was slower than during the latter part of 1946, but more rapid than a year earlier.

Urges a More Cautious Loan Policy

Because of the rapid loan expansion and other factors, some commercial banks have recently adopted a more cautious policy in making loans. Some feel that, if loans continue to increase, it is desirable to give more than usual consideration to whether loans are being made for productive purposes or whether individual loans are speculative or unsound. Here is an opportunity for bankers to use constructive judgment in lending at a time when the initiative so largely resides in their hands. I do not mean to imply that banks have over-extended credit, nor do I say that there should be no further increase in bank loans. Much criticism would come from refusing to take care properly of productive enterprise. I do believe that the continued increase of bank credit will merit the attention of bankers. It will be appraised in the searchlight of history. If, in the years ahead, it appears that an unwise extension of bank credit for speculative or unsound purposes has contributed to a business recession or depression, banking will be held accountable.

The present situation points up the close relationship of the commercial banks and the Federal Reserve System with respect to credit and monetary functions. Before the war, the Reserve System was in a better position to deal effectively with an undue credit expansion than it is today. The System formerly had more discretion both as to the amount of reserves it would furnish member banks and as to how much reserves would be made available. Today, some of this discretion and initiative has passed to the member banks. Responsibility in the credit field rests both on the commercial banks and on the Federal Reserve System. We are fellow workers in the field of credit. May our harvest be good!

The Budget and Federal Taxes

(Continued from first page)

Federal debt and the requirements of Federal taxes. Because of the large increase in the Federal budget requirements, it is urgent that all other public taxing bodies restrain an increase in their budgets or an increase in their taxes until the Federal debt and Federal taxes have been sharply reduced.

The Federal Budget

The Federal Government's 1947-48 budget will be reduced. Just how much the budget will be reduced and where the cuts will be made is still in the process of study and investigation. Many suggestions have been made as to the amount of the budget and its reduction for the next fiscal year. The claims of possible budget reduction vary from 10 to 15 billion dollars. The possible budget requirements have been estimated from 19 to 35 billion dollars. It is much easier to cut the budget theoretically on paper than it is to carry out a practical reduction of government expenditures.

The budget of the Federal government has grown until most of us find it difficult to figure out how so much money can be spent and far more difficult to find any benefits, directly or indirectly, for all the taxes we pay. Some of the expenditures which are difficult to reduce at this time are for the Army and Navy. These are estimated for the next year at from 10 to 12 billions of dollars. The payments to veterans are estimated at from 6 to 8 billions of dollars. The interest on the national debt will be more than 5 billions of dollars. Our obligations in international finance and international relations are expected to run from 2 billions of dollars up. Then there are all the needs to run the government, including such items as domestic relief, perhaps 2½ billions, terminal leave 2½ billions, government agencies 2½ billions, tax refunds 1½ billions and public works more than a billion. There are many lesser items which will just have to be included in the budget. It is not possible to compare such a budget with any prewar peacetime budget of the government.

As a result of the war and prewar extravagance, our debts and the costs of running the government have increased beyond the belief possible of anyone a decade ago. The population of the country has increased perhaps about 25 million since World War one, and our national income has increased from 80 billion dollars in 1929 and 44 billion in 1933 to an estimated 175 billion in 1946. These figures are all distorted from reality however due to the changes in prices. The fluctuation in production has not been as great as these income figures indicate. But the facts remain that the tax needs of the government and the capacity to meet these needs have increased with the growth of the national income. There is no exact correlation however because the costs of living have risen with the increase in income. Many people are less able to pay taxes on present incomes than they were when their incomes were much smaller and their costs of living likewise lower.

Nevertheless we cannot remedy our tax burden by looking backward and wishing for "the good old days" when the national income was only one-third of what it is now and our costs of living and tax burden proportionally low. The answer seems to be to look forward and devise constructive ways and means to increase production and income, and pay the increased tax burden which has been imposed upon us by many causes. Whether justified or not we have the debts and other government costs to meet. The government should reduce its expenditures to the minimum. The people should demand this. Every voter should demand the maximum of economy of the government. Under the present conditions it is hard to understand why the government and the people will tolerate obstructions to production, wage-price spirals which always have ended in collapse and depression, and other individual, and organized efforts which can only further unbalance the national economy of production and distribution, and reduce the revenue which the government needs, and otherwise undermine national welfare.

If American business is given a chance under freedom with fair and free competition we can meet the tax burdens through increased production. Only bad national management can defeat the capacity of the American people to rise to the emergency and meet the tax obligations imposed upon them, until a sound economy is again restored. Time and the capacity of this country to grow and expand can make the debt look small in a few years under free opportunities.

In discussing England's plight under what seemed to be an unsurmountable debt in his time, Adam Smith admitted that England had thrived under a growing debt more than anyone could have foreseen. But he warned of the hazards and that even a small increase in the debt would be fatal.[1] Other forecasters of the times said that the nation (England) must sink under a debt of 140 million pounds unless the American colonies bore a portion of the load. Instead the American Revolution added another 100 million pounds to the load, and the wars that sprang from the French Revolution increased the debt to more than 800 million pounds. Commenting upon this debtor situation of England and how she rose to meet it, the distinguished historian Macaulay said: "If the most enlightened man had been told, 1792, that in 1815 the interest on eight hundred millions would be duly paid to the day at the bank, he would have been as hard of belief as if he had been told that the government would be in possession of the lamp of Aladdin or of the purse of Fortunatus. It was in truth a gigantic, a fabulous debt; and we can hardly wonder that the cry of despair should have been louder than ever. But again that cry was found to have been as unreasonable as ever. After a few years of exhaustion, England recovered herself. Yet like Addison's valetudinarian, who continued to whimper that he was dying of consumption till he be-

1 Wealth of Nations by Adam Smith, Book 5, Ch. 3.

came so fat that he was shamed into silence, she went on complaining that she was sunk in poverty till her wealth showed itself by tokens which made her complaints ridiculous. The beggared, the bankrupt society, not only proved able to meet all its obligations, but, while meeting those obligations, grew richer and richer so fast that the growth could almost be discerned by the eye. In every country we saw wastes recently turned into gardens; in every city we saw new streets, and squares, and markets, more brilliant lamps, more abundant supplies of water; in the suburbs of every great seat of industry, we saw villas multiplying fast, each embosomed in its gay little paradise of lilacs and roses. While shallow politicians were repeating that the energies of the people were borne down by the weight of the public burdens, the first journey was performed by steam on a railway. Soon the island was intersected by railways. A sum exceeding the whole amount of the national debt at the end of the American War was, in a few years, voluntarily expended by this "ruined" people on viaducts, tunnels, embankments, bridges, stations, and engines. Meanwhile taxation was almost constantly becoming lighter and lighter: yet still the Exchequer was full. It may be now affirmed without fear of contradiction that we find it as easy to pay the interest of eight hundred millions as our ancestors found it, a century ago, to pay the interest of eighty millions.

"It can hardly be doubted that there must have been some great fallacy in the notions of those who uttered and of those who believed that long succession of confident predictions, so signally falsified by a long succession of indisputable facts. . . . They [the Philosophers] made no allowance for the effect produced by the incessant progress of every experimental science, and by the incessant efforts of every man to get on in life. They saw that the debt grew; and they forgot that other things grew as well as the debt.

"A long experience justifies us in believing that England may, in the twentieth century, be better able to pay a debt of sixteen hundred millions than she is at the present to bear her present load." [2]

In 1913 the honorable William E. Borah protested the unbearable debt of the United States. The debt then was 886 million dollars. He deplored the fact that such an unthinkable debt burden might be passed on to the next generation. Today the interest on the Federal debt is about six times as large as the principal of the debt which the thrifty Senator deplored. Time and progress have a way of bringing about adjustments, the solution of which we can see only dimly at present.

The Economic Aspects of Taxes

When we examine the growth and progress of the United States for only one or two generations it becomes clear that even the same percentage growth over the next quarter or half century will make it possible for us to subdue the present unbearable debt, and get taxes down to reasonable figures again, and at the same time raise the standard of living. The clear-cut road to this end is through organization, work, production and distribution of the fruits of science and industry which will increase our real income. Any one or any group that restrains our progress is an enemy of this country and our democratic society and the restraint should not be tolerated for the good of the whole country and the generations to come.

2 The History of England from the American Accession of James II, by Thomas Babington Macaulay, Vol. 4, pp. 436-8.

The per capita income in the United States was increased from $575 in 1940 to $1,150 in 1945, or 100%. This increase varied in different sections of the country and in different industries as would be expected. In New England the increase was only 78%, while in the Southeast the increase was 136% and in the Northeast 143. Can we hold this increase in income and add to it? The large factor in the increase during this period was the government spending and the war activities. The Government spending was inflation and the results of the determination to win the war at any price. This part of the increase will shrink but the tax burden will remain until the debts are paid and the government budget shrinks back to normal. But there has been some increase in productive capacity which will remain. This increased productivity will help to pay the taxes and raise the standard of living.

Congress has the final say on how much taxes can be reduced. While taxes must remain high it is urgent that the burden be so distributed that it will have the least depressing effect on production and employment. Every tax that reduces production reduces the source of income with which to pay taxes. Every tax that takes money out of the pay check of the working man reduces his wages and his ability to buy the goods and services he needs. Every tax that overcomes the incentive to produce goods, establish new businesses, and take the necessary risks of industrial production, reduces the source of income from which all taxes are collected. Taxes on business discourage expansion and reduce production. When the risks are too great capital is withdrawn from production. This reduces the income from which taxes are paid, and also reduces employment. While taxes are necessary and must remain rather high, still the taxes can be so levied that they will encourage investment in new capital goods for production, and increase income and employment.

In spite of the present high tax rates on large incomes, more than 90% of the Federal revenue is derived from incomes of $10,000 and less. The government could not add greatly to its needs for revenue if it took all the income in the million dollar income class. The main source of tax revenue must be the average income. From the standpoint of both the maximum revenue and the necessary encouragement to business production taxes should be carefully placed where they will do the least harm to production and employment.

Labor and Management Versus Taxes

The tax burden falls upon both producers and consumers no matter what form it may take. For the most part producers and consumers are the same people. It seems that here management and labor as well as the consuming public should get together and demand that if they are to meet these tax burdens out of production, and they have no alternative, that they should have every opportunity and freedom to increase production and have the benefits of free markets to do the job. The best solution to prices and costs is to let free competition regulate them, and let increased production flow to every corner of the world where buyers and sellers meet. The present scarcity created by the regulations of governments, tariff barriers, quotas, and all manner of controls are the enemies of increased production and a higher standard of living. In the motor car industry we are told that there are many scarce products, for example. Why is there a scarcity of copper, lead, zinc, and scrap iron? Before the war there were plenty of these products. Tariffs and trade regulations prevent the production and importation of these products as needed. It seems enough to point out that all barriers to production and free markets should be removed for the best interests of all people everywhere. An increase in production with declining costs and prices would bring a real increase in wages or an increase in the buying power of the wage earner's dollar.

Labor and management should join in demanding freedom for production and free markets the world over. Everyone should be eager to bring about the fullest possible production. Monopoly and price fixing should be stamped out. Free competitive markets guided by supply and demand should be open to everyone. The Government should assume its responsibility of restoring sound money which is the common denominator of all our incomes. Economy and thrift are good old fashioned virtues that the Government has a right to expect of both labor and management, and they in turn have both a right and duty to insist on economy and thrift on the part of the Government.

Canton O'Donnell With Peters, Writer Firm

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Canton O'Donnell has become associated with Peters, Writer & Christensen, Inc., U. S. National Bank Building, members of the Chicago Stock Exchange. Mr. O'Donnell was formerly manager of the securities department for Garrett-Bromfield & Co., Prior to serving in the U. S. Army he was head of O'Donnell-Owen & Co. in Denver.

Canton O'Donnell

Can Britain Afford It?

(Continued from page 14)

bility of sterling in three months, even though this is certain to weaken further its foreign exchange position. By the same agreement Britain is pressed to settle the blocked sterling balances, even though the knowledge that the United States want an early settlement encourages the creditor countries to insist on very harsh terms. At the Geneva Conference the United States means to hold Britain to the undertaking to support the American policy of non-discrimination, even though this would deprive Britain of the principal weapon with which to defend its balance of payments.

The impression is gaining ground that, as between the two wars, the United States prefers to accumulate gold and foreign bonds rather than let Britain and other debtor countries have an export surplus. Indeed, it is even suggested that the United States appears to prefer to increase their strategic financial commitments overseas, such as the assistance to Greece, rather than let Britain secure the means of continuing such commitments, thanks to foreign resources secured through bi-lateralism and other methods of discrimination.

To allow Britain to work out its own salvation in respect to foreign exchange requirements through strengthening rather than weakening economic links with the British Commonwealth and the Sterling Area, and through continuing and concluding bilateral pacts would be admittedly detrimental to American export trade. But is it permissible to ask what the United States stand to gain through an export surplus if it has to be spent on supporting other countries? Would it not be more to the advantage of the American taxpayer if, instead of supporting them, they were enabled to become self-supporting? Should the policy of non-discrimination prevail in Geneva, it would admittedly mean more business for the American exporter. But it would also mean more sacrifices by the American taxpayer who will have to bear the burden of the deficits of the balance of payments of other countries, deficits that are the counterparts of the American export surplus.

The argument concludes that the need for the United States to take up costly overseas commitments relinquished by Britain is the logical, natural and indeed inevitable consequence of the policy aiming at receiving a big export surplus at all costs. As far as Britain is concerned, the disruption of the economic unity of the British Empire will lead to further withdrawals of Britain from overseas outposts. This will confront the United States with the dilemma of assuming the burden of these commitments or allowing Soviet Russia to take control where Britain can no longer hold on.

Chas. M. Jones Opens In Hollywood, Calif.

(Special to THE FINANCIAL CHRONICLE)

HOLLYWOOD, CALIF. — Charles M. Jones has opened offices at 1560 North Vine Street to conduct a securities business. Mr. Jones was formerly President of Delaware Fund Distributors, Inc.

With G. Brashears & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harry R. Portman has been added to the staff of G. Brashears & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange.

Joins First California Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — J. Foster Paisley is with First California Company, 510 South Spring Street.

With Mitchum, Tully & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.— Frank G. Plaisted has become affiliated with Mitchum, Tully & Co., 650 South Spring Street. He was previously with Slayton & Company, Inc.

Joins Paul H. Davis Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Robert W. Jensen has joined the staff of Paul H. Davis & Co., 10 South La Salle Street, members of the New York and Chicago Stock Exchanges and other exchanges.

Restore Federal Reserve to Its Essential Functions

(Continued from page 5)

Credit Management, Debt Management, and the manner in which interest rates are affected, I should like to comment briefly on two other points of fiscal policy which are indirectly related to the subject.

The first of these concerns the underlying philosophies of taxation. It seems to me that we need to adopt more of the tax theory which governed such legislation in the 1920's and less of that which governed in the 1930's.

Second, I shall comment on the necessity, at this time, of giving the major emphasis to tax reduction as opposed to debt retirement. I do not wish to give the impression that I consider debt reduction of minor importance. On the contrary it is of major importance. The point that I wish to make is that we cannot be content to argue along the general lines of so-called orthodox principles. Over the next year or so further debt reduction will not materially influence the volume of liquid assets available for the purchase of goods nor will it have any important effect on Treasury expenditures. Conversely, however, our tax structure is currently too high to live with, and we need, particularly at this juncture, the maximum benefits that can be obtained from tax reductions.

In the fields of Debt Management I shall cover the following general points:

First, I shall illustrate how the numerous changes in Treasury leadership have made it difficult to formulate flexible Debt Management policies.

Second, I shall illustrate the impracticability of stabilizing the current pattern of rates—from 7/8% to 2½%. On the one hand the Treasury aims to achieve stabilization of intermediate and longer-term rates. On the other, it acts to unstabilize these by an arbitrary support of the 7/8% rate. The result is to lower the yields on all investments, to increase the problems of stabilization, and to interfere with our system of credit controls.

Third, I shall describe to you the three principal elements of that budgetary item which is partially misnamed "Interest on the Public Debt." I shall point out that under present Treasury procedures, and in spite of present policies, these costs are bound to increase regardless of a desire and an endeavor to prevent them from increasing beyond their publicized figure of $5 billion per annum.

Fourth, I shall illustrate how one phase of Treasury policy discriminates against a major section of our people in favor of another.

Fifth, I shall outline how Treasury war financings and the necessary cooperation of the Federal Reserve System combined to produce an unwritten amendment to the Federal Reserve Act which makes it impossible for our banking and credit systems to function soundly.

Sixth, I shall outline a relaxation in Treasury wartime policies which would increase the ability of the Federal Reserve to discharge the responsibilities which Congress has given to it. These Treasury wartime policies have not undergone any material change and constitute a subtly dangerous situation.

Finally, I shall answer two questions which Treasury officials like to ask of those who would advocate changes in present policies which would shift the balance of powers more in favor of the Federal Reserve System.

The first question is "How much would it cost?" The answer is that it would not increase costs at all.

The second question which Treasury officials like to ask is "What would the taxpayer get for his money?" Since the taxpayers' costs would not be increased the question seems irrelevant. It bases in the knowledge that present policies are designed to lower costs in spite of an ostensible desire to stabilize interest rates. The question might better be phrased—"What will a continuation of present policies cost the American people?" The answer to that question depends upon the damage that can be wrought by a further unrestricted use of bank credit, or by revolutionary changes in the banking structure.

This completes the outline of my talk. I now would like to broaden my reference to tax philosophies. The thought which seems to illustrate best what I have in mind is a statement made last Winter by a leading business man who was discussing strikes. This was to the effect that if the general environment created by Government policies were not conducive to the maximum of private investment in American business, and if taxation continued to be destructive of the ingenuity and energy of American business managers, it might be only a relatively few years before labor would find business profits too small to make strikes worth while. In the end, labor might be able to strike only against nationalized businesses — and this condition would mark the end of organized labor.

Two Opposing Schools of Thought

We should recognize that there are two opposing schools of economic thought. The views given above follow the school of thought in which the volume of private investment and adequacy of production incentives are presumed to govern our ability to achieve prosperity. On the other side are those who believe that the volume of consumer purchasing power must provide the answer. The latter was the theme song of the Thirties.

The 1920's may have represented an exaggeration of the first; the period of the depressed Thirties was a clear example of the inefficacy of the second. The more satisfying answer lies in middle ground, but our historic national growth and advancement is the world's best example of the overall benefits which have accrued from harnessing the *maximum* of individual ingenuity and energy with individual savings in conjunction with a privately operated business economy.

In the 1920's the basic tax approach rested on the theory that the more of one's earnings that could be retained—after taxes—the more each might strive to increase his earnings. Under the incentives of such lower taxes, we increased the levels of national income sufficiently to provide a volume of tax receipts equal to that which could have been expected under a higher tax structure and less adequate incentives. Under the tax philosophies of this period greater incentives were provided for the investment of capital, and for business management to strive for fuller production, than has been the case since.

In the '30s the theory of consumer purchasing power was given fuller sway. As taxes were increased the "ability - to - pay" theory was abused in a manner that discouraged investor and business manager alike. The United States lagged in its recovery relative to most other nations. Only a war ended the depressed state of the economy. The war needs carried "ability - to - pay" taxation far beyond the fondest hopes of our most ardent social planners.

If we follow the philosophy of the '20s, we can afford to cut all taxes in a greater dollar amount than otherwise because we will increase the incentives to produce goods and to enlarge the national income. If we follow the consumer purchasing power theory, we can afford to cut taxes a lesser amount because the prospects of either an expanding economy or of a stable prosperity would be materially reduced.

How long can we continue with a tax structure that is so heavily weighted against our traditional sources of prosperity? This is a crucial period. We need greater incentives for the investment of capital on a continuing basis, and we need the maximum tax relief for those who manage businesses, whether large or small. The alternative is a drift towards socialism.

A second indirectly related point concerns the necessity, at this time, of using the prospective budget surplus primarily for tax reductions instead of for further debt retirements. We must differentiate between the kind of debt repayment program that has gone on over the last year and the kinds with which we hope to deal in the future. This recent debt retirement program has been essentially a reversal of the Victory Loan. The huge deposits that the Treasury built up in the Victory Loan were used to repay bank-held debt instead of being transferred to private deposits. This tightened the money position of the commercial banks and forestalled some of the tremendous pressures which were pushing interest rates lower. This program, however, now has been virtually completed. The Treasury's cash balance has been reduced to a level close to normal.

Future retirements of publicly-held debt will have to originate in two different ways. Even though the Treasury did not achieve a budgetary surplus, but simply met with a budgetary balance, the Treasury would have excess cash receipts. This situation arises because of the receipts of various trust accounts, particularly those of the Social Security funds. The surplus cash receipts received from these funds have to be invested. This means that publicly-held issues are retired while special Treasury securities are issued to these funds. The total Government debt remains unchanged, but public holdings are reduced. To the extent that the Treasury thus has a *cash surplus*, even *without a budgetary surplus*, this increment of publicly-held debt withdrawal has the same deflationary effect as is true of a budgetary surplus. Whenever the Treasury has a budgetary surplus the deflationary impact is further increased.

The matter which is currently being discussed in Congress is whether an additional deflationary impact should be created by using some portion of the prospective budgetary surplus for a reduction in the total debt. This raises the question as to whether it would be better to reduce debt at this point, or to use the entire amount to reduce taxes. It is my firm conviction that the sounder policy would be to apply the entire budgetary surplus to tax reductions.

Taxes are at such high levels as to threaten seriously the continuing investment of capital, and to reduce seriously the latent ingenuity and energy of business managers. The best way to increase production, to maintain full employment, and to encompass the price inflation, is to increase production by applying to our existing plant and machinery the maximum of the ingenuity and energy of which our business leaders are capable. Then as we start to catch up with certain shortages, we want to make sure that we will continue to have the capital investment which is necessary to the final achievement of our goals.

Compared to this the so-called anti-inflationary effect of applying some portion of this budget surplus to debt reduction can be only minor. Such a reduction would constitute a small percentage of the total liquid assets which can be thrown currently against the prices of goods and services. I want to emphasize likewise that the sustaining effect which comes from using the bulk of the budgetary surplus for a reduction of taxes in the lower brackets of income would be inflationary in character and would fail to contribute to production. Production is the important problem that is with us for the moment.

Some may object to this point of view on the grounds that debt reduction would reduce the interest cost on the public debt and consequently reduce the total Government expenditures. A little arithmetic, however, shows that this reduction would be negligible. If the Treasury continues to refund maturing obligations with 7/8% Certificates then each billion of net debt reduction would save only $8¾ million in interest payments. Even if, as I later suggest, the Certificate rate were permitted to fluctuate up to 1½%, the annual savings would not exceed $15 million. Obviously, savings of this scope are insignificant in a total of Government expenditures of $33 billion to $37 billion. The benefits to taxpayers and the advance toward a sounder economy would be infinitely greater if each billion of budgetary surplus were applied to tax reductions instead of an alternative saving of $8¾-15 million in interest payments.

Before I leave this subject I want to emphasize to you that I have been discussing the desirability of maximum tax reductions as opposed to further debt reduction *at this particular time*. After we have reduced the present excessive burden of taxes on the middle and higher income groups sufficiently to provide the greater incentives that are necessary for a sound economy, then, and then only, should we give greater weight to reducing the large public debt.

Credit and Debt Management

I shall now turn to the general subject of Credit and Debt Management. I referred earlier to the numerous changes in Treasury leadership and the difficulties these presented to the formulation of proper Debt Management policies.

Over the last two years three different men have occupied the chair of the Secretary of the Treasury. Three different men have held the post of Under-Secretary. The present leadership represents a relatively new team. It is natural that each of these men would wish time in which to become more familiar with the intricate problems involved. Meanwhile each would prefer to defer all possible decisions. They would be acting contrary to the high regard in which they individually are held if they were inclined to act before they believed they had had a full opportunity to view the facts.

These repeated changes in important posts serve, however, to prolong the period before important decisions can be made and they increase the uncertainty as to Treasury policies. With each change there is a renewed opportunity for groups that favor lower and lower interest rates to influence Treasury policy decisions. Time is on the side of these groups, because the maintenance of the existing short-term rates tends to depress long-term bond yields and the rates on all classes of loans. These groups further their objectives if they convince the present Treasury management that decisions should be deferred. This lower interest rate group has never shown much concern over the consequences of inadequate credit controls.

The second point in the field of Debt Management concerns the impracticability of stabilizing the current pattern of interest rates with 7/8% at one end and 2½% at the other.

The President in his Budget Message last Winter said that the Government's policy was ". . . designed to hold interest rates at the present low level and to prevent undue fluctuations in the bond market . . . The stability of the Government market has been a major factor in business confidence . . . The Treasury and the Federal Reserve System will continue their effective control of interest rates."

An assurance of these "floors" at either end of the pattern causes investors to assert a natural preference for the longer and higher-yielding issues. This means that the intermediate and longer-term securities are marked by persistent demand and that 7/8% Certificates are marked by a more or less continuous supply. In order to stabilize the pattern under such circumstances, and to prevent the 7/8% Certificates from selling in the market below par, the Federal Reserve has cooperated by purchasing Certificates at a slight premium. This cooperative policy was inagurated early in the War and has been followed ever since.

Commercial banks holding Certificates sell them in accordance with their individual desires and, in most cases, the Federal Reserve is the buyer. Consequently, the commercial banks obtain Federal Reserve funds which provide a credit base from which they may make loans or purchase securities in an amount more than 5½ times the volume of Certificates sold. To the extent that commercial banks use this credit for the purchase of other securities the prices of these other securities rise and their yields decline.

During the War the Treasury met the demand for intermediate and longer-term bonds by offering periodically unlimited amounts of bank incligible 2½% issues. This kept the price of the 2½% bonds from breaking out of the pattern toward lower yields. This was not true, however, in the case of intermediate and other bank-eligible issues, because the Treasury, for reasons of its own, preferred to force this bank demand into the market where it had the maximum effect in increasing prices and decreasing yields.

The Victory Loan seemed to mark the end of 2½% offerings, and the market prices of outstanding issues were bid up. When the price of the 2½% bonds reached 106½ the 2½% end of the pattern seemed to have been broken because the Treasury would be placed in a most embarrassing position, politically and otherwise, if it were to offer 2½% bonds at par while similar issues were quoted at 106½ or any price near that. The Treasury was forced by this market condition to start what has since been termed the "open-mouth policy" of controlling interest rates. It has tried to keep the market yields for these bonds somewhere nearer to a 2½% basis—by talk instead of by action. Statements were made that the Treasury was satisfied with the 7/8%-2½% pattern. Periodically widespread rumors hit the market that new 2½% bonds were about to be offered, and prices of long-term issues receded sharply. When the decline had carried the market prices of these 2½s down to 101⅝, the "open-mouth policy" said that the Treasury was not justified in paying more than 2½%. As prices increased, rumors of an impending 2½% issue revived.

As such rumors became less effective, various Federal Reserve officials began to talk about the possibility or the desirability of an increase in short-term rates. More recently this talk has begun to wear thin. The price of 2½s and the prices of other securities have been increasing. Competent observers have believed that the present market situation was one that could explode on the upside to materially higher prices almost without warning. The newly devised policy of paying off Treasury Bills instead of Certificates may or may not be effective in forestalling this possibility.

As most of you know, general interest rates are more affected by current market yields of Treasury securities than by the possibility that the Treasury may be willing at some future unspecified date to offer additional bonds at a 2½% basis, or that some time in the unpredictable future the managers may get around to unfreezing short-term rates. The yields on corporate issues, on term loans, on municipal securities, and on mortgages, relate to actualities—namely, the existing market yields on comparable Treasury securities. Recently, the long-term 2½% Treasury bonds have been selling at around a 2.30% basis. This is the real yardstick for other rates. As evidence of the current failure of the Treasury to stabilize the market within the established pattern, one can call attention to the recent purchase by a large insurance company of a single issue of industrial bonds with a 25-year term in an amount of $100,000,000 at a 2.50% yield.

The large debt repayment program engaged in over the last year gave the Treasury and the Federal a breathing spell. But in the same period of time the market supply of securities yielding more than ⅞s has diminished materially. This market is so thin today that a small demand could cause a fairly sharp decline in the pattern of market yields. Yet banks find themselves in a situation in which the loss of earnings from reduced holdings of Governments and a reduced rate of interest on them forces them into the market as buyers.

In other words, the managers seem to have come close to the end of their rope on the "open-mouth policy." Further, they cause banks and other investors to be faced with the prospect that their short-term holdings will be steadily increased and the effective earning rate from existing holdings will decline. Nothing has yet been done to change the preferences for longer securities or to increase their supply. It just is not practical to stabilize longer-term yields as long as the Treasury insists on a ⅞% Certificate rate defended by involuntary purchase by the Federal Reserve System.

My third point was that there are three elements which comprised interest on the Public Debt. The first element of these costs is that paid to Treasury trust funds and agency accounts. The second is that attributable to Savings Bonds. The third is that which is paid on the *publicly-held* marketable debt.

In the fiscal year *1946* the Treasury paid to its trust funds and agency accounts some $600 million of interest. The *1948* figure should total more than $700 million. Over succeeding years the total payments will show further substantial increases. It should not take many years (under existing practices and requirements) for the total to materially exceed $1 billion.

Some of these funds receive interest currently at 2%, others require more favored treatment; i.e. at rates up to 4%. For example: The National Service Life Insurance Fund, which is one of the larger funds, receives 3%. The Government Life Insurance Fund receives interest at 3½%. But this is not all of the story. The interest which is paid to most of these amounts to a compound interest. The interest payment of one year is capitalized into new debt and, in the succeeding years, interest must be paid on the original investments plus these increments of capitalized interest. Where the rate of interest exceeds the current market rate, then the so-called interest payments are in reality a concealed subsidy by which direct appropriations can be reduced. In other words these are indirect appropriations—not interest. If the appropriations were not made under the guise of "Interest on the Public Debt" they would have to be made as direct appropriations to the particular accounts or the applicable legislation changed.

It seems to me to be misleading, therefore, to have the interest payments to these funds included as an item of Interest on the Public Debt. Certainly there is only an indirect relation between this interest cost and interest rate and credit problems.

The second element is the amount of interest appropriated for the account of Savings Bonds. Treasury accounting procedure includes in Interest on the Public Debt the increase in the redemption values of discount Savings Bonds. Since the schedule for redemption values accelerates, the amount which will have to be appropriated in succeeding years should be substantially higher than at present. This assumes, of course, that no particular change occurs in the amount, or series distribution of the outstanding issues. This item amounted to about $600 million in fiscal 1946 and may rise to $1.3 billion. Again there can be very little relationship between this element of interest cost and the changes outlined for short-term interest rates.

The third element of interest is that paid to the public holders of marketable debt. Excluding the Federal Reserve holdings, the average weighted cost of interest on marketable Treasury obligations due or maturing within five years is about 1.60%. Since the Treasury has indulged in a policy of refunding all of its maturities into Certificates bearing interest at ⅞%, it is steadily reducing the payments to public holders of marketable debt. At the same time Savings Bond interest continues on its original schedule, and payments to trust funds, etc., are increased. In fiscal 1946 total interest payments were $4.7 billion. Deducting interest paid to trust accounts and accrued discount on Savings Bonds, the amount paid on publicly-held marketable debt was $3.5 billion.

Now I would like to comment on two points. The first is that Treasury interest payments are taxable. One estimate that we have heard of the effective rate was about 30%. If this is correct, then the real cost of our third element of interest is less than 2½ billions, or one half of the total gross appropriation. This is the *real cost* of the debt that can be *directly affected* by Treasury and Federal Reserve policies concerning interest rates.

The second point is that the interest costs on the debt are going to rise no matter how persistently the Treasury adheres to a rigid ⅞% Certificate rate, or how consistently it refunds maturing issues into such securities. The increase in the interest payments called for by *either* (a) the trust funds etc., or (b) the payments calculated for Savings Bonds, will outweigh any continuing discrimination against holders of marketable debt. Furthermore, since the annual savings from debt retirement (under such interest rate or refunding policies) is limited to some figure between $8¾ million and $15 million per $1 billion of retirement, no adequate offset can be obtained by retiring debt.

Many students believe that the Treasury should educate the country to this arithmetic of interest requirements. This would help us in discussing whatever problems are involved.

Fourth, I said I would illustrate how another phase of discrimination occurs. A New York banker put this rather well the other day. Assume that we know of two men each earning $300 per month. Assume that one is single and that one is married with two children. The single man is in a position to save a certain sum each month. The Treasury provides this man with an investment from which his savings will earn at the rate of 2.9%.

The family man finds that such cash savings as he can make provide him with inadequate protection. He seeks this protection and his future independence by making small contributions to his employer's pension plan and by the purchase of insurance. At what rate can the pension funds and insurance company offer protection? Under the stabilization policy we might answer with 2.50%. Right there we have a discrimination. 2.9% to the individual whose direct savings provide adequate protection; 2.5% for the family man whose savings must be smaller and whose real needs are greater.

But—because of the rigid ⅞% short-term policy the pension fund and insurance company have to deal with a 2.3% market yield and comparably lower returns from all other forms of investment. The discrimination is widened by the Treasury's ⅞% policy.

Fifth, I shall discuss the unwritten amendment to the Federal Reserve Act which has resulted from Treasury and Federal Reserve cooperation. I want to make plain that I do not quarrel with the cooperation during wartime. We had a big job to do—it had to be done quickly. A tremendous amount of education was necessary. My principal quarrel with the wartime cooperation has been that when it became plain that the ⅞% Certificate rate was the least popular of all, and that we were unnecessarily lowering all interest rates as a consequence, the Treasury insisted on maintaining it simply because it helped to lower the average interest rate on the debt.

I also do not quarrel with the Reconversion cooperation. The facts being as they were we simply had a bear by the tail. But now we should consider ourselves on a peacetime basis—and what do we have?

I have already outlined how the Treasury's insistence on maintaining a ⅞% Certificate rate has required the purchase of such securities by the Federal Reserve. This results in unlimited extension of Federal Reserve credit, and this extension of credit remains at the option of the private commercial banking system. In other words, the maintenance of the ⅞% rate has required that the Federal turn over to the private banking system a major means of credit control which heretofore had been held by the Federal.

Now let me quote that portion of the Federal Reserve Act which prescribes how the open-market operations of the Federal (such as Treasury security purchases) shall be governed:

"The time, character and volume of all purchases and sales of paper described in Section 14 . . . as eligible . . . shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country."

Let me also remind you that the preamble of the Federal Reserve Act states that one of the reasons for establishing this System was ". . . to furnish an elastic currency." The currency of this country is predominantly its bank deposits. The volume of bank deposits can be expanded by the banks with Federal Reserve funds. The rigid ⅞% Treasury policy requires the Federal to provide these funds on a basis which seems wholly inconsistent with its legislative authority. Thus we acquire a one-way stretch and not an elastic currency.

It seems clear to me that this situation constitutes either an unwritten amending of the Federal Reserve Act or a violation of Congressional intent. The Federal Reserve is on record with Congress to the effect that it cannot fulfill its credit functions. It has asked for additional legislation. Bankers are virtually unanimous in condemning the character of the authority requested. Why is it necessary? Almost entirely because the Treasury wants to keep the ⅞% certificate rate.

Sixth—I want to outline in a general way a method of relaxing Treasury policies which would increase the ability of the Federal Reserve to discharge its credit responsibilities. I want to make it clear that I do not consider this suggestion as a full answer to the problems involved, i.e., that I do not believe that I have found any panacea which would completely remove the obstacles to adequate credit controls while simultaneously fulfilling the requirements of proper Debt Management. I also want to state that I consider it important, certainly for some time to come, that the market price of long-term Treasury 2½% bonds should not be permitted to decline below some small premium above 100. I do believe that the suggestions which follow provide a practical solution under certain circumstances and that the required circumstances exist.

As I pointed out earlier, the average weighted cost on marketable Treasury debt of up to five-year term is 1.60%. As long as Treasury policies result in refunding these securities at an average rate not in excess of 1.60%, no one can claim that such policies have cost the taxpayer one cent more than the present costs of this debt. It is practical for the Treasury to refund its short-term debt at rates up to 1½%. In other words, the Treasury can afford to relax its current insistence on maintaining a ⅞% rate for Treasury Certificates and need not be disturbed if the average Certificate rate were to rise as high as 1½%.

The rediscount rate governs the open-market rates on all prime short-term paper. If, in Certificate refundings, the Treasury were to permit the market to set the rate, competent market opinion is that the prevailing rate would not be far from the rediscount rate, namely around 1%. This opinion assumes that the Federal's credit control policies would be neutral. If, on the other hand, the Federal wished to contract the credit base it could force its holdings on the market until the rate increased to 1½%.

The Federal holds $24 billions of Treasury securities, but it currently has an inadequate area of action when it *has* to buy on an .85 or .86% basis. It does not need a large area of action but it does need a larger one. The *purchase* of $1 billion of Treasury securities by the Federal expands the credit base by about $5½ billions. Similarly, the *sale* of $1 billion would tend to contract credit by $5½ billions.

The stabilization of interest rates, however, is not simply a matter of quantitative controls. In the 1930's the commercial banks held billions of excess reserves but there was a general reluctance to rush for intermediate and long-term securities or loans. Bankers were too uncertain about the future of interest rates and the business outlook. Since then, banks and others have become accustomed to a policy of being more fully invested. Investors are quite certain about rates under existing conditions; they are eager to buy almost anything. Their patience is tried by their endeavor to refrain. But, if we could obtain an increased area of action with a fluctuating Certificate rate, several things would change. First, the Federal *could* contract the credit base. Contraction usually meets with a more positive reaction from the money and credit markets than the reverse. This reacquired control by the Federal would introduce a small, but desirable element of uncertainty. The slightly higher short-term rates and lessened certainty would change many existing investor preferences away from the current concentrated desire for longer securities. Moreover, the sale of short Treasury securities by the Federal would serve to limit undesirable expansion of credit by banks, and would rechannel credit and investment demands so as to be effective in decreasing any cumulative pressures on long-term interest rates.

Now for our questions: The first was "How much would it cost?" I have already answered this question, as it applies to a more flexible short-term rate, by saying that it would not increase costs at all. I don't know how the answer can be given any more plainly.

The second question was "What would the taxpayer get for his money?" If the taxpayer doesn't spend any more money, what is the relevance of the question? As an actual matter, however, both taxpaying and non-taxpaying Americans would gain. At no cost they would gain by a return of the kind of a banking and credit system that is necessary for a prosperous private economy. To say that the requirements of Debt Management have changed the picture is an insufficient answer unless one spells the changes it impels in our historic system. Only the stubborn preference of the Treasury for a too low rate on short-term securities remains in the way. The rate obstructs the proper functioning of the banking system.

It seems to me that if the Treasury wishes to measure costs in this connection, it should measure the costs—not to the taxpayers but to all Americans—the costs that result from either an unregulated use of Federal Reserve credit or from strangulating the banking ssytem with detailed control measures.

I would summarize my comments as follows:

On taxation we need to decide which of two widely different philosophies we want to emphasize—that which requires the offering of greater incentives for the investment of capital on a continuing basis and to the managers of business, or that which follows the consumer purchasing power theory of the '30s. The latter permits short-run coddling of the mass voting groups at the expense of a long-run drift toward socialism. I have pointed out why we need to follow the first of these philosophies.

With respect to tax reduction vs. further debt retirement: It makes very little sense to emphasize further debt retirement until we have achieved a sounder structure on which to erect our future economy. Further debt retirement is important, but only after we have been able to make adequate reduction in taxes at the proper income levels.

On Treasury and Federal Reserve policies: It is hoped that the new team to which we look for Treasury leadership has had time to review the facts to its full satisfaction. The facts plainly show that a flexible short-term rate is necessary to the stabilization of longer-term interest rates and to the reestablishment of adequate credit controls. The Federal Reserve, under its authorizing legislation, should become the more dominant force in both of these fields. While we may condone, under the exigencies of war, the unwritten, unlegislated amending of the Federal Reserve Act, we should not be expected to wait indefinitely for the Treasury to agree to its repeal. No increase in the present costs of interest to taxpayers would be involved if suggestions comparable to those outlined were adopted. All Americans are entitled to a banking and credit system that can function more properly than is now the case. The Treasury needs to throw away its ⅞% lollipop.

Our Domestic Economy and Foreign Affairs

(Continued from page 9)

pendence, nor dependence, but interdependence—that is, dependence both ways.

Let us start with the most obvious relationship—our dependence upon other countries for certain products. Last year we imported $5.2 billions of commodities from abroad and the estimate for 1947 is $6.7 billions. The greater part of these tremendous totals either was not available here or could have been obtained or produced here only at much greater cost. Some items need a different climate—coffee, rubber, bananas, and chocolate, for example, all come to this country by boat. The lac bug which is responsible for our shellac seems to thrive only in India and Siam. Nor were minerals located on this globe in some earlier geologic age with an adequate consideration for the future requirements of the United States of America. Consequently, our tin, diamonds and nickel, for example, must come from abroad. In some few instances, the technologists have been able to reduce our dependence on other areas by developing new products and processes such as synthetic rubber and the fixation of nitrogen. But in other fields, our dependence on foreign sources is increasing rapidly—a tendency accelerated by the great demands placed by the war upon our natural resources. Perhaps the extreme illustration is lead, which we regularly exported before the war, and which much now be imported in substantial quantities to meet our domestic requirements. In fact, a number of our bottlenecks in production at present can be traced to our dependence upon foreign resources and the failure of foreign supplying enterprises for one reason or another, to operate at full production.

Our foreign relations also involve the flow of commodities in the other direction. Over the years, a segment of our national plant and equipment has been created in order to sell in foreign markets. Our electric refrigerators, our flashlights, our rubber tires, and our cotton go all over the world. At the moment, we have an unsatisfied domestic market in many items, but cotton would not be selling at 35 cents per pound if we had not sent millions of bales to foreign countries, largely through UNRRA and Export-Import Bank credits.

It is obvious that the flow of goods in and out of this country is a big industry in itself, requiring transportation, insurance, financing and other services. And any serious failure to maintain this flow, would put some millions of American businessmen, farmers, and workers out of business.

Our Foreign Stake As Owners And Creditors

There is another important type of economic link, and that is in the field of ownership and finance. Americans own factories abroad. Our private and public extension of credit has made us a great creditor nation. Some of our recent government assistance has gone out as an outright gift—but much of it has been in the form of credits. Private investments carried over from before the war bulk exceedingly large. As owners and creditors, we have a real and tangible stake in other economies.

Furthermore, our economy is tied to other economies in the process of economic operation itself. Commodity prices, for example, are not insulated from foreign influences. It is not necessary for there to be a major flow of a commodity from one country to another to affect prices—the fact that it can flow is enough to keep prices in a rough sort of relationship. And financial operations are even more sensitive. International finance has always transmitted strains and stresses from one country to another with great rapidity, although various steps taken in recent years to reinforce credit structures have provided some degree of protective insulation.

Perhaps the best demonstration of this matter of international economic relationship is provided by the record of business activity in various countries in the past. More than a century ago, there were clear evidences of the international character of cycles of business conditions. The boom of 1815 and the sharp collapse thereafter appears in the records of France, Great Britain and the United States. The same end to a prosperity period appeared in many countries in 1837, 1847, 1857, 1873 and in 1882. And in more recent years, the international synchronization of the rhythm has become increasingly clear-cut, except when wars have thrown various countries out of step temporarily. The year 1890 was a crisis year everywhere, and so was 1900, 1907, 1913, 1920 and 1929. The record is clear that no major trading country has been able to isolate itself for long from the effects of business conditions in other countries.

Foreign Effects vs. Our Domestic Economy

I could continue to develop this line of argument, but I doubt if much persuasion is needed on the general point that our domestic economy is affected by foreign economic affairs. But this poses a most difficult question for American foreign economic policy. The difficulty is created by the fact that so much of the world is in terrible shape. For great areas of the world, the present level of economic activity is tragically low. Not enough men are working. Not enough goods are being produced. Whole industries and trading areas suffer from economic paralysis.

We in this country have difficulty in fully appreciating the situation in other countries, because the United States is above the pre-war level in economic activity. We are breaking production and employment records. But we are very much the exception. In some parts of the world, industrial and agricultural activity is not more than half the prewar level. Hunger and starvation are the present threats to existence rather than bullets and bombs.

This wide contrast has implications for us from many angles. At the moment, we may feel competent and confident in our prosperity. But we cannot escape from the lines of international contact which I outlined earlier. The depressed condition of so many other countries offers us either the opportunity to maintain our prosperity as they recover, or the threat of depression if they slide into chaos. I do not wish to imply that economic conditions in this country are entirely dominated by foreign influences. I am sure that we are able to slide into depression without outside aid. But I do say that the economic state of the rest of the world is a major influence on business conditions here.

The low level of activity in so many other countries is due to a number of causes which presumably do not need elaboration. Global war, by definition, means not merely the effort to destroy the military forces of the enemy. It means, also, the effort to undercut the effectiveness of the enemy's military operation, by disrupting and destroying the economic life which supports the enemy. Such methods of warfare proved to be so thoroughly effective that the heritage of the war in nearly all European countries is not merely the simple effects of conversion to war and undermaintenance during the war, but the disastrous total loss of significant elements in the economy itself. Transportation facilities and strategic factories were favorite targets. The estimates of damage from destruction and looting run to more than one-half the industrial wealth in those countries which suffered most.

War's Effect on Manpower

The problem is not merely one of physical equipment, of fixed capital. It also involves the effects of the war on manpower, the eradication and displacement of skilled labor and management, the disruption of usual channels of distribution, and the disappearance of many facilitating services. The process of recovery involves the reconstruction and reorganization of a thousand and one elements, all of which must work together smoothly to enable a nation to function as a going concern.

And even this is not the full total of the problem of these countries. Going beyond the direct elements or factors of production, there is the need for liquid financial resources, a necessary part of modern economic life. Enterprises must have working capital as well as fixed capital. As a natural corollary, nations must have foreign exchange. And this in turn affects their fiscal situation. Both foreign exchange and internal currencies must provide some assurance of stability. Until this stability is within sight, working capital will be reluctant to come out of hiding. It also means that part of the scarce and much-needed supplies of goods will be hoarded, such as food on the farms. They will move to market only if goods are available for purchase, or currency provides a secure medium for holding purchasing power for future use.

Political Instability

There is a third element in the problem which interferes with the efforts of these countries to cope with physical reconstruction and a virtually broken-down financial machine. This additional deterrent to recovery is political instability, which weakens the nations' framwork of law and order, thus laying open the economic processes to piracy, theft, corruption, and special privilege.

Political instability assumes many forms in this post-war period. In those areas of the world where native populations have achieved a new and uncertain independence, the young unseasoned governments have not yet established any firm pattern of new policy. Many of these areas and countries are important to the world economy as sources of raw materials. The present uncertainties concerning their probable political behavior create a risk which stands in the way of immediate economic investment and development. Elsewhere, within mature countries, a struggle for power is going on with the result that whatever governments may have formal authority, their coalition character greatly limits the extent to which they can take effective action without losing the support of some of the elements necessary to maintain their authority. Even a strong government would hesitate before taking an unpopular measure like reducing the food ration or greatly increasing taxes. Where governments are weak, it is not surprising that they are prone to temporize rather than to take drastic action.

New Degrees of Control

These many difficulties, particularly those in the economic field, have led countries to take whatever kinds of extraordinary measures the traffic, measured in votes, will bear. These vary from the operation of internal relief programs to the taking over of sections of industry for direct governmental control through the process of nationalization. Unusual fiscal measures are seized upon in the effort to prevent runaway inflation; and in the field of foreign economic relationships, most countries are now exercising controls through quota systems over the type of goods to be moved, and through foreign exchange control over the process of international payments.

These various steps should not be regarded as some hidden conspiracy against the business community or even against the principles of freedom of enterprise. To a large extent, they are the inevitable consequences of the present state of the world, and more particularly, of the countries where the distress is greatest. When we in the United States had a major economic job to do in producing the goods needed for the war, we found it necessary to establish many of these same types of control; and the foreign countries today have a much more difficult task to utilize the limited resources available to them to the full.

It is inevitable that many of these controls should be essentially restrictive. They arise because of the necessity for allocation to the most essential use of some short facility or material. But this leads to a basic difficulty. If a number of countries all adopt restrictive devices, trade among them is established at a minimum. In fact, it must then be carried on by the painful procedure of bilateral barter agreements under which arrangements are made for the exchange of specific quantities of specific goods. Obviously, such a way of carrying on trade is certain to fail to uncover most of the opportunities for working out transactions in the interest of all concerned. And it makes all trade dependent upon arrangements made by governments rather than by businessmen.

No Single Remedy

Up to now, I have pointed out that the world is in a critical economic state, and that the result of this necessarily has been a wide extension of government controls and restrictive devices. A third proposition which I am sure needs only to be suggested is that there is no single grand action which can resolve these difficulties, no one neat remedy for the world's economic ills. The domestic rate of production, the volume of foreign exports, the volume of foreign imports, the convertibility of foreign exchange, the stability of domestic currency, the extent of reconstruction and rehabilitation, the level of employment, and the standard of living, or perhaps I should say, of survival, are all completely intertwined with each other. Economists have sometimes tried to picture the operation of the economic system in terms of a series of complicated simultaneous equations. In mathematical terms, none of the elements which I have been describing is an independent variable. It follows necessarily from this basic fact that any program to deal with the situation must contain a number of elements. And failure to act in any area provides a brake on the possibility of progress in the others.

I shall not endeavor today to outline the efforts made by the United States Government with relation to each of the variables in the international economic picture. Obviously, we cannot bring about recovery in any of these countries. All we can do is to help create conditions which make it possible for the people of these countries, by their own efforts, to get the economic machine into operation again. We can provide gasoline and spare parts and perhaps a road map. We have provided goods and financial support to many countries through the very extensive relief and rehabilitation program carried out by UNRRA. After UNRRA halts its operations we intend to continue the job through a further relief program.

Relief Only A Stop-Gap

But relief is obviously a stop-gap, although a completely necessary one. The long-run program requires reconstruction, currency stability, and the revival of trade. As to the first two, we have already given much direct assistance. We have made surplus goods, including ships, available to foreign governments on credit terms. We have made extensive loans, some calculated with reference to specific reconstruction programs like the French loan, and some to ease a balance of payments deficit and permit the relaxation of foreign exchange controls, like the British loan. We have been the chief sponsor and contributor in the creation of two important international institutions—the International Bank to deal with reconstruction and development credits, and the International Monetary Fund to work for stable and convertible currencies. However, I wish to speak particularly of the problem in the field of trade because of its vital importance to our economy.

In the period before the war, interferences with trade were clearly on the increase. The world depression had thrown trade out of balance, and restrictions on imports were used by various countries to prevent any drain on the assets needed to back their various currencies. Furthermore, it was a period when forces of aggression were leading countries to adopt nationalist economic programs, and many nations were endeavoring to reduce their dependence upon foreign sources of goods and materials. Trade barriers rose rapidly.

Postwar Trade Barriers Worse

The present picture is far worse. Much of the world's trade today is carried on within a framework of specific quota restrictions. These obviously are likely to be much more harmful than tariffs. Quotas are absolute and under no circumstances can trade expand beyond their rigid limits. Tariffs do impose a hurdle that it is always possible for goods to flow over a tariff barrier if there is a sufficient need for them.

Quota systems carry with them another type of limitation not found in tariffs and that is that quotas necessarily imply allocation. A quota means that less can be imported than would move in a free market. But how will the reduction be made? By the government issuing specific licenses for specific imports. This means that the trade relationship of the quota-establishing country with each other country becomes a matter of separate negotiation, controversy and pressure. Thus a tremendous amount of specific government interference arises and the individual businessman is helpless in the face of decisions made by his and by foreign governments.

It is against this background that the United States put forward the proposal that an International Trade Organization should be established as one of the essential institutions of the United Nations, and that a fundamental purpose of the organization should be to find ways and means of reducing barriers to trade. Here in this country, we went so far as to develop, through an interdepartmental committee, a proposed charter for such an organization. Last November, this whole problem was discussed in London by a commission consisting of representatives of eighteen countries, which had been set up by the United Nations for the purpose. The American draft was taken as the basis of discussion. At the conference, a substantial part of the charter was agreed upon by the conferees although, of course, such agreement had no binding effect on the governments concerned.

Since the conference, the revised

charter has been printed and distributed widely in the United States. The interdepartmental committee involved, the Executive Committee on Economic Foreign Policy, has held informal hearings in Boston, New York, Washington, Chicago, Denver, New Orleans, and San Francisco. In general, the hearings indicated widespread support for the general idea and a number of specific suggestions were presented which have been given careful study in Washington, and many of which have been incorporated in the American position.

International Organization Not Enough

However, it is not enough for the United States to urge that an international organization be established. For 14 years, as expressed in the authority given by Congress to the President, we have had as our national policy the negotiation of reciprocal trade agreements bilaterally, by means of which very carefully selected reductions in the American tariff were made in exchange for reductions in the trade barriers in the other country with whom we were negotiating. Last week in Geneva, we commenced the negotiation of such reciprocal trade agreements with 17 other countries and hope thus to demonstrate, in no uncertain terms, our willingness to lower trade barriers, providing these and other countries will show their willingness to follow the same general course.

This is a positive program, an American program. It is a reflection of our own economy. The American economic system is based upon a tremendous market within which trade flows without restrictive barriers and with a single medium of exchange. The high standard of living in New England is made possible in large part by the tremendous interchange in goods and services which takes place between New England and the rest of the United States. Although we recognize that there are times and circumstances when the government must step into the picture, by and large we leave the economic process to the working of economic forces and the direction of individual businessmen and consumers.

The contrasting picture of multiple government controls by means of quotas is bad not merely because of its restrictive character, but in all probability it would have a serious impact upon our way of doing business in our own country. Barter arrangements and quota systems are fixed not by private traders but by public officials. If we in the United States are to be faced by quotas all around the world, we shall have to bargain our way into foreign markets product by product, country by country and month by month. We shall have to obtain our needed raw materials by the process of negotiation.

Private traders are helpless in the face of such a situation. To deal effectively, we might need to put on a quota system of our own, and finally to establish either a government export and import monopoly, or a complete system of controls by licenses. I therefore, speak with the utmost seriousness when I say that the pattern for international trade adopted by the leading trading nations must be a matter of great concern to those who wish to preserve the American economic system in the United States, let alone to strengthen it.

These are major stakes, and without strong leadership from the United States there is little hope that many countries can dare to take the risk of withdrawing their protective controls which are so restrictive. The program must move ahead simultaneously on the various fronts which I have indicated. Failure to carry through effectively on our part means that we risk our international leadership in the economic field, our foreign trade, and some aspects of our economic system itself.

I have been focussing my attention upon the economic aspect of our interest in foreign affairs, but I do not want to end on that note. At least two other angles should be mentioned, both of which are closely related to the preservation of the American way.

Humanitarian Concern

First is the humanitarian, the friendly, the personal concern. I am unwilling to recognize that this country is only interested in the materialistic. I think we have shown our generosity through our contributions to relief and our many indirect and informal types of assistance. That is part of the American way, and it does not stop at the national boundary.

And second is our search for security, for national security. We are not a war-like nation. We are slow to enter into war, and we are overwhelmingly eager to find ways and means of putting an end to the use of force. Not only is war itself such a terrible thing, but the burden of armaments, the providing of security in peacetime through preparedness, is a tremendous burden upon mankind.

But this brings us back to my central theme. Economic health will not assure peace, but it is a substantial preventive of conditions which create international ill-will. Access to markets and raw materials, non-discrimination in international trade and development, and the creation of a forum wherein economic controversies can be handled in an orderly way, will all help towards the goal of universal peace.

I see no escape from the fundamental proposition: We cannot separate our domestic and our foreign affairs. And the strengthening of our domestic economy depends in part upon the success of our efforts to bring economic health, stability and sanity to the rest of the world.

Mexico—A Field for American Investment

(Continued from page 12)

which in the beginning seemed to be only political in nature soon became clearly an economic movement with three well defined aims: land distribution, protection of labor and the preservation of the natural resources of the country the exploitation of which should be carried out for the benefit of the Mexican people. These three goals were clearly stated in our Constitution of 1917 and in our agrarian, labor, mining, oil and other secondary laws. This legislation, however, could not be brought into effect immediately as the resistance of vested interests created a situation of disorder in which actual fighting was often necessary.

Mexican Revolution Not Communistic

Thus the Mexican Revolution written with a capital "R" is often misunderstood both within and outside of Mexico as a destructive, disorderly, chaotic and communistic movement which brought nothing but sorrow and retrogression. Such a short-sighted view is no longer prevalent for we now are able to visualize retrospectively this period of the history of Mexico and thus can realize that the negative, painful, violent side of this social upheaval was the price that we had to pay to outgrow the feudal system of privilege and restriction which bound us and which kept the majority of our population in a state of virtual servitude. After 36 years from the time when the Revolution started, we are able to distinguish and discriminate between the clear aims and ideals of the Revolution and to separate them from the human mistakes and the incidental abuses and necessary waste. We are also able to plan the life of the country on a new level and, building from the ground up, we no longer have to discuss the necessity of distributing the land so that it will be in the hands of those who actually work it, or protect the workingman so that he may have the right to organize, the right to bargain collectively and the right to strike. Similarly, in Mexico no one now questions the legal principle providing that the subsoil of the country belongs to the nation. The general acceptance of these principles, the fact that all of them are now both written law and general practice is what gives the country a sense of security and confidence, and what makes it comparatively easy for the present Administration to follow the road which the President of the Republic has clearly pointed out.

Therefore, if I were to summarize what the policy of the present government is, I would say that it aims at the goal of making the principles of the Revolution permanent and fruitful.

Land Distribution

Let me take, for instance, the case of land distribution. We take for granted that the system of land tenure should be in Mexico what the law provides, namely, small property holdings and ejidos. We know that the latifundia system is harmful and that in the sections of the country in which it still exists it should be destroyed, following procedures provided by law. We also know that protection of the small property holder and of the ejidatario is essential for agricultural production to be carried on normally throughout the nation. This explains why the present administration has been interested in making that protection not only theoretically but actually effective.

Nor do we close our eyes to the fact that a better distribution of land, essential as it is for the well-being of the nation, for the spiritual and political liberation of the farmer, by itself it not enough to raise the standard of living of our rural classes. If our farmers—whether Indian, Mestizo or White, whether ejidatarios or small property holders—are to live better, eat better, have better houses and sufficient clothing, it is indispensable that they produce more. And to attain this objective the farmer must be taught new methods of cultivation, selection of seed, rotation of crops, fertilization of the soil, application of machinery instead of the primitive wooden plow. He must have credit and easier transportation to the market for his produce. These things are what the Government is attempting to give him. It is neither easy, nor anything that can be done in a few weeks, or even a few months, but it is effective, and in the measure in which it is done it will increase the agricultural production of the country and in that way improve the general economic situation of the nation and make the agrarian reform successful and permanent.

I said before that we want to industrialize Mexico. But we know that such an industrialization cannot be built on salaries and wages insufficient for working men to live on. A policy of minimum subsistence is not only unjust but it is economically unsound. If we are to have a market for our industries we must have a population with a higher standard of living, that is with a purchasing power sufficient to absorb the products of industry, and that is impossible if labor, which after all constitutes the major portion of the population, does not receive a sufficient compensation for its effort. It is for these reasons that I feel that our labor laws do not interfere, but on the contrary are an important help in the industrial development of the country.

Labor Protection

It is an interesting peculiarity of the history of Mexico that she should have had legislation regarding the protection of labor even before she confronted the problems of industrialization. Mexico, I think, should be considered most fortunate in this respect for now she has a comparatively easy road to travel instead of one of continuous struggle such as has been the normal manner in other countries. In other words, we have already passed through the hardest part of the adjustment between capital and labor—struggle which has been inevitable everywhere.

In these circumstances, the role of the Government in Mexico is very clear in the field of capital and labor relations: compliance with the law. This is, in fact, the outstanding note of President Aleman's policy. The law should be applied. Nothing illegal should be permitted. Our legislation is advanced and sufficiently fair to assure labor adequate protection and at the same time permit the normal development of industry. No group, regardless of how wealthy, or of how politically powerful, is to be beyond or above the law. A government of law is the only guarantee of social peace. If the laws are no longer good, they should be amended by the proper organ of government, Congress. But no one, under the pretext that the law is not good, or that it is insufficient, should feel that he is entitled to disobey it. To me these principles are evident, but, after all, I am a lawyer.

Exploitation of Natural Resources

Now as to the exploitation of the natural resources of the country. Our legislation provides by whom and under what conditions they may be exploited. In extractive industries such as mining and oil, we must profit by our own experience and also by the experience of other countries so as to be careful that the extraction of this type of wealth will be done in such a way as to benefit the nation at large and not exhaust in a ruthless, careless and selfish manner a source of work and of wealth. In other words, regulation is and should be more strict in these kinds of industries. Private initiative does not have the same free action here as it has in manufacturing. The reserves of the country and even its safety, and certainly its future industrial development are so closely related to the preservation of the national resources and to their technical and careful exploitation that the Government must have a greater control in this field than in any other sphere of economic activity.

Since I am addressing such a distinguished group of investment bankers, I feel that this picture I have been trying to draw of Mexico should be related to the idea of the possibilities for foreign investment in this country. What are the possibilities, you probably would like to know, for foreign capital to be invested in Mexico. What guarantees, I have often been asked, does the Mexican Government offer such capital. Is the foreign investor welcome in Mexico?

The answers to these questions are not difficult in the light of what I have already said. I feel that there is a definite field for the foreign investor in Mexico at the present time. I believe that foreign capital can come to Mexico and make a legitimate profit. I am convinced that if foreign capital does come to Mexico and helps in accelerating the process of industrialization, it will do a great deal of good to the country. I know that so long as it complies with the laws, it has nothing to fear. On the other hand, foreign capital should not expect the absolute certainty of profits in Mexico, for neither the Mexican Government, nor anyone else in the world could guarantee such thing. In short, foreign capital should not expect any special privilege in Mexico, nor should it fear to be discriminated against.

There is one field of investment in Mexico about which I should like to say a few words before closing. I refer to bonds and securities, both of private industry and of the Government. As you probably have already found out, the rate of interest in Mexico is much higher than it is in the United States and, I believe, that after proper investigation of the type of security, you may well find certain ones which the American investor with a small capital but with neither the desire nor the possibility of coming to Mexico to start a new industry on his own or in association with Mexican capital might, however, be interested in acquiring. So far as Government bonds are concerned, I am glad to inform you that Mexico's debt acquired prior to 1910—the foreign debt and the railroad debt—is no longer in default as the last administration was able, through the Agreements of 1942 and 1946, to arrive at a definite understanding with the bondholders. Our internal debt—highway bonds, electrical bonds, irrigation bonds, etc. — as you probably know, is comparatively low, 1,000,000,000 pesos. That is approximately $200,000,000. This debt is therefore less than two-thirds of our annual Federal budget which is 1,550,000,000 pesos for the current year and the payment of both principal and interest is well within the possibilities of the Government. It is not surprising, therefore, that it has been paid punctually.

Part of the above debt has been absorbed by the insurance companies of Mexico, by capitalization banks, the Social Security Institute, and the Mexican small investor. There is no government in Mexico, whether present or future, whether wise or unwise, that would dare suspend payment on Government bonds without risking the complete destruction of the country's financial and banking systems. Because of these things, I sincerely believe that Government bonds in Mexico are as safe an investment as any other security in the world.

McCall and McGay Now With Schwamm & Co.

Schwamm & Co., 50 Broadway, New York City, announce that Frank J. McCall and Harold S.

Frank J. McCall

McGay have become associated with the firm. Mr. McCall was previously with J. F. Reilly & Co. and Mr. McGay was with G. L. Ohrstrom & Co.

Work and More Production Will Reduce Prices

(Continued from page 6)

possible. We had no new frontiers to open. It was decided, therefore, to consolidate the ranks and begin to use the existing wealth to best advantage — in other words, to have a planned economy. Strange as it may seem, as we look back now, a great majority of the people of this country thought the planners were right, and they were in many reforms that they brought about. What we failed to realize, however, was that underlying all these plans—designed to do so much good—was a creeping paralysis that bid fair to destroy the way of life that made possible all the reforms. They appeared to be so simple, too many of us decided that some undiscovered principle of economics had suddenly been brought to life. We began to realize that we needn't work so hard any more. In fact, we had already worked too hard too long. Why work six days when you can be paid more for five days' work. Makes a lot of sense, doesn't it? But what we forget is that if we are to earn more we must produce more. What basic law of economics is there that will permit one to produce less and make more? We farmers learned long ago that we can farm less land and produce more but it doesn't mean that we can work less and get more.

A Program of Scarcity

This country, nor any other country, can prosper long on a program based on scarcity. Today we see bricklayers laying fewer bricks than before or during the war. We see painters limited to brushes of a certain size so they can't cover too much space in a given time. We see trainmen permitted to work but so many days a month. Now I know there perhaps are good and sufficient reasons for all these limitations, but what is their effect on the individual? He no longer is an individualist but the victim of a system that prevents him from forging ahead. It is a system that prevents him from advancing any faster than the most inefficient workman by his side. Reduced to simple terms we are fast destroying individual free enterprise.

Please note that I am not deploring higher wages, but I am against any limitation on the individual who wishes to increase his income by producing more. That is the way to bring down cost and we have learned long since that cost is the most important factor in our economy today. I commend the President for his recent statement about prices but we must not lose sight of the fact that high prices are almost invariably the result of high cost. (I make no excuses, incidentally, for the profiteer, who is getting all the traffic will bear.)

When Americans still had an inferiority complex about our institutions, a survey was made of the economic conditions and social life in a small industrial community. Although not named, the city which was chosen, because it was so representative of the United States, was located in Indiana. As I recall it, the study was quite critical. The people were not without prejudice. Labor conditions were short of ideal. The standard of living was not too high. Only a small part of the community had a feeling for the arts. The pulp magazines were too popular. Educational standards might have been higher. Now, all of this had a germ of truth. But I believe the authors missed the main point. While our society is not perfect, it is dynamic and free. If they had made comparisons with several decades ago, they would have found the diet more varied and health standards higher. A greater number of young people were attending high school, college and professional schools. It requires no great discernment to say that our institutions and way of living are not perfect. It is as if a commentator on baseball belabored a player for hitting only 300 when 1,000 is perfection. Given human beings as they are and the problems of an age of vast change, a 300 average as applied to the American way of life is not bad. Where else is it approached? The study I have referred to revealed that Americans who were not primarily rich in worldly goods still retained the spirit of the old Northwest and knew down deep that they or their children might attain their heart's desire—be it wealth, learning, adventure, or merely satisfaction of living the good life without individual disstinction.

More Functions to the States

It is typical of the self-reliance of the citizens of the State of Indiana that the Legislature at Indianapolis recently memorialized the Congress at Washington to make moves toward decentralizing the government and bringing more authority and more functions back home to the States. Our people never have cared to be regarded as wards unable to support themselves or as incapable of making their own decisions. They want to be as free politically as they are economically. This memorial to Washington is an interesting example of the self-expression of the sovereign people of a free State.

I like the wording of the preamble to this resolution. No one but a Hoosier could have penned it!

"Indiana needs no guardian and intends to have none. We Hoosiers —like the people of our sister States—were fooled for quite a spell with the magician's trick that a dollar taxed out of our pockets and sent to Washington, will be bigger when it comes back to us. We have taken a good look at said dollar. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats had been deducted. We have decided that there is no such thing as Federal aid. We know that there is no wealth to tax that is not already within the boundaries of the 48 states.

"So we propose henceforward to tax ourselves and take care of ourselves. We are fed up with subsidies, doles and paternalism. We are no one's stepchild. We have grown up. We serve notice that we will resist Washington, D. C. adopting us."

But notice what it resolves!

"That we respectfully petition and urge Indiana's Congressmen and Senators to vote to fetch our county court houses and city halls back from Pennsylvania Avenue. We want government to come home."

And then, it further resolved:

"That we call upon the legislatures of our sister states and on good citizens everywhere who believe in the basic principles of Lincoln and Jefferson to join with us, and we with them, to restore the American Republic and our 48 States to the foundations built by our fathers."

It has been said that people of past generations had convictions while we moderns have only opinions. I am glad to see that the Legislature of the State of Indiana is old-fashioned enough to have convictions!

America Well Off

In recent months, Americans have begun to realize that this nation has become an oasis of freedom and weal in a world desert of repression and woe. Neither the desert nor the oasis just happened. There are reasons why America is so much better off than Russia or China, or Germany or England. There are reasons why those other countries are not as well off as America.

In addition to the God-given wealth on the surface of the earth and the treasure house beneath it, the natural resources of any country consist of the people who populate it and the voluntary ideals, principles and institutions which bring the human element and the physical element together in its economic, social and political life.

And in these things we are indeed wealthy! Whenever the institutions of the democratic nations of the West are compared with those of the totalitarian nations of the East, we people of the West are admired and envied. Whenever an inventory of the results of capitalism is compared with an inventory of the results of either Socialism or Communism, the contrast is always the same.

It is time, therefore, to launch not a defensive against collectivism and totalitarianism, but an offensive for freedom, democracy and capitalism. The world needs to be shown how good our way of life is. And our system should be provided with the best possible atmosphere in which to flourish. Anything which makes free enterprise and free markets less efficient is just as dangerous as the most effective Communistic propaganda.

"Talking Prices"

I should like to relate this thought to a current, pressing problem. Today the entire nation, from the humblest housewife doing her Saturday marketing to the statesman scanning the horizons of international trade, is talking prices. One of our own Hoosier statesmen, in a typically concise sentence, dramatized the problem. It was the late Thomas R. Marshall, who in an earlier period of rising cost of living declared, "What this country needs is a good five-cent cigar."

We do need lower prices. We have witnessed in the past year a tremendous upheaval in prices to which there have been few exceptions. Such upheavals subject the economy and the whole social fabric to stresses and strains. Inflation pinches the middle class most severely. The impact falls heavily on those least able to take care of themselves in this respect. We are all prone to blame the other fellow. Merchandisers point the finger at manufacturers and the latter at labor; the farmer looks at the prices he pays for the things he buys and protests, and the city dweller blames the farmer for the high prices of foodstuffs. A little moderation all around would help. If we don't want controls or the havoc of extreme price deflation, we must learn to act voluntarily before price cutting is forced through inability to sell. We are now testing our ability to act without either political or economic compulsion. A great deal more than is evident depends on the success with which we meet this problem. The rest of the world has been frightened by the possibility of a repetition of the collapse in our economy after World War I and more so by the shrinkage of our purchases in the early thirties and the effects which a decline in our national income would have on world trade.

Of course, we can no longer take Mr. Marshall literally. Two wars and their consequences have lifted the price level so that it appears nostalgic to expect the early return of prewar prices. I am afraid the good five-cent cigar will have to linger in our recollection—just as the five-cent ham sandwich disappeared as a casualty of World War I. Multiplying signs of leadership in price cutting where margins are too high are encouraging to all who feel a responsibility for our economic future.

All Must Help Reduce Prices

But government as well as business, labor and the farmer must help bring down the price level. It is a job for everyone. And it is a job that has most valuable lessons in it for all who will learn them—or, I might better say, relearn them.

In the past few years we have had a vivid demonstration of the economic futility of merely dividing and subdividing a single loaf of bread. We have had ample proof that there can be no more to eat until we all get busy and bake a second loaf — and a third

Without increased production, the raising of prices helps no one —nor does the raising of wages. There is only one way to lift our living standards — one way to provide every American with even more of the good things which he already has in unique abundance—and that is to turn out more and better goods. To make more loaves of bread.

No Substitute For Work

It all comes back to that simple virtue I have already mentioned, work. I firmly believe that there is no substitute for it—either for the individual, or for the nation. Work makes wealth. More than that, it builds character. The man who is not afraid of work, who knows its value, is a man at peace with himself and with the world.

This has seemed an appropriate time to emphasize these things, which are very close to me, because I am speaking to fellow Hoosiers. I know from personal observation that the old-fashioned virtues of hard work and thrift are still very much alive in the hearts of Indiana people. There is much the whole nation could profit from in their philosophy.

Hanes Sees $3 to $4 Billion Current Surplus

(Continued from page 8)

Jan. 1 to June 30. But only $10.6 billion was spent in the January-March quarter, and it is quite unlikely that the total will be as large as forecast.

With consideration for these factors, it seems safe to predict that the $3 billion surplus so far realized will be held until the end of the fiscal year, and the surplus finally realized may be even larger.

For the 1948 fiscal year the House has voted to hold expenditures $6 billion below the Executive proposals. The reduction contemplated by the Senate is $4½ billion. At the same time, wartime excise taxes have been extended and an increase in postal charges to cover the postal deficit is under consideration. If proposed expenditures are reduced as contemplated by the Senate, the Budget surplus will be $6½ billion. If they are reduced as conplated by the House, the surplus will be $8 billion.

Adding in $3 billion surplus for fiscal 1947, it is seen that a surplus of $9½ billion on one assumption, or of $11 billion on the other, is in sight for the 18 months, Jan. 1, 1947, to June 30, 1948. It will be seen at once that a surplus of this size completely alters the situation that now confronts Congress. There is no longer room for doubt as to whether debt reduction and tax reduction can be undertaken simultaneously; both become feasible and practicable. This removes the misgiving which many felt that tax reduction ahead of payments on the debt was "putting the cart before the horse."

Of course, any such fiscal program is necessarily contingent upon drastic cuts in governmental spending. This means reducing Federal payrolls and pruning every appropriation bill, as has been indicated by various House Committees. Furthermore, the size of the surplus will permit of tax cuts under H.R. 1 being made retroactive to Jan. 1, 1947.

I should like to stress the importance of this retroactive feature. It will save endless confusion and annoyance, both to the Treasury and to the taxpayer. Accounts are usually kept on a calendar-year basis and any effort to apply different rates to different parts of the same taxable year will create all kinds of administrative difficulties I am quite sure, for example, that large employers would be willing to relieve the Treasury of the burden of repaying the refunds which would be necessary to meet a retroactive reduction in withholding taxes. Each employer, if permitted, can handle all such details for his own organization, either out of future collections or out of amounts collected, but not yet remitted to the Treasury.

The general feeling that the debt must be reduced during this period of prosperous business is most wholesome. I heartily agree. But we should not let enthusiasm for debt retirement blind us to the braking effect of the enormous tax load on the energy that makes our capitalistic system work — the drain it imposes upon private spending and investing power, the shackles it puts on individual risk-taking, the tax costs it loads into the price of everything that the consumer buys.

While the country is now in the midst of a business boom, there is increasing evidence of a readjustment because prices have risen too far. We don't want a readjustment to run into a depression. To avoid it we must apply some of the savings from a more economical scale of government to tax reduction. H.R. 1, already passed by the House, would represent a proper beginning toward the kind of tax structure that will permit the American way of life to prosper and flourish as an example to all the world of the merits of free institutions.

We believe this is a program to be carried forward by both parties on a non-partisan basis.

With warm regards, I am,

Faithfully yours,

JOHN W. HANES.

With King Merritt & Co.

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ST. CLOUD, MINN.—LeRoy A. Grimm, A. Clifford Hammerberg, Frank E. Henry, John D. Lynch, Carl A. Peters, Joseph A. Peters, and Richard J. Quigley are with King Merritt & Co., Inc., 1211 East Second Street.

With Robert Showers Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James R. Saxton, formerly with Graham, Parsons & Co., is now associated with Robert Showers, 10 South La Salle Street.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Frank C. Harvey has become connected with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

Joins Gill Associates

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—Charles E. Schutte is with Gill Associates, Inc., Secor Hotel.

Stop Money Inflation, and Price Inflation Will End

(Continued from page 5)

authorities are unaware of the dangers of inflation. In fact, the President has just had some conferences with his Cabinet as to what ought to be done to stop the rise in prices. But it is a curious commentary on the attitude of Government officials toward this vital question that so far as one can detect from the various accounts of these conferences there has been little or no reference to fiscal or monetary action but much talk of novel tax schemes, the reinstitution of Government controls of one kind or another, appeals to businessmen to hold prices in check and condemnation of business profits. These matters do have some relation to the problem but there seems to be in the Government a grim determination to avoid discussion of the factor which is primarily responsible for the inflation threat, namely, the continuation into peacetime of inflationary monetary, credit and debt management policies of the New Deal and war periods. Furthermore, it has been reported that frequently in the past few months the Federal Reserve Board has had occasion to reconsider its commitment to inflate credit by whatever amounts are necessary to hold interest rates on U. S. Government securities at present abnormally low levels. But month after month has slipped by since this matter was first brought to the attention of our central banking authorities and thus far virtually nothing has been done. Only recently it was reported that the Secretary of the Treasury allowed certain groups which had been discussing the matter with him to gain the impression that he opposed a change from present Federal Reserve policies and, therefore, that none was in nearby prospect. One may be permitted to wonder what responsibility the Secretary of the Treasury has in these matters. He is not a member of the Federal Reserve Board and several years ago the Secretary was deliberately relieved of his ex-officio status as member of the Board for the express purpose of preventing the Treasury from unduly influencing Federal Reserve policy. The authors of the Federal Reserve Act and of the successive amendments to it, intended to keep Treasury influence at a minimum and to make the Federal Reserve Board a Supreme Court of finance. Certainly it was not contemplated that Federal Reserve policy was to be set by the President and his political advisers. If the Federal Reserve has in effect permitted political dictation of its policies, then we need a legislative restatement of the role that great, powerful and essential organization is to play in our economic life.

Blames Federal Reserve

It seems almost incredible that the Federal Reserve would permit the money supply of the nation to increase by $13 billions last year, an amount which by peacetime standards is staggering. How an increase of that amount in the money supply can be justified in time of full employment, and capacity production in industry and with labor unions under pressure to raise wages is difficult to see.

After an increase in money supply of $100 billions or 160% since 1939 I submit that it is time for the Federal Reserve Board and the Treasury to close the door to further increases in an already bloated money supply and to put a stop to the expansionary, inflationary cheap-money-at-any-cost policies of the past. But what has it done to date? It has been advertized to all investors that the Federal Reserve Banks will expand their credit, i.e., the Nation's money, by whatever amounts are required to prevent Government Bond prices from declining. This is an obvious and open invitation for banks to add to their portfolios of bonds—for if the Federal Reserve policy means anything it implies a guarantee against loss from carrying large amounts of longer term securities than they would otherwise care to own. Furthermore, in committing the Federal Reserve Banks to buy Treasury Certificates whenever they are supplied net to the market, the Board has made it virtually inevitable that the commercial banks as a group will increase their loans without a commensurate reduction in their portfolios of securities in order to obtain the funds.

Let it not be said that the Federal Reserve and the Treasury do not today have the power to adopt anti-inflationary policies. The Federal Reserve has only to announce that henceforth it will manage its own portfolio so as to prevent further increases in deposits, that is to say, that it will buy Government securities only when necessary to prevent a decline in bank reserves and that it will sell from its portfolio when gold imports, the return of currency from circulation or any other factors threaten to bring an increase in member bank reserves. Then the member banks would no longer have the right of access at their own initiative to Federal Reserve credit, which would mean that an expansion in loans would require a contraction of securities portfolios and, therefore, would bring no increase in the money supply. The Treasury also has an obvious role to play and that is to begin immediately to refund its colossal floating debt and to do so in such a way that bank holdings of United States Government securities will be reduced and holdings by other investors increased. The financial community has been pleading with the Treasury for many months to offer a long 2½% security restricted to non-bank buyers and to use the funds to retire Certificates held by the banks, which would help to keep bank deposits from rising.

Attacks Interest Rate Control

The Federal Reserve and the Treasury have the power and the responsibility of putting the brakes on inflation by stopping the increase in our money supply. If they refuse to do so they will be open to the charge

(1) That they are willing in order to hold the price of money low to inflate all other prices, which can cause untold hardship;

(2) That they suffer from the delusion that control of interest rates is all-important, while control over the volume of credit and money in use is of little or no significance. Our whole monetary and banking history contradicts such a view;

(3) That the Board and the Treasury are disregarding the ominous analogy with a previous effort to hold interest rates on Treasury obligations low when prices were advancing. The "commitment" of the Federal Reserve Board to avoid increasing the discount rate for a time after the initially none-too-successful Victory Bond offering in 1919 prevented the Board from stopping the rise in prices in 1919 and 1920 early enough to prevent incalculable damage. Before the Board got around to stopping money expansion the stage had been set for a devastating depression;

(4) That they are penny wise and pound foolish by holding interest cost per dollar of debt low only at the expense of a rise in costs which if continued will more than offset the so-called savings involved in low interest rates.

It is time for the monetary and fiscal authorities in Washington to recognize that the rise of 15% in the cost of living, of 30% in the wholesale price index and of almost 50% of 16 basic commodities in the past nine months is in large measure the result of their inflationary policies. Also it is clear that the rise in prices is the cause of many of the perplexing difficulties this Nation now faces. The rise in prices has put cost-of-living pressure on the unions to engage in successive waves of strikes, it has inflated inventories and receivables of business concerns and left them subject to the risk of crippling inventory losses, it has forced business to price many of its goods out of the mass market, thus threatening to shorten the period of full employment and prosperous business which we otherwise could expect, it has distorted cost-wage relationships to a point where a serious readjustment now seems to threaten, and it has lifted the cost of construction to a level so high as to cause the cancelation of many worthwhile and much-needed projects, municipal as well as private.

It is time for the Federal Reserve Board and the Treasury to break this spiral of expanding money, rising costs and rising prices by immediate abandonment of the inflationary policies they adopted years ago and now do not seem to have the courage or the perspicacity to reverse. The way to stop *price* inflation is to stop *money* inflation.

Sees No Return Soon To Prewar Taxes

Mark E. Richardson, partner and head of the tax department of Lybrand, Ross Bros. & Montgomery, said in an address on "Current Trends in Federal Taxes" before the financial group of the Association of Cotton Textile Merchants of New York on March 21 that expectations of any return to prewar rates in Federal taxation must be abandoned "until some remote date in the future," according to the "Journal of Commerce" of March 22 which gave other remarks of Mr. Richardson as follows:

Changes in the tax laws for a long time to come, Mr. Richardson suggested, will probably take the form only of elimination of inequities and simplification of procedures.

Certain changes in Federal tax law are particularly necessary at this time, Mr. Richardson stated. These have been recognized for some time as necessary, even though they have not been made, and action on them should be taken "irrespective of their effects on revenue."

He cited three adjustments which are particularly desirable, "first, the elimination of the dual taxation of corporate earnings; second, some provision for settlement of family income problems, particularly as related to family partnerships and to the discrepancy between community-property states and others; and third, the establishment of some system of earned income credit or deduction which will act as an incentive to individual progress."

With Frank & Belden

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Clayton W. Westlie has been added to the staff of Frank & Belden, Inc., Roanoke Building.

With Reuben Securities Co.

(Special to THE FINANCIAL CHRONICLE)

TOLEDO, OHIO—John M. Hoffman has been added to the staff of The Reuben Securities Co., 618 Madison Avenue.

"Our Reporter on Governments"

By JOHN T. CHIPPENDALE, JR.

The recent uptrend in the government securities markets came to an abrupt end last week as Federal took direct action to curb the rising prices, which threatened to upset the market's equilibrium. . . . Despite the powerful "Open Mouth Operations" which were evidently calculated to keep prices within recent trading limits, certain issues, especially the longest restricted obligations, continued to make new highs for the year. . . . The strong trend in the ineligible bonds had a salutary effect on the bank issues which in turn were also crowding their best levels for 1947. . . .

The final push in prices was aided in no small way by the covering of short positions by certain dealers that had evidently switched their views on the market following the recent conference with Treasury officials in Washington. Also a contributing factor to the rising trend of prices was the investment demand of non-bank investors that are still confronted with the problem of putting funds to work. . . .

TREND REVERSED

The failure of "Open Mouth Operations" to talk the market down, led to Open Market Operations by Federal and Government Trust Funds, which supplied the market wtih partially-exempts, the taxables as well as the restricted issues. . . . The sales of bonds by the money managers stopped at least for the time being the upward trend of prices, with some of the recent market leaders moving into a defensive position. . . .

The decline from the tops has been moderate thus far, and in some quarters the opinion is held that it will not go too far because of the large amount of funds seeking investment. . . .

Whatever may be the eventual results of the direct action by the monetary authorities, it is evident that they will not stand by and let the market get out of line on the up side. . . . This means that quantitative controls will be used as well qualitative ones in an effort to keep prices in line. . . . When prices move ahead too fast and a bit too far as they did this time, there will be measures taken by the authorities to keep prices within limits that are considered desirable. . . .

TWO "PRICE" CAMPS

There seems to be two schools of thought in money market circles now as far as the future trend of government bond prices is concerned. . . . One group is of the opinion that although there will be action from time to time, both direct and otherwise, by the monetary authorities to keep prices within limits, they do not believe that this will push the level down very much. . . .

This is explained by the substantial investment demand that exists, and the desire of many to put funds in the most riskless of securities, because of the uncertainties of the general business situation. . . .

The latter reason appears to be assuming some importance because the greater risk involved at this time in other than government securities seems to be increasing the demand for Treasury obligations, until there is more certainty as to what will develop in the economic picture. . . . Mortgages and other investments that would ordinarily attract funds are either not in sufficient supply or are not considered so desirable at the present time. . . . However, income must be maintained, and this can be done with the greatest safety in government obligations. . . .

Because of the aforementioned reasons, it is believed in certain quarters that setbacks in the market will be very good buying opportunities, because during periods of receding business, interest rates must be kept on the lower side in order to help bring about changes in economic conditions. . . .

BEAR ARGUMENTS

Opposed to these ideas are those who believe that the continued redemptions of debt, the latest of which is the repayment of $200,000,000 of Treasury bills, along with war loan calls (such as the two that were made recently) as well as sales of bonds by the monetary authorities, will mean lower prices for Treasury obligations. . . .

They point out that the curtailing of credit, which is what is taking place now, will result in less funds being available for the purchase of Treasury obligations. . . . This will bring about a decreasing demand and lower prices for government obligations. . . .

"BOOM AND BUST"

While there appears to be some question now, even among this group, that short-term rates will be defrosted in the very near future, it is indicated that the unpegging of Treasury bills and certificates, when it comes, will tend to bring about lower prices for the whole list of Treasury obligations. . . . They believe that the "boom and bust" cycle is what must be considered now and the Federal authorities, in order to get back some measure of control over loans and purchases of long governments, will bring to an end pegged short-term rates. . . .

Wages and prices, it is believed, will continue to rise and in their opinion the money managers will take steps to prevent a runaway inflation. . . . This will mean higher money rates in order to give the authorities greater control over the money markets. . . .

Lower bond prices will be the result of the course to be taken to curb the boom period. . . . This group advocates keeping ample liquid resources or putting funds only in the short maturities. . . .

TREASURY ACTION

These two opposite opinions are the forces that appear to be currently at work in the government securities markets. . . . It is interesting to observe that the Treasury, by its retirement of debt, and most recently, the shortest of the outstanding securities, is apparently thinking along lines that are not too much different from those that believe the inflation threat is still the most important factor in the situation. . . . It is by means of debt retirement and deposit extinguishment that the inflation potential can be lessened. . . .

However, if the price rises are not due to monetary factors, and this is definitely true of certain costs and commodity prices, can they be cured by measures taken by the Treasury and the money managers? . . .

Imperialist U. S. Needs New Deal

(Continued from page 4)

vate enterprise for a few are now proud of the TVA as one of the greatest show pieces of America.

Then came the war and with it the conception of a new deal, not only for America, but for the world. My own contribution to this idea arose in the first instance from my experience as a farm paper editor and a corn breeder. When I became Secretary of Agriculture, the abundance of the great livestock and grain producing areas of the United States was being wasted, because the people who needed the food had not the money to pay for it. It seemed to me that this ludicrous and tragic situation was the world's root trouble.

Here were the industrial workers of America out of work because the people who grow the food, including the hundreds of millions of peasants in China and India, the Middle East and South America lived in the deepest poverty, needed all the things we were able to make but could not pay for them. Do you realize how collossal the industrial potential of America is? As one of the top policy committee in charge of developing the atomic bomb, I have known longer than most people about the potentialities of atomic energy, but far more impressive and fraught with as much hope for the world as the bomb was fraught with peril, was the stark fact that during the war American industry was able to equip and service a vast army, navy, and air force to fight all over the world, to produce munitions to be used by the allies in a dozen battle areas, to supply billions of dollars worth of food, goods, and equipment by lease-lend, and at the same time actually to increase the standard of living and the consuming power of the citizens of America.

When you realize this, you understand what Roosevelt meant by the four freedoms. America is the home of political liberty, and we have made a continent by free enterprise, but it was freedom from want which made the Roosevelt message a clarion call to the world, freedom from fear, of course, too. But does not war arise more from want and economic maladjustment than from any other cause? Is not the common man's security first and foremost the assurance of next week's bread and butter? And does not the one world in which alone there can be security for anyone demand that men and nations share the goods and services which we all need and which modern science enables us to produce? If the energy, money, and brain power that is now devoted to preparation for war could be diverted to the cause of peace, the prospect for mankind would be splendid beyond imagination.

Roosevelt's Death Disastrous

I've said enough to show why I think the death of Roosevelt was a disaster and why I left the government of the United States, for today it is only too clear that we are drifting toward two worlds and that the immense power and wealth of America is being used for strategic and military purposes rather than to raise the standard of living in countries which could become great markets for American exports. By helping these countries with plows and tools rather than guns and planes, we can blunt the edge of the American depression, greatly enlarge world trade, and produce eventually that degree of prosperity which will make communism in the western world irrelevant instead of inevitable.

A great national awakening has occurred in Asia and in other parts of the world which we used to think of only as colonies. This new nationalism will turn to communism and look to the Soviet Union as their ally if the United States declares that this is the American century of our politics rather than the century of the common man. Of course, all politics are based on power. It is a question of how the power is used. You will tell me that Soviet Russia is expansionist, as Britain was expansionist in the past, and America is expansionist in the Pacific and elsewhere today. I do not deny it, but I say that it is the task of the countries which have the atom bomb and which have not, like Russia, been devastated by war and boycotted in peace to try a new type of power politics.

Power Politics Unworkable

The only kind of power politics which will work in the modern world is to use power to create world prosperity and increase abundance, instead of once again playing the ancient and time-dishonored game of international beggar-my-neighbor.

Now that I am again in Britain, rather shyly conscious that 90% of my ancestry came from these islands, I ask myself the question that you are all asking yourselves. After having visited your northern Midlands as well as London, I pay no attention to those silly Americans who say that Britain is finished, and I pay even less attention to certain wealthy English people, your worst ambassadors in America, who spread the story in the United States of Red ruin and catastrophe in Britain because they dislike having a labor government, dislike paying high taxation, and eating the same rations as other people.

When I am told that the British empire is falling to pieces, I say that insofar as it was a domination over other less powerful people, I am sure that it should come to an end, but I am glad to see that what is happening in India and Burma is not disintegration at all, but a new contract between free Burmese and free Indians with the free people of England.

Cooperation With Soviet

I believe that together Britain and America, bringing opportunity of constructive achievement with them, could solve the dangerous problem of the Middle East by the same kind of approach to the peoples of those impoverished countries whose oil fields are as rich as their peoples are destitute. I believe that if that were our approach, quite new opportunities would arise of cooperation with the Soviet Union which would not want to be excluded, if, as I should like, we apply the technique of the Tennessee Valley Authority to the valley of the Jordan and use the resources of modern science to transform the sandy desert that lies between the Tigris and the Euphrates once again into the Garden of Eden.

Archeologists say that that area, where there are now two and a half million people, once, by the grace of irrigation, had a population of 22,000,000. If we brought water and power to serve the peoples of these arid wastes, no one would grudge us the oil that we need. We could not be imperialists but technicians, enabling these people to develop more fruitfully and healthfully their own way of life, not in terms of graft for the few but with the aim of prosperity for all who are willing to work, to study, and to learn.

And thus we should do our part to develop peaceful citizens rather than revolutionaries with reason to the suspicious of our intentions. The whole world needs a new deal, and there will be no peace till it has one. Roosevelt knew that. Such a new deal would require great sums of American money and goods.

I advocated a loan for the welfare of Greece when I was Secretary of Commerce in Washington in the summer of last year. I am only against the present loan if it is used for the wrong purposes. I do not hold with those Americans who raise the Red menace as a cloak behind which to dominate and exploit the world, but rather with those who believe it is America's destiny to furnish new techniques which will enormously expand world production, world consumption, world trade, and the sum total of human enjoyment everywhere.

I believe that the British people who know the shortcomings of old-fashioned exploitation and the imperialism would cooperate with enthusiasm in a thorough-going new deal for the entire world.

Britain Not Finished

No, I pay no heed to those who say that Britain is finished. The most precious wealth of the British people is character. For the long pull, character is worth more than national resources, technology, or any other asset. Character is the only workable substitute for a totalitarian form of government when people get in a tight pinch. The British people stand in a peculiarly powerful position. Powerful, you will ask, when we shall be destroyed by an atom bomb if there is another war. Powerful, when we are poor and economically dependent. Yes, powerful, because you are giving the world the example of a great experiment in planning with freedom. Powerful, not so much now in a strategic or military sense, but because you stand as a bridge between free enterprise America and socialist Russia. And neither of them can afford to ignore you. Powerful, because even though you are a debtor country, you are still the greatest single important market in the world. And therefore, if you are short of dollars, you are in all the better position to make a good bargain with the United States, since the Americans cannot afford to let you go bankrupt.

You have experience and understanding of both East and West, and you know that to quarrel with either or to join with either against the other is a step fraught with the greatest danger. Your security depends upon not exclusively tying yourself up with either. You can only be prosperous in the one world to which all scientists and other far-sighted men look on as the one alternative to world destruction (sic). By necessity you understand the need for a new deal for the world because your old deal has broken down.

On this, the second anniversary of Roosevelt's death, I think of his dreams for the postwar world as expressed to me as he sent me on my way to China and Soviet Asia in May of 1944. He felt so strongly that peace in the Far East depended on the recognition of the just aspirations of the people, that the way to get rid of the white man's burden and prepare for peace was to help all the varied peoples to govern themselves. Certain colonies, he felt, were ready for self-government almost at once, some in ten years, some in 20, and some in 40 years. He had no question about the goal, and being certain of this goal he had no question of our ability to preserve the peace of the Far East. He had, you see, very clearly in his mind the idea of an entirely new deal of freedom and plenty for the whole world. Such ideas grew in the minds of men under the compulsion of slump and in the urgency of war.

Today this forward outlook and constructive statesmanship which made the America of Roosevelt as an effective bridge between America and Russia is no longer in the ascendance in the United States. But the bridge must be found. In 1947, the New Deal has probably more champions in Britain, where planning is unavoidable and the urgency of sharing the world's potential plenty is so obviously great. People who hold fast to this great conception both in America and in Britain must take up the task which Roosevelt could not carry to completion. We still need the worldwide New Deal.

Wallace Assailed by Administration Member

This address as well as other utterances of Mr. Wallace in England have elicited sharp condemnation here in Government and Congressional circles. While President Truman up to the present writing has refused comment, Attorney-General Tom C. Clark, speaking at a Jefferson Day Dinner in Philadelphia, April 15, said: "Anyone who tells the people of Europe that the United States is committed to a ruthless imperialism and war with the Soviet Union tells a lie. It is a most cruel falsehood because it reveals an utter lack of understanding or appreciation of the American way of life."

Cross Currents at Geneva

(Continued from first page)

In his speech the chief British delegate clearly indicated Britain's unwillingness to give up Imperial Preference. This was in accordance with the results of the discussions with the Dominion Governments held recently in London, discussions which are understood to have disclosed remarkably strong and unanimous feeling throughout the British Commonwealth in favor of retaining the basic system of preference, even though all parties show themselves willing to consider reductions of the extent of the preferential rate they enjoy. This attitude is largely due to the fears that if Imperial Preference should be eliminated altogether in return for tariff concessions, there would be nothing to prevent Congress or the legislative bodies or Governments from reversing that decision later. Tariffs could be restored by a stroke of the pen, while it would be much more difficult to piece Imperial Preference together again at short notice, once the system is scrapped. So Britain and all Dominions (including, it is understood, Canada) are in favor of retaining this system, even if it has to be curtailed, because so long as it is in operation it will always be possible to restore Preference to its old level, should this be found necessary as a result of a restoration of the old tariff walls.

This was not stated in so many words by Sir Stafford Cripps, either in his speech or even at the Press Conference. But he did state categorically at the Press Conference that even if the United States did reduce their customs tariff to the full extent of 50% permitted by the existing law, Britain would not consider this as a sufficient *quid pro quo* for an elimination of Imperial Preference. He went even further. He said that a complete elimination of Preference would only be agreed to in return for a complete elimination of tariffs. He was perfectly safe in committing himself to this undertaking, for neither the United States Government nor indeed any other government is in the least likely to agree to anything like a complete elimination of tariffs.

Cripps' Return to London

Finally, Sir Stafford Cripps indicated his attitude by returning to London on the third day of the conference, even before Mr. Clayton's arrival in Geneva, leaving his permanent officials in charge. This gesture implied that he did not expect for some time any vital discussions on the basic principles of the proposed charter. In fact, he plainly stated at the Press Conference that there could be no question of any decision on the Charter unless and until an agreement has been reached on tariff concessions. And since tariff negotiations are a matter for the permanent officials, evidently he feels that his presence in Geneva for the discussion of fundamental principles—which is a matter for the Ministers—is not likely to be required for some time.

The view that tariff concessions must precede the establishment of the charter was also expressed by other delegates. Likewise, complete non-discrimination was openly opposed also from other quarters even before Sir Stafford's speech, in particular on the part of M. Andre Philippe, the principal French delegate who pronounced himself in favor of retaining Empire preference and bilateral arrangements.

Among the unusually candid opening speeches that of the Chinese delegate certainly deserves the first prize in candor. He said that the best way for increasing the volume of world trade would be by helping China financially so as to enable her to import more. This thought was very much present also in the minds of other delegates, even if they did not put it into actual words.

The above facts should give some idea of the difficulties Mr. Clayton and the American delegation will have to overcome in order to obtain the adoption of the American policy.

New York Cotton Exch. Nominees for Office

David Ker, Chairman of the Nominating Committee has announced the following slate of nominees for New York Cotton Exchange offices to be filled at the annual election on Monday, June 2, 1947:

Gustave I. Tolson

President: Gustave I. Tolson, Geo. H. McFadden & Bro.; Vice-President: Charles B. Vose, Harris & Vose; Treasurer: Tinney C. Figgatt.

For Managers: Alfred Boedtker, Volkart Bros. Co.; John C. Botts, Corn, Schwartz & Co.; Bernard J. Conlin, Bond, McEnany & Co.; A. Rhett duPont, Francis I du Pont & Co.; Kenneth G. Judson, Judson & Co.; William H. Koar, Anderson, Clayton & Fleming; Fred W. Lucas, Fred W. Lucas & Co., Memphis; Walter S. Montgomery, Spartan Mills, Spartanburg, S. C.; Robert J. Murray, Bunge Corp.; Hugh E. Paine, Abbott, Proctor & Paine; Malcolm J. Rogers; Charles Slaughter, Chas. Slaughter & Co.; Eugene B. Smith, Eugene B. Smith & Co., Dallas, Tex.; Alden H. Vose, Jr.; G. Clarke Watson, Patterson, Dunscomb & Co., Memphis.

For Trustees of the Gratuity Fund (to serve for three years): Clayton B. Jones.

For Inspectors of Election (for 1948 election): James B. Irwin, Sidney S. Shlenker, J. Victor di Zerega.

The Bonds of World Bank

(Continued from page 9)

was neutral, is working day and night, but her contribution is lost in the face of huge world demands.

And so, by the process of elimination we arrive at the inescapable conclusion that the United States is the principal source to which the other nations of the world can turn to find the tools and equipment to resume peacetime productivity. If we were the arsenal of democracy in war—we are even more the hope of industrious and normally productive nations in peace.

It is true, we have been faced with our own shortages created through the war years. Some of them are already being filled—many others remain—but they will not last forever. As bankers you must necessarily look ahead—and as bankers, I am sure you will agree the time is not far distant, when to keep our industry humming—to maintain employment at high levels—to continue to make economic progress—we will need, not only our old prewar world markets—but vast new ones as well.

It is not only that our industrial capacity increased 50% during the war years, but under the stress of war-time production, industry learned how to take short cuts—use new products—develop new methods—speed production. This greatly increased productive capacity must find outlets. We cannot hope to be prosperous ourselves if the rest of the world is to remain in rubble or lie fallow.

Choice Between Largesse and Loans

The choice before our country today is whether to continue extending obvious and frank largesse to keep alive the spark of life in those who have suffered the indescribable horrors of war or to strike out boldly and loan the necessary capital for the tools of production so that over a reasonable period, these same nations may resume their rightful places in a dynamic, progressive world.

No group in America knows better than this audience the tragic implications of the words—and I am speaking solely from an economic point of view—"too little and too late." From the standpoint of self interest alone, we must help war torn nations to get on their feet, and under-developed countries must be encouraged and assisted in developing their resources and their productive potentials. It is for these reasons that the International Bank was created. There can be no question about the great need for it. The big questions are:

Can it do the job, and

Can it act quickly enough to restore men the world over, to an outlook of hope and will to work for tomorrow? Manifestly it is here in America that these questions must be answered—and it is audiences such as this that will answer them!

The answer to whether the Bank can do the job depends obviously upon its resources and facilities. As bankers, you are well aware of the fact that it would be fatal either to underestimate the size of the task or to overestimate the tools with which it has to work.

Unfortunately, there has been a widespread misconception of the Bank's capital. It is frequently referred to as an "$8,000,000,000 bank." The fact of the matter is that as of today, the Bank has approximately $725,000,000 of loanable capital. I would like to outline for you, briefly, where this capital comes from and how the misconception arose.

Bank's Capital

Capital subscriptions to the Bank by its members fall into three categories:

First, 2% of the capital subscription of each member country must be paid in gold or United States dollars. In passing, I should state that a few countries have been given a five-year period in which to pay the last one-half of 1% of this 2%. These deferred capital subscriptions in gold and dollars, however, approximately aggregate only $6,000,000.

Second, 18% of the capital subscriptions of each country may be paid in gold, dollars, or the currency of the subscribing country. Under today's conditions, this 18% is being paid in local currencies.

You will be interested to know that as of May 26 of this year, the full 20% that I have just detailed for you will be due and payable. One or two countries have requested a little more time, but these are unimportant to the capital picture as a whole.

Now the remaining 80% of the capital subscribed by each member nation is subject to call only to meet the outstanding obligations of the Bank and is payable only in gold or dollars or the currency of the country in which the Bank's obligations are incurred.

Now if we add up these three categories, it does indeed come to $8,000,000,000, using the dollar—local currency ratio as of 1944 which the Bank uses under the Articles of Agreement as developed at Bretton Woods.

But it is also provided that the currencies of no member countries can be used for loaning purposes without the consent of that country. I think it will be obvious to you that under today's conditions, with each member nation hungry for dollars, it would only weaken the member country and create a situation diametrically opposed to the purposes of the Bank to utilize for loaning purposes the currency of any country that needs help. So great is the need for dollar exchange that by and large, the member countries must husband their monetary resources until the world economy comes into better balance.

Hence, it is primarily the capital contribution of the United States, plus the 2% payable in gold or dollars by the other countries, which comprise the Bank's loanable capital. As I said a few moments ago, this sum totals $725,000,000. While the Bank today has 43 nations as members, with two applications pending, it is manifest that the gold and dollar capital contributions to the Bank will not be appreciably increased. This is true even if, as expected, other nations eventually come in.

Thus, in order to fulfill its primary functions, the Bank must be a heavy borrower as well as a heavy lender. It plans to sell its debentures which will have a maturity of 10 to 25 years, depending upon market conditions, and the projects to be financed. These debentures will be general obligations of the Bank. Therefore, they will have back of them all the assets of the Bank—cash, the entire loan portfolio, and the uncalled subscribed capital.

The Bank will build up reserves which are to be created through a commission charge of 1% to 1½% per annum on each loan for the first 10 years of its life. These funds are to be segregated for the protection of the Bank's outstanding obligations.

It is important to note that under the Articles of Agreement, the Bank's loans cannot exceed the amount of its unimpaired subscribed capital, reserves and surplus. Since it would be poor business for the Bank to issue debentures for funds it could not loan, as a practical matter, the issuance of debentures is similarly limited.

Now then, we come to what might be called the additional "factor of safety" behind the Bank's debentures. The capital subscription of the United States as authorized in public law 171—79th Congress—aggregates $3,175,000,000. Of this, 20%, or $635,000,000 will have been paid in by May 26. All, or any part, of the remaining 80% ($2,540,000) is subject to call to protect the Bank's obligations.

It is true, of course, that all member nations are subject to this call and unquestionably would do their utmost to answer, but I am painting for you the blackest of black pictures, in order that you might see what would happen under the worst conceivable circumstances.

The Loan Picture

Now for the loan side of the picture. The Articles of Agreement provide that the borrowers of the Bank are limited to member nations. If any loan—other than a direct loan—is made within a member nation, it must be guaranteed by that nation, its central bank, or some similar instrumentality satisfactory to the Bank.

The Bank is not intended to compete with private banks or bankers. On the contrary, it is designed to pave the way for private finance by starting the flow from nation to nation of capital into productive enterprise, until world economic conditions become more stable and private finance is ready to take over. One of the Bank's stated functions is "to promote private foreign investment."

The Bank has power to extend credit in three principal ways:

First, it may lend directly out of its own capital funds.

Second, it may lend out of funds which it borrows through the issuance of its own obligations in private capital markets.

Third, it may guarantee loans made through the usual investment channels, or participate in them to whatever extent is deemed advisable.

At the present time, letters of intention or formal applications for loans have been received from eight member countries. Other applications are in immediate prospect. One specific provision of the Articles of Agreement is that the more useful and urgent projects, large and small alike, are to be dealt with first.

Not a Charitable Institution

It should be emphasized that the Bank is in no sense a charitable institution. Neither is it permitted to make loans for a political purpose. It is an out and out business institution, providing funds for productive purposes only and taking necessary risks.

Now about those risks. They are broader than private capital acting alone is willing to assume under today's conditions, since the Bank is prevented from loaning if the funds can be obtained from other sources, at a reasonable rate of interest.

But I want to emphasize to you that they are risks, undertaken with reasonable, prudent business judgment. The member nations are fully aware of the size of the task to be done, and the Bank is staffed with men of broad financial experience from some ten different countries, almost all of whom have spent their lives in foreign lending.

As to loan policies, the Bank is fully aware of the fact that it is not enough that any particular project aid the domestic economy of the borrowing nation, but that due respect must be given to the prospects of the borrower for obtaining the needed foreign exchange to meet its obligations under the loan.

While the crying need of the whole world today is for dollars, it does not follow that this will always be the case. As other nations are assisted in regaining their productivity and the resources of undeveloped countries add to the wealth of the world, the dollar problem should solve itself. Given an expanding world economy, it can hardly help but disappear.

There is historical precedent for this statement. It is only a few generations ago that the wealth of the old world was seeking investment outlets in this country, helping us to come to economic leadership faster than any nation ever had before. And as our country developed, the very nations which were assisting us found ever increasing markets for their own goods and services.

We undoubtedly shall find in an expanding world economy not only more outlets for our goods, but more things that we can buy from those we help. The productive capacity and, hence, the living standards of both the borrowing and lending nations will be raised.

Economic Bridge From War to Peace

In closing, I would like to picture the Bank to you as an economic bridge from war to peace, created through the cooperative efforts of the member nations. So great was the destruction and economic dislocation of global war that such a bridge could only be built through international concert. Across this bridge the war-torn member nations may be assisted to return to economic productivity, while the under developed nations may take the road to the full utilization of their resources.

Let me emphasize that the Bank is no panacea. It cannot help those who do not help themselves. Each member nation agrees that the Bank shall proceed on the basis that, granting the importance of its financial assistance, the major effort must be made in each case by the borrowing nations. In the last analysis, the future of any country must depend primarily on its willingness and ability to utilize its own resources to the fullest extent for productive purposes.

Surely, it is no less than good business for us to do everything in our power to restore a sound world economy. We will thrive or perish as other nations thrive or perish. The Bank's President, Mr. McCloy, has well said that the world cannot remain half skyscraper and half rubble.

The Bank is managed by competent experienced men. It is so set up that the funds it must borrow are well protected. The contribution that it can make in the immediate years ahead is of the utmost importance. How well it succeeds depends upon a broad realization on the part of all of us of the vital role it has been assigned to perform.

Don't Wrench the Price Structure!

(Continued from first page)

lion in 1935 to 190 billion at present just to finance checker games, horse racing, week-ends at the beaches and at the ball parks? I thought that a portion of these increased funds are meant to meet the increased cost of living.

"Is there anything to yelp about in the distribution of current record-breaking income?" he asked. "Is it not reasonably assuring that 30 million people are engaged in full employment in the United States and that in most industries there is still a sharp scarcity of labor? Industry generally is still straining to maintain or expand the unprecedented volume of production. Is there anything in this picture which should create impatience? Is there any reason why the average person in the United States, now enjoying a higher standard of living than he has ever known, should become panicky on the ground that prices are higher?"

The present economic situation, he declared, is one that any country in the world should be proud to have. Any other country in the world possessing our situation would revel in happiness and pray to the Lord that it be continued forever, he added.

"Our people, seemingly, prefer to go up and down the land yelping and apparently bent on destroying the brightest era of prosperity we have ever known," he said. "We have only to proceed with intelligence and gratitude to make the present situation even brighter.

"If markets for manufactured goods are allowed to take their due course in making such gradual adjustments as are from time to time justified by the relationships between production and consumption, prices will steadily tend downward, thus automatically creating an increase in real income and still further expansion of consumption. Already enough has happened in food and textiles to show what normal economic processes can do if given time."

In a highly competitive industry such as cotton textiles, he explained, the market is a purely impersonal thing. Cotton textile prices do not move up and down as a result of individual choice but are responsive solely to economic forces over which no individual or any group can exert any control whatsoever. The individual response to price movements, he said, lies in the productive field alone, the result being that higher prices are always followed by increased output. Price, he declared, is still the governing force in economics and those overlooking this ignore the fundamentals of economic truth.

The chief responsibility of manufacturers and distributors at this time, he said, is to keep goods flowing. Under present conditions, no recession is possible unless goods are held back from the market. The great majority of cotton textile producers, he added, realize that to hold goods back constitutes business suicide, the result being that stocks now in the hands of mills are abnormally small.

Seek Lower Postal Increases

The House Post Office Committee has been presented with recommendations for special low postage rates for publications by numerous groups which claim that the proposed increases in rates threaten to destroy the publications which they issue, a dispatch from the Associated Press, Washington, stated on March 28. Protests against the increases were heard from representatives of the Veterans of Foreign Wars, the National Education Association, the National Grange and others.

Lewis C. Sorrell, who said he represented 300 firms in the National Council on Business Mail, Chicago, proposed an entire new schedule of increases, less drastic than those advocated by the Post Office Department for second, third and fourth class matter. The Associated Press further said:

J. T. Sanders, Legislative Counsel of the National Grange, said the proposed rate boosts would work a particular hardship on farm families.

He urged that the "national entity" of the postal system be preserved, adding that "it is highly unrealistic to treat each branch of the postal service as an airtight compartment."

With King Merritt & Co.

(Special to The Financial Chronicle)

PORTLAND, MAINE—Allan L. Bonney is with King Merritt & Co., Inc., 53 Exchange Street.

Strengthening Economic System

(Continued from first page)
against America. Such is the paradox that presents itself.

Out of these circumstances there arises, I believe, a most consequential responsibility of American leadership. In the aftermath of a great world conflagration change is accelerated. The dangers to our institutions are then the greatest; the opportunities for constructive accomplishment the most far-reaching; the necessity for intelligent and unselfish cooperation the most essential.

It is clear that industrial management, concerned as it must be with the processes of the economy, cannot confine itself to the mere production and distribution of goods and services with success measured solely by the yardstick of profits. Its leadership must integrate its responsibilities with the economic structure as a whole in terms of social and economic progress and stability. That is the role of industrial statesmanship. Political leadership must rise above party politics and the bid for votes and accept a real responsibility to the economic order. It must create a favorable climate in which enterprise is to operate. Labor leadership must rise above the level of internal politics and its personal prerogatives and recognize the fact that the determination of the economic relationships of labor with other groups is not a question to be settled by strife and propaganda. It is a question of economics if all are to survive and prosper.

Lesson of History

Therefore, I submit that however constructive the bill of particulars may be for strengthening the American economic system, it will be of little avail unless it is implemented by political action and administered by those who believe in it and are prepared to do those things necessary to make it work.

It is clearly written in the pages of history that the foundation of modern civilization began to take form when mankind became free to exercise his personal initiative, to employ his talents as he saw fit to his own advantage and profit. It is further clearly written that under circumstances where some trades were free and others slave, the former were those that expanded and progressed. Everywhere we turn we see economic progress synonomous with economic freedom. But important — in fact, essential — as the advancement of our physical well-being may be in terms of higher living standards, of far greater consequence is the preservation of all our freedoms. Do our people fully realize that as they surrender their economic freedom the loss of their political and personal freedoms becomes only a matter of evolution? They are inseparable. We must be either slave or free.

To win the freedoms under which we, as a nation, have so greatly prospered meant real sacrifice, great hardships and constructive leadership. To retain those same freedoms requires constant vigilance against the submissive forces that are trying to destroy them. To lose those freedoms needs only negligence and lack of effort to understand the problem and to separate the truth from the false as affecting our real welfare as compared with the intriguing superlatives of the demagogue.

Our people are capable of deciding this question in their own true interest, if properly informed. But they are confused! We must do a better job at clarification. Much is being done. But we must present our case far more dramatically. We must bring the issue down to the individual. It is not sufficient to write learned books and prepare complex essays. Such an approach is helpful and should be encouraged in developing a more informed leadership. But the immediate problem is one of mass selling. We must tell the story to 140,000,000 people in terms they understand. We are not adequately meeting the competition of our opponents. I urge the importance of such a type of educational effort as an effective instrumentality in preserving and strengthening our economic system.

Enterprise Must Have Suitable Climate

To make the most out of the great opportunities that advancing technology and more effective know-how as applied to the technique of industrial production offer us, something must be added. Enterprise must have a suitable climate in which to develop in order to reach its maximum potentiality. This is a national problem. We cannot hope to preserve the system of free enterprise if we pursue the panaceas—the rabbit-out-of-the-hat tactics, the philosophy of scarcity and the other economic monstrosities that characterized the later prewar years. The climate in which enterprise operates is not improved by such national economic presentments as that of October, 1945, concerning the relationship of wages and prices. The world economy, in such sore need of reconstruction and support, is not advanced when the highest political authorities lay down, as at Potsdam, such a concept for the economic reorganization of Germany. What is needed today to insure peace and preserve the freedoms of people everywhere is more and always more production.

Economic opportunity is definitely prejudiced by lack of constructive political support at the national policy level. The American system of free enterprise must be dynamic. It cannot exist in static form. It has been well said, I believe, that our political institutions are of the 19th century while our technology is that of the 20th. I submit that to the degree we are able to reduce the spread between political policy in the economic area and current technology, to that extent shall we preserve and strengthen our economic system.

Individual Initiative the Keystone

The keystone of the system of competitive free enterprise is the initiative of the individual. The motivating force is the hope of a reward. It is a proft and loss system. We must make that reward worth-while. Today there is little economic incentive for accomplishment either in the case of an investor to take a financial risk or management, upon whose ability, experience and imagination we are absolutely dependent, to make the system work. There never was a time in the long history of American enterprise when the demands on management were as exacting as they are today. And there never was a time when the final returns were as small as they are today. American enterprise is what it is today because the rewards were great for a great accomplishment. That is far from the fact today. And we must not dismiss the problem as one solely related to the war. We were moving in that general direction in the later prewar period. It is clear that the economic and political consequences of the war, in terms of our large debt, increasing cost of our social services, our foreign responsibilities and our uncontrollable national extravagance, all serve to prejudice the situation still further. This is not an academic problem. Important and able executives in industry ask themselves: Are the great physical strain and complete sacrifice of personal interest to the cause—absolutely essential in discharging the vast resonsibilities to our great industrial institutions —worth-while?

Our existing confiscatory tax system is the basis of this situation. It is generally recognized that our whole tax structure is a hodge-podge of inconsistencies, compromises and expedients. The concept is the broader distribution of wealth rather than the creation of greater wealth. Both are desirable, but if we create more it is clear we can distribute more. Just as individual initiative is the keystone of the free enterprise system, our tax structure is the keystone of the climate in which the system operates.

Today we are living in an economy of shortages. Tomorrow we live to the extent we create. Whether the free enterprise system can maintain its dynamic quality under the existing burden of taxation over the long pull position is a question I cannot answer. But this is clear: If we are to strengthen the system, a different approach to the tax problem is essential. And just as lower prices stimulate business volume and increase profits, lower taxes may well expand government revenues through a broader base. It is not only what we take but how we take it.

Confiscatory Tax System

The existing policy of taxing business profits, and again those that receive the same profits as individuals, should be changed. Double taxation should be eliminated. Under today's business tax rates, management must make at least 35% more dollars before taxes to earn the same number of dollars after taxes as compared with the later prewar years. Manifestly, the possibility of this is highly problematical. But again, whatever dollars the investor may receive today represent only about 65% of the purchasing power of the prewar period. It is clear that the contribution to national purchasing power of those dependent upon income from investments resulting from savings has been materially reduced in the postwar period. It is constantly being argued that to maintain national purchasing power and to avoid economic disaster dollar income of labor must be increased in proportion to the dollar's reduced purchasing power. But in the great economic adjustments arising out of the war, the investor as such has a position expressed not only in terms of national purchasing power but—of far greater significance—the incentive to create new and expand existing enterprises, thus to stimulate economic activity. Perhaps investors are becoming the forgotten people. Tax relief to the individual is of vital consequence. And in considering such tax relief in the interest of a dynamic economy, I should like to see considered what I believe to be an equitable principle of individual taxation: viz., that no individual should be required to work more than one-half of his time to support the government, leaving the other half to his own advantage, in terms of his net spendable income.

I should like to see developed some form of tax relief against income directly related to incentive compensation. We must make it worth-while to the managers of our economic system to make an all-out effort. Their ability, imagination and experience determine, in the final analysis, the fate of the system itself. Essential as the contribution of other groups may be, management turns opportunity, created by the tools of investors operating in the climate developed by government, into job opportunities, production and higher living standards. I should like to see industry encourage incentive benefits directly related to production as applied to the individual worker. We must reverse the existing policy of the same money for less work. Our objective must be "more money for more work." It is only through increasing the efficiency of our industrial system that any real gain is made in the system as a whole.

Further, I should like to see stockholders of corporate enterprises and proprietors of individual enterprise recognize the importance of developing plans whereby executive management may have the opportunity of becoming part owners in the business in which they are employed and provision made in our tax structure to recognize such procedures on a capital gains basis. The result will be to strengthen the system through increased incentive and a greater sense of personal responsibility by moving management into the role of ownership, even recognizing that the participation may be relatively small.

I should like to see the incidence of business taxation moved closer to the individual if we are to accept the fact that existing double taxation is to be corrected and relief to the individual is essential. The question of whether the consumer pays business taxes in terms of higher prices may be argumentative. But I am quite convinced that an increase from a level of about 15 or 16% in business taxes prewar to 38% postwar has increased the prices of goods and services. A dynamic economy requires a declining trend in real prices. Any policy that raises prices or that prejudices lower prices is unsound.

Again, I should like to see the tax structure encourage a more rapid obsolescence of plant and equipment — the substitution of the new for the old. Generally speaking, our production equipment is always behind current technology. Before the war the discrepancy was most substantial. It prevented what otherwise would have been possible — reduced costs and hence lower selling prices. This applies to capital goods in general.

Vulnerability of Capital Goods Industries

Our capital goods industries are the most vulnerable sector of our economy. It is extremely important to insure a high degree of productivity in that area. Today billions of new investments are flowing into expansion, reconstruction and rehabilitation of our productive facilities and for other capital goods. A large volume is moving overseas. This is an important factor in maintaining our economy at existing high levels. Many corporations with their existing programs completed do not contemplate important additional investment for a period of years. This is something to consider seriously, for the difference between what we call "good" business and "bad" business can be accounted for by the degree of activity of our capital goods industries. We must bear in mind the economic formula: Production equals consumption plus savings. It is of vital consequence that we keep our savings actively employed in the economic stream.

By encouraging the substitution of the new for the old we increase aggregate employment and through advanced technology we reduce costs, hence lower selling prices, thus stimulating the consumption of goods with further employment possibilities.

Such is the direction we might go in the reconstruction of our tax structure rather than the specific road we should take. Suggestions serving to stimulate enterprise through tax benefits are open to attack. But again the tax structure is the keystone of the busines climate in which the free enterprise system operates. It has been well said: "The power to tax is the power to destroy." And conversely, in the way we tax lies the power to construct. That is the issue here!

I am suggesting nothing new but rather the return to a policy under which we have prospered so greatly. To preserve and strengthen the American economy we must respect the foundation upon which the free enterprise system rests. We must re-enforce that foundation. We must make it worth-while to take a risk. Worth-while to make the risk a successful venture. And in a big way, for ours is a big country! Thus the system remains dynamic —essential to its preservation.

Relationships Between Economic Groups

Among other factors is the importance of sound relationships between the various groups comprising the economic system. These relationships fall into two classes: First, those prescribed by law; second, those determined by agreement. It is of vital consequence to the preservation of a free economy that all such relationships respect and are in accordance with its fundamental concept.

The most consequential of these group relationships is that between labor and management. An essential component of the concept of the free enterprise system is that economic adjustments should be free of coercion or prejudice. It is the cash register against the bureaucrats. Applicable law should serve all groups without fear or favor, should maintain a fair and equal field of opportunity for all individuals and groups. The free enterprise system requires respect for the principles: "Equal rights for all and special privileges to none." That is essential. Applicable laws for some years past, and more especially administrative rulings having the effect of law, have seriously prejudiced management in its relationships with organized labor. We must restore this balance in both privilege and responsibility. But it must not be done in a punitive way. We must not prejudice the just rights or limit the proper progress of either.

The shortcomings of existing relationships have been well explored. They do not need to be repeated here. The cost to American society was dramatized in the events of 1946. The people have acted on the evidence. The verdict is about to be rendered by their accredited representatives. The verdict is most consequential. If it is to be a far-reaching statesmanlike decision, fully recognizing the existing unbalanced situation and providing adequate and equitable remedies, it will be a step of the most vital consequence in preserving and strengthening the American economy. On the contrary, if it is a decision lacking courage, colored by the political consideration, failing to meet the situation squarely, then labor-management relationships must continue to be a sword hanging over the head of American enterprise.

Monopoly of Organized Labor

Organized labor under existing law is moving toward a monopoly. Monopolies, whether in business, in labor or anywhere else, cannot be permitted to exist in a free economy. The concept of a free economy is competition. Of all the things that might be done to prejudice the American enterprise system, the tolerance of a monopoly comes first. Any business, any group, any individual who becomes a party to a monopolistic practice is a traitor to the system of free competitive enterprise. Years ago, in some cases, business was moving into monopolistic form. Something was done about it. It did not destroy business. It strengthened and expanded it. Today labor is relieved by law from restrictions that make monopolies in business impossible. To protect our democracy, and strengthen the American economic system and preserve the American way of living, all monopolies must be eliminated.

Thus in the highly controversial area of labor-management relationships, if we are to preserve our existing economic system, we cannot tolerate monopolies. We must restore the balance between management and labor by revising existing law. We must recognize collective bargaining as a bulwark against regimentation. Labor courts, compulsory arbitration and the like, when assuming the prerogatives of collective bargaining, are a stab in the back of a free economy. Collective bargaining should be limited in scope.

Prices and price policy are exceedingly important factors in a dynamic economy. Prices at the moment dominate the scene in the current economic picture.

Today the greatest confusion exists in the matter of wages, prices, profits, business volume and in other economic relationships. It is of prime importance in a sound economy to have consistent and balanced relationships between prices, wages and profits in all sectors of the economy. In a normal free economy there are constantly in process adjustments as a result of an enormous aggregation of separate transactions of a very complex nature. These transactions establish business volume through consumer preference, validate wage rates through acceptable consumer prices, determine business profits and loss through the acceptance of goods and services at established prices. It is well said that the cash registers of the nation determine the economic order in a free competitive economy. But many factors have interfered, since the close of the war, with the adjustments that normally take place.

Today the economic position of different industries and different units in industry shows no consistent pattern. Some industries are operating at record levels of production with a high level of profits. Others are considerably below prewar levels with subnormal profits. The situation is artificial because the economy is being supported by accumulated shortages. In the case of perishable goods, production has proceeded at exceedingly high levels. There are now indications of supply approaching demand. In the durable goods industries demand continues in excess of production and with the limitations existing it is highly probable that such a situation may continue for a year or two—or even longer. We must recognize the facts in the price situation in view of the current discussion of the subject. Goods and materials, highly sensitive to the law of supply and demand in the most competitive sector of the economy, farm prices, in particular, are very badly out of line with the existing price level. On the contrary, prices of goods more directly related to costs—durable goods, for instance — are quite consistent with that level and have little to do with the increased cost of living.

If strikes do not occur and production continues at current levels, gradually increasing to existing capacity as shortages are reduced, the natural corrective processes will bring about an adjustment in the course of time. However, it is more likely that consumer resistance to existing high prices, particularly as applied to perishable goods, may result in a more or less serious decline in general business volume before the final process of adjustment is completed.

Problem of Wage Increases

The most serious situation the economy faces at this time is the demand for further substantial wage increases. If this should take place based upon individual business considerations, it might serve to facilitate the adjustment. In all probability, however, it will take the form of a new national wage pattern. Any national wage pattern is antagonistic to a free enterprise system. If this occurs it is inescapable that there must be faced further increases in prices, spread quite generally throughout the economy as a whole. Some enterprises can and, if they can, should absorb such increases in wages, in whole or in part, out of existing profits. Others will be unable to do so. Such a situation is certain to delay the process of adjustment, to accentuate the possibility of a business recession and intensify it, should it come.

The most effective and intelligent attack on this problem is clear. Prices should be reduced by sacrifice of business profits to the full degree justified by each individual set of circumstances. On the contrary, to increase wages at the full sacrifice of a possible reduction in prices does not contribute effectively to a solution of the problem. It is impossible to assume that business generally can accept a sufficient reduction in profits to justify the reduction in prices so badly needed, and at the same time substantially increase wages except to an extremely limited degree. A new national wage pattern will, I believe, increase the prices of goods and services, undesirable and dangerous as that may be, under existing circumstances.

This situation, in relation to the long-term problem of preserving and strengthening the American economic system, is significant. It demonstrates the confusion and dangers that evolve in our highly complicated economy when the normal processes of correction are absent. And by implication one wonders how it could be possible to effect such adjustments in such a highly complex economy by a bureaucracy in Washington as compared with cash registers everywhere. And that is the problem of a planned economy.

Country at Crossroads

This great country of ours is at the crossroads. It is embarking on a course and no man can foretell what the ultimate consequences may be—the preservation of peace or the destruction of our civilization. The freedoms that have made us great and powerful are at stake. No man can foretell what sacrifices may be demanded as measured in human and material values to preserve those freedoms. It is a situation we must face, no matter how much we may dislike to face it. Today we are strong. We must remain strong. That is our sacred duty to future generations. I venture to submit that the most effective bulwark for the protection of our destiny—no matter what the demands of the future may be—is a virile and dynamic economy. And if based on the fundamentals of human reactions, desires and accomplishments, we shall continue to recognize as the keystone of that economy freedom in initiative of the individual. Such is the keystone of the American economic system. If that is the concept of our position, we should move forward aggressively and do the things that must be done to preserve and strengthen it. And we should destroy the barriers that have been erected to prejudice its effectiveness. There is not a moment to lose. Soon it may be too late!

C. G. McDonald Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—William A. Gant has become connected with C. G. McDonald & Company, Guardian Building, members of the Detroit Stock Exchange. Mr. Gant was formerly with Investment Counsel, Inc.

Major Problems in Municipal Financing

(Continued from page 13)

stances production facilities can and will be turned to bridging gaps in building supplies as well as in other directions.

An easier market in construction material and the gradual elimination of government restrictions should stimulate all kinds of building operations, including civic improvements, and permit city officials to turn their efforts to ways and means of financing the needed projects most essential to the public health and welfare of the communities that have been forced to postpone construction on account of war priorities and material scarcities.

Municipal financing has developed into something approaching an art. Nimble wits and a wealth of experience are needed to cope successfully with today's money market and eccentric coupon rates. With billions of dollars of municipal bonds to be issued in the near future, competition in placing these municipal issues will be keen and the lowest interest rates will be obtained only by the informed and vigilant municipal officials.

Previous Postwar Experiences

Many cities have gloomy recollections of postwar years. Following the Civil War, expansion of municipal facilities, accompanied by the usual debt increase, was set in motion by the urge to attract railroads to individual communities. During a period covering about twelve years ending in 1877, nearly 50% of municipal borrowing was incurred for so-called "railroad grants." The field was quite fresh in those days and political subdivisions put out some pretty loosely conceived obligations, many of which came to grief. The next ten years saw the beginnings of constitutional and statutory amendments, directing and restricting municipal debt-incurring power, many of which are in effect today.

From 1918 on for nearly 14 years most communities in the United States set about finding ways and means to make way for the horde of motor vehicles that were sold during those years. States and counties also had to expand and extend the highways under their control. The net result of all this, together with paying for other improvements, was an increase in debt in this period of all political subdivisions of nearly $13 billions. Debt outstanding rose from $6,700,000,000 in 1918, to $19,500,000,000 in 1932; in round numbers. From 1932, through the next eight years to the all-time high of municipal debt in 1940, of slightly over $20,000,000,000, the increase was at a very much slower rates. From 1940 to the present time, state and municipal debts were reduced almost 20%—to $16,000,000,000; in round numbers.

Much of this four billion dollar reduction came about through old issues maturing and lack of financing of new projects because of material scarcity during war time.

Hostilities ceased some months back in so far as the shooting war was concerned but the gigantic disturbances and dislocations created by the unparalleled devastations of war were so much greater than anything else in previous history that the psychological effect of this destruction is still very much with us. City officials and heads of other political subdivisions are being forced into new ways of thinking. They realize that they must to some extent depart from their former conventional methods of financing and are turning to new plans to fit conditions created by the huge Federal Debt accumulated to finance war expenses. It is possible that some of the mistakes of the 1920's which followed World War I, may be avoided this time as there is still a considerable sprinkling of people around who have vivid memories of those days. Evidence of this is shown in the more cautious attitude in approaching many municipal problems as well as other phases of national life. Municipal officials are more acutely aware than ever before of the need for intimate knowledge of their city and its possibilities and limitations. There is a growing understanding that sound counsel and a realistic appraisal of the community's requirements will tend to reach more satisfactory results.

Many individual cities made a good showing in reducing outstanding debt during the last few years. Reductions were made in same cases, however, at the expense of needed improvements, particularly where a community has had substantial and rapid growth. Failure to set up postwar reserves has caused some embarrassing maladjustments here and there.

The war added about $250 billions to the Federal Debt. Charges on the debt and heavy expenditures for national defense and other functions have absorbed taxation money from a good many sources on which states and municipalities rely. New sources of taxation must either be found and tapped or else certain classes of municipal activities must be lifted out of the accepted group of ordinary city functions and placed on a specific revenue basis with charges appropriate to the services given.

Municipal Improvements

National attention is being called to the foul condition of streams, bays and harbors. Mandatory legislation has been enacted in many states demanding correction of this hazard to public health. Municipal authorities feel that solving of the curse of pollution will require political subdivision financing over a period of years and will run into billions of dollars. Much of the money will undoubtedly be raised on a "revenue" basis and not intrude upon, or dilute, general municipal credit.

Airborne passenger, express and freight business has about doubled in the last year or so at the average air field. A casual look at the figures of the past decade will readily show the place that flying has assumed in the world's commerce.

No very definite ideas have yet appeared for a more or less standard policy of airport design, operation or financing and the progress that has been made up to now has been due to building just to catch up with needs.

Some well considered planning, to forecast likely development over the next few years, is very desirable and several areas are now under scrutiny with others, large and small, single units and group units, making inquiries as to the best course to follow. In the field of revenue financing sewage disposal and airports both offer possibilities.

Motor cars have done a great job in piecing separate communities together and in the long run, real benefits will accrue. Huge communities now exist that are single cities except in name and administration. All this growth, from whatever cause, has set up problems in some places that cannot wait too long for solution.

One of these communities comes to mind that has just about doubled its population in the last 10 years and is still trying to serve iteself and satellite towns with facilities that are becoming heavily overloaded.

The city officials, aware of the fact that to continue to carry this overload could result in some very distressing and serious conditions developing "overnight," have set about having a complete survey made. The object of the study is to determine the cost of enlarging and modernizing its facilities to provide for immediate and future needs, also to discover just what facilities can best be segregated and financed on a revenue basis.

The disclosures from analyses made to date indicate the need for an expenditure of close to $30,000,000, to provide for present needs and a conservative estimate of likely future growth.

This study is also bringing to light certain advantages and economies that will accrue through consolidation and merging of functions heretofore provided and carried on by half a dozen separate communities.

Municipal Consolidations

The recent convention of the Council of State Governments, among other things, emphasized the advantages to be gained through certain consolidations. In fact, the Council included "fostering the enlargment and consolidation of local government" as one of the four principal points in its suggested program for improvement of city administration.

The other three points featured in its recommendations for state-local relations were (1) the granting of greater powers to local units, (2) subjecting those powers to flexible administrative supervision and (3) assisting localities to secure stable and adequate revenues.

Florida seems to have taken a step forward in this matter of consolidation as reports show that the Miami City Commissioners have asked the Legislature to "take all necessary steps" to merge Miami and Dade County Governments.

There are rumblings here and there from other quarters of similar action. It must not be overlooked, however, that regardless of constructive intentions on the part of localities, the final consent must be given by State Government. Localities may propose but the Legislatures in State Capitals must grant the power. To that end it might be a good plan to have statewide knowledge, based on facts and figures, prepared in anticipation of such requests.

Correction of all town and city ills is not in prospect but when the searchlight of impartial analysis is turned on some of the troubles, the progress made is both surprising and encouraging.

Halsey, Stuart & Co. Offer Erie Equipments

Halsey, Stuart & Co. Inc. and associates won the award April 15 of $5,440,000 Erie RR. equipment trust of 1947, first series, 1¾% serial equipment trust certificates, maturing $544,000 annually May 1, 1948 to 1957, inclusive. The bankers immediately reoffered the certificates, subject to Interstate Commerce Commission authorization, at prices to yield from 1.10% to 2%, according to maturity.

Issued under the Philadelphia plan, the certificates will be unconditionally guaranteed as to payment of par value and dividends by endorsement by Erie RR.

Proceeds from the sale of the certificates will be used to provide for not more than 80% of the cost, estimated at not less than $6,813,643, of the following new standard-gauge railroad equipment: 300 50-ton all-steel hopper cars; 500 50-ton all-steel box cars; four 1,000 h.p. diesel switching locomotives; seven 4,500 h.p. diesel passenger locomotives; and two 660 h.p. diesel switching locomotives.

Observations

(Continued from page 5)

contrasted with a rise of but 160% for industrial products. Since the War's end the latter have risen only 30% against an increase of 50% in farm prices to a level even higher than that reached in the First World War boom period. And it must be remembered that the government is further committed to support farm prices until the end of 1948!

In addition to the 70% of last year's rise in the cost of living which occurred in food, another 15% was accounted for by clothing prices; clearly indicating industry's lack of responsibility, or opportunity to deflate the over-all situation.

In addition to the government's contribution to food-price inflation, its responsibility through fiscal and labor policies is being overlooked by Mr. Truman. The demand side of the supply-and-demand equation has been grossly distorted by its monetization of the hugely increased federal debt, and its anti-economy stand which is continuing as insistently as ever, with the resulting pumping-out of purchasing power into the community.

Administration's Previous Deflation Phobia

Tied to the question of this expanded federal debt and the interest charges thereon is the strongly-indicated leaning of both the Roosevelt and Truman Administrations to a high price level, and their recurrently-exhibited fears of deflation, as manifested ever since the NRA days. In recent years the philosophy of a historically high price level has certainly been favored in official quarters as a basis for the collection of taxes sufficient to pay the $5 billion annual interest charge on the Public Debt, and for the balance of the tremendously swollen federal expenditures.

The featured presence of Chairman Eccles at last week's Cabinet meeting, and the particularly gloomy predictions attributed to him, remind us of his Federal Reserve Board's contradictory insistence on continuing its contribution to the reduction of buying power which is so worrying the President. Far from prompting Mr. Truman to make consumer credit the butt of a wholly unfounded characterization of it as "private deficit financing," Mr. Eccles should recognize that his completely arbitrary restriction of terms on automobiles and other hard goods is further inflating their price, quantitatively and out of the reach of their buying public—the precise crime with which he and his Chief are charging the nation's industrialists.

The demand side, accentuated by the paucity of durable goods, has been further enlarged by the government's labor policies. Wages have been inflated with the aid and abetting of a government which was panicked by its Brain-trusted spectre of eight million unemployed. This was exemplified by the President's own fact-finding boards inciting the nationwide 18½-cent pay rise which even forced the final scuttling of OPA. Labor policy also must bear its responsibility on the supply side of the price equation. For it cannot be denied that the supply of goods in this inflation-time was seriously curtailed by the widespread strikes, and general encouragement to work-deficiteering, given by the Administration's labor philosophy and politick-ing. Irrespective of the general labor-management squabble, the serious inflationary effect of last year's loss of 113 million man days on the supply of badly needed goods, is surely incontrovertible.

White House Fallacies

Now let us note some of Mr. Truman's sins of *commission*. First, he told his press conference—and hence **the nation's labor leaders** as well—that a further rise in wages would be justified if prices are not reduced. His utterances on the price level as such were bad enough, but this wholly fallacious fillip to unwise labor action constitutes a multiple compounding of his original felony. Foregoing the temptation to charge political motivation, first let us examine his inherent conclusion that in the present price-wage relationship, wages are too low. Let us take a look at the course of real wages. Average weekly rates accruing to the wage-earner in manufacturing industries have risen no less than 96% since 1939; while his outlays for manufactured goods prices have risen by 75%, retail prices by about 50%, and rents by less than 25%.

Further Inflation Encouraged by the President

But apart from the phase of the controversy bearing on the *present* ratio of wage to price, Mr. Truman introduces the even more serious factors involved in *further* wage rises—a definite instigation to resumption of the wage-price inflation spiral. If it is held that profit margins are now too high in the absence of immediate voluntary downward readjustment of prices, how can it be assumed that further wage increases will be absorbed by businessmen? The Nathan-CIO thesis, citing the alleged greediness and profit-hunger of industrialists, maintains that we cannot expect prices to be reduced if wages are maintained at present levels. How then can those protagonists expect that with the same instincts, business will not meet further wage rises with corresponding price boosts to maintain their profit margins? Granting the Truman-Nathan-CIO conclusions about industrialists' profit-seeking habits to be correct, we are forced to the conclusion that to forestall a wage-price spiral in a free economy, either a change of such human nature, or reimposition of OPA technique, or both, would be indispensable.

Again, the entire Truman-expounded concept of the situation—whether correct or not—seems generically to be wholly unrealistic, and far removed from the actual behavior of business men in the market place. The pictured *gap* between prices on one side of the equation and purchasing power on the other, represents a kind of static oversimplification, and some kind of periodic rigid price determination. Actually, on the contrary, the daily competitive exigencies of the market place and the necessity of individual business men to sell their production at prices set by the related demand, flexibly and continuingly, narrows such gaps fluidly by the forces of a free market. Trying to tamper with prices or with wages either by legislation or just via the instant example of White House "talk," is only another attempt to inflict purchasing power and over-saving theories in reverse, and trying for re-incarnation of discredited OPA-ism.

In the distribution of everything from shirts to hotel services—assuming some degree of intelligence in management—price and service adjustments will be correlated with the supply-and-demand and competitive market factors—quickly and sensitively. This is now instanced in the imminent reduction in the price of shirts because of our passing the peak of unsatisfied demand; and in the safely-assumed expectation that even the OPA-ceilinged hotel prices will be lowered, and/or decent service restored, following the 5% drop in last month's occupancy. In practice, businessmen do not fix prices in a vacuum according to their individual ideological motives or predilections!

* * *

So if the President wishes to be reasonably inclusive and objective in his next such economic pronouncement, we respectfully suggest that he (1) not forget the responsibilities of labor interests and government for the nation's well-being; (2) set his observations in the framework of the actual market place, not in an academic ideological vacuum.

Forecasts in Building Construction

(Continued from page 12)

ample excess for non-housing construction:

- Lumber
- Brick
- Clay Sewer Pipe
- Structural Tile
- Concrete Blocks
- Building Board
- Gypsum Board and Lath
- Cement
- Cast Iron Soil Pipe
- Radiation
- Tubs
- Sinks
- Lavatories
- Toilets

This estimate of production is not far out of line with predictions which were made by Housing Expediter Creedon and his assistant, Robert Jackson, at the February Convention of the National Association of Home Builders. A United Press release from Washington, dated March 16, however, indicates that some of Mr. Creedon's advisors now doubt the ability of manufacturers to produce sufficient materials to support the construction of more than 825,000 housing units in 1947.

Future Up to Washington

The future course of our industry, which by the way represents about 15% of our entire economy, will be determined to a considerable degree by the policies adopted in Washington. At the present time, building is still under control in spite of OPA liquidation. This means, among other things, that we have been denied the right to operate fully on our own initiative and that the Federal government has taken and must assume a large share of the responsibility for what happens in the building industry so long as any controls remain in effect.

Most of us have found cause to be critical of some of the policies adopted in Washington, and with good reason, but we cannot stop with merely criticizing the mistakes of the Federal government. If we don't like the way the government is doing things, we must continue our endeavors to correct them and come forward with suitable substitutes.

We, in this industry, have been told how to run our respective businesses by individuals who, in many cases, didn't know the difference between a 2 inch by 4 inch and a lally column. As long as 4,000 or more years ago, Job recounted a similar situation in Chapter 5: Verses 12 and 14:—"He disappointeth the devices of the crafty, so that their hands cannot perform their enterprises. They meet with darkness in the daytime, and grope in the noonday as in the night."

Let's look at some of the critical problems which need to be studied and the questions which we must answer if we are to convince the public and the Congress that private enterprise can provide the homes, schools, hospitals, factories, roads, and stores we need, with a minimum of governmental control and participation.

First of all, we must come forward with a plan for breaking the impasse in home building. The Wyatt program fell far short of its goals. In view of the miserable failure of the government's controlled industry program, I feel personally that the time has arrived, at long last, for the elimination of all controls. Last spring, we proposed a very comprehensive and realistic program to the government agencies dealing with construction. Intelligent relaxation and revisions at that time would have, I am sure, permitted the complete rehabilitation of construction so that controls would now have no justification for continuance. They would long since have become obsolete. But no! Such relaxation would very shortly have eliminated the ideology of "emergency"; and "emergency" is the cornerstone of the economic planners' justification for "bureaucracy in perpetuity."

Relaxing Controls

Had the government acted then to relax controls realistically, private enterprise could have provided the materials so urgently needed for housing our veterans and others who were sorely in need of shelter; not necessarily those $10,000 homes for sale only to veterans, but housing nevertheless. In my opinion, only a very small percentage of our returned veterans want to or are in a position to buy new homes. Encouragement by the government of veterans to enter into long-term financial commitments at this time is truly a disservice. They are just starting their careers, getting married, forming new families and changing jobs and locations. The majority want rental housing, comfortable, sanitary and reasonable in price, but not necessarily brand new.

This is one question on which I feel I can speak with authority—and experience. I know something about the veterans' problems and wishes, among our returned employees and in my own home. Since our own boys returned from Europe in the fall of 1945, we have had a house full of GI's with their wives and one two-year old grandson. I know what they want and what they have been seeking since September, a year ago.

The ceilings on new homes should have been lifted on V-J Day for both purchase and rental. Let those who are financially able, buy or rent new houses, thereby vacating properties for rent to veterans or for remodeling into multi-family dwellings. Encourage investment in apartments and other rental properties. That would have been the job which private enterprise would have done if it had been "given its head."

But no! That would not suit our economic planners in Washington. A year ago, on Jan. 11, Mr. Chester Bowles wrote a letter to Mr. Wilson Wyatt, "dictating" the terms of what later became the Veterans' Emergency Housing Program. Early in that letter, Mr. Bowles stated in part as follows:

"We face an emergency situation, the danger in which can scarcely be exaggerated. In this emergency, reliance upon traditional methods is out. We need 3 million dwelling units. We need them desperately and we need them now. No one believes for a moment that we can get this housing by giving construction industry its head. Anyone who argues for reliance upon the industry and upon traditional methods is arguing that we ignore the problem we face."

That is what the economic planners think of your profession and mine. So, with the necessity for an "emergency," Veterans' Housing was made a "political football."

You may have been wondering why I have dwelt so heavily on housing. There are several reasons: (1) housing, for 12 months, has been "front page news"; some factual, realistic and honest, but largely bureaucratic propaganda; (2) housing has been the number one "emergency"; (3) housing for workers has been the principal "bottleneck" to all-out production in our industrial centers near our factories; (4) emphasis on housing has detracted from one of the most urgent responsibilities to our returned veterans—namely, **jobs for veterans** because **they need jobs as well as housing;** (5) the restrictions on non-housing construction have been preempting thousands of jobs for our returned veterans, both off-site and on-site. Until the impasse on housing has been broken, we cannot hope for the rehabilitation of the **entire** construction industry.

Questions to Be Faced

In addition, we face such questions as:

(1) **Building costs**—Abnormally high because of the increased cost of labor, the reduced productivity per man hour, recent black markets and the length of time required to complete construction.

(2) **Housing for low-income families**—Housing officials in Washington want to build a huge quantity of public housing with Federal funds. I claim that States and municipalities should handle these needy cases and earmark such funds as relief and welfare.

(3) **Slum clearance**—We all deplore the existence of slums in our major cities, but we still insist that any relief for the underprivileged be made available to deserving cases and to them only—not to political hangers-on or to self-supporting families.

(4) **Building codes**—They should be modernized. Let the municipalities take action to correct the existing obsolescence.

(5) **Government controls**—With respect to subsidies, guaranteed markets and rapid tax amortization to manufacturers. These schemes just don't jibe with the private enterprise and free competitive way of doing things. We don't need such subsidies and we don't want them. We can't have a free economy in the building industry so long as they continue in effect.

(6) **Shortage of skilled on-site construction workers**—Relatively few young men entered the building trades during the decade of the 30's and during the war. Meanwhile, skilled workers in those trades have been growing older year by year. Apprentice training on a broad scale must be provided by the building trades unions. I am glad to see that many of our broad-minded and foresighted labor leaders have recognized this urgent need and have inaugurated such training programs, notably John Brennan of Greater New York, John Breidenbach of Ohio and others.

(7) **More reliable and impartial governmental statistics** on construction needs and trends in **all** fields of building.

(8) **Reorganization of various governmental agencies dealing with construction**—The present Administration has endeavored to group them all in one all-powerful agency. Private enterprise has objected to that idea and such action was prevented by defeat in both houses of Congress of President Truman's Reorganization Plan No. 1. That plan would have

given government a permanent stranglehold on our entire industry. The threat of such all-powerful control still hangs over us, however, in Title I of a resurrected Wagner-Ellender-Taft Bill —S. 1592.

(9) **Research on construction**—New materials and techniques and the use of materials in combination. Government wants also to take over research, but private enterprise has been and is continuing to do an outstanding job in this field. We do want encouragement from government to carry out our elaborate research programs, but we must be given a free rein if we are to accomplish our objectives for maximum benefit to the public.

(10) **Educational program** (four-year college course and NRLDA 30-day course)—The government has endeavored to provide the solution to many of these diversified problems in typical bureaucratic fashion by proposing an all-comprehensive, omnibus, general housing Act—The Wagner-Ellender-Taft Bill.

The Wagner-Ellender-Taft Bill

Many consider this bill a very insidious piece of proposed legislation by virtue of the fact that its design is along very strategic political lines. Its authors have apparently endeavored to "ensnare" or "ambush" opponents to the bill by incorporating therein quite a number of very desirable features which have previously been recommended and endorsed by various factors in the private construction industry. These features have been labeled "trading sops."

This is not the time to use available building products and labor to carry out a long-term social program. With employment currently at what is probably an all-time peak, why should billions of taxpayers' dollars be wasted for the purpose of subsidizing **self-supporting** American families? The expansion of credit facilities which are already more than adequate and at extremely low rates, would merely pour oil on the flames of inflation.

The W-E-T Bill would obligate the Federal Government to an expenditure of $143,000,000 per year for 45 years, or a cost to taxpayers of $6½ billion. This, with carrying charges, could possibly reach a grand total of $9 or $10 billion.

The Senate passed this bill by a voice vote on April 15, last, and I have a strong suspicion that not more than half of the Senators who voted affirmatively have yet read the full text of this very long, complex, technical, ambiguous and confusing piece of legislation.

Fortunately, the bill did not reach the floor of the House before the adjournment of the 79th Congress, but the proposal is **not** dead. It has already been resurrected in the Senate through the newly introduced Taft-Ellender-Wagner Bill, No. S. 866. From a hasty preliminary study of this 112-page piece of proposed legislation, S. 866 has been described as the "old omnibus" with a thin coat of paint inadequately covering the structure of the red wagon. Like the previous bill, it resembles the old-fashioned mouse trap with nine holes, with bait for farmers, veterans, manufacturers, distributors, home builders, bankers, architects, general contractors and the public generally. The original W-E-T Bill's reception last year in the House Banking and Currency Committee would indicate, however, that these groups still will not be tempted, but will seek housing by well proven private enterprise methods. Everyone who is devoted to the American way of life through free operation of the private enterprise system should use all possible influence with his Senators and Congressman to defeat this new bill as an omnibus measure; have it broken down into its various sections as individual pieces of legislation so that each feature can be judged on its merits. Senator Taft, late last year, was seemingly in favor of such a breakdown of the W-E-T Bill, but we see now that he has changed his mind again.

Also, a new House version of the W-E-T Bill has been introduced in the 80th Congress which is almost identical with the measure which passed the Senate last April. I am proud personally to live in the 27th District of New York with our Representative, the Honorable Ralph W. Gwinn, committed to fight this type of legislation. In his January 15 statement to his constituents, Mr. Gwinn said: "There is something worse than sugar shortage threatening us. That is, Government Housing. In spite of the utter failure of national housing programs to build houses for veterans, the Federal Emergency Housing Administration planners propose a program still more vast. Under it, we will have government planning of houses for 45 years. The propaganda artists that made OPA popular for a while have already moved into the Federal Housing Agency and the chorus is started by the President himself: 'We want Federal Housing. Free men are too selfish and high-priced to build houses for the poor.' It is time we put some facts on the table and had faith in ourselves instead of government promises that can't be kept. Our own experience with food and the experience of history show that the promises of government to furnish houses for the poor is a snare and a delusion. The poor get poorer and multiply under government management just as food grows more scarce and the people more hungry under government management of food production."

On April 15, last, while S. 1592 was before the Senate for very **brief** discussion, Senator Ellender of Louisiana, one of the co-authors, presented his answers to 12 of the major objections which had been raised by opponents of the W-E-T Bill. I quote in part his answer to one of the objections on which all factors in the industry seem to be in agreement—the inflationary hazard. I quote directly from the "Congressional Record":

"It is argued, fallaciously [says Senator Ellender], that S. 1592, by making it easier for people of low income and middle income to acquire houses, will increase the housing demand in relation to the shortages of materials and would, therefore, be inflationary. But the only real cure for inflation is to increase the supply [true—but see what follows]. **The only way to increase the supply is to enable low-income and middle-income families to take the supply off the market as it is produced."**

If I may borrow a term from my friend, Roy Wenzlick, I submit that statement as an outstanding example of our present Administration's "economic illiteracy."

A Warning

Before closing, may I offer a word of warning and caution. Attempts already have been made to place the blame for inadequate construction, especially for the housing shortage, on the private building industry rather than upon government interference. We have been condemned repeatedly by New Deal radio commentators and columnists. Accusations have been made to the effect that the private construction industry was opposed to housing for veterans. Those accusations were not only unfounded, but were, I believe, deliberate misrepresentations to the public to discredit private enterprise for the perpetuation of bureaucratic control in Washington.

Our position is still critical and the hazards which we face are not confined merely to private construction. Our entire economy is in jeopardy. On January 1, Gov. Thomas E. Dewey, in his inaugural address, said: "We in America will never have a chance to decide at one stroke whether we are to remain free or surrender to totalitarianism. That choice is being made now, day by day, week by week, month by month, in the little decisions we make as we go along. By each act and decision, we are building either for a free society under a stable government where our people are protected by a constitution, or we are building an increasingly regimented society with an increasing disregard for constitutional liberty." America is in the "Valley of Decision" and private enterprise is at the "crossroads." Are we to enjoy a continuation of the good old American way of life which has given this nation the greatest freedom and the highest standard of living in the world; are we to maintain and preserve the dignity of the individual with the State the servant rather than the master of the people; or, are we to fall victims to a "pauperizing, strength-destroying form of Statism, against which," in the words of Mr. Bernard Baruch, "the whole spirit of America is committed"?

In closing, may I suggest that in making these momentous decisions, we be guided by the thoughts expressed in that simple, little prayer:

Oh Lord, give me the patience to endure the things I cannot change.
Give me the courage to change the things I ought to change.
And, above all, give me the wisdom to know the difference.

Washington And You

(Continued from page 5)

House and Capitol. Now, most Republicans are canny enough to perceive the price issue as a Trojan Horse Mr. Truman hopes to ride into 1948's presidential campaign. They can't be blamed if they give the nag a hotfoot.

* * *

Actually, the President's economic advisors neither expect nor hope for any deep cut in prices. They think 1947 may bring a mild recession, that thereafter for a long time will prevail our postwar living standard of high wages and high prices.

* * *

Better play it safe and hedge any bets you've made that Senators will advance the retroactive date for tax reduction from Jan. 1 to July 1, this year. That looked certain a few days back. It still looks likely, but prospects for an unexpectedly large surplus of income over outgo for the current fiscal year is leaning some legislators back toward the Jan. 1 date.

* * *

Mark this down as possible but not yet probable: Congress may earmark a chunk of this fiscal year's surplus for paying off terminal leave bonds. Republican counselors are thinking that over. It would be, they argue, debt reduction, therefore couldn't be blackballed by the President.

* * *

And the Treasury still plans to solicit bank help in redeeming terminal leave bonds when Congress supplies the money.

* * *

House Commerce Committee members are grinding their scissors to clip Federal Power Commission wings. It's a gang-up proposition. One group turning the grindstone comes from the natural gas areas. The other is states-righters who feel the courts have widened interstate commerce and navigable stream definitions way beyond congressional intent. Committee hearings will cover a month or six weeks. Action won't be delayed long thereafter.

* * *

It won't be surprising if the Commerce Committee votes to: (1) limit FPC natural gas jurisdiction to interstate transmission line operations, (2) restrain FPC from asserting control over small manufacturers producing electricity for their own consumption, (3) redefine interstate commerce and navigable streams so as to wall off FPC from many power production and distribution activities now threatened with FPC intervention by reason of judicial mandate.

* * *

Says Connecticut Republican Representative Miller, trail breaker for those who would fence in FPC . . . "Free enterprise is our objective. To achieve it, we must unseat entrenched prejudice of bureaucratic reformers. We'll need mental, moral and physical help from state commissions and those business institutions endangered by Power Commision ambitions."

* * *

Washington gravediggers have etched epitaphs for Regulation W's tombstone: (1) Killed by Congress in 1947, or (2) Died of grief, 1947, because of congressional indifference. Congress may (1) pass legislation revoking the regulation, or (2) refrain from legislative approval of W and thereby let Federal Reserve Chairman Eccles execute his threat he would rescind the regulation unless Congress OK'd its extension.

* * *

Food and Drug Administration will shortly retrieve authority to seize contaminated and adulterated foods and drugs after delivery to wholesale and retail outlets. A recent court decision declared such seizures illegal, held goods must be grabbed while actually in interstate transit. Legislation is being drafted, will slide through Congress with little difficulty, empowering the agency to renew its end seizures.

* * *

Two year suspension of the 4-cent copper excise tax was assured when the Senate Finance Committee, 7 to 6, last week rejected an 18-month substitute. The President will have the bill for signature shortly. The two year moratorium will hike imports, but don't bet it will blockade a congressional look-see into control of supplies by integrated companies.

* * *

Taxation of consumer and farmer co-operatives is being eyed by Treasury prospectors, but they won't light the fuse to this explosive proposition unless directed by Congress. Treasury scholars have been studying co-op taxation many months, but—results and conclusions will be made known to Congress "only when asked for." They won't be asked for until after next year's elections.

* * *

Chains vs independents competition is being observed officially —and uncertainly—by the Commerce Department Business Economics Office. The technicians know that mounting prices have elbowed buyers from independents into the chains, that chains got 34% of grocery sales in 1946, 33% in 1943, and 39% in 1941. They want to know whether current climb in chain sales will flatten out or ascend beyond the prewar peak so far as to threaten independents.

* * *

Don't be bothered by crackpot suggestions that prices be curbed by reinstatement of the excess profits tax.

* * *

Want a birdseye view of the lending, insuring and other National Housing Agency operations? That Agency has just released a document, 4 pages, 14 by 17 inches, analyzing the statutory skeletons of its three subsidiaries —Federal Home Loan Bank Administration, Federal Housing Administration, and Federal Public Housing Authority. Copies may be procured from the Agency's Washington headquarters.

* * *

Federal Crops Insurance is to be vivisected by a House agriculture subcommittee. The probers know crop insurance has cost taxpayers about $100,000,000 in losses and $37,000,000 in administrative expenses. They're resolved to (1) make the program more efficient, or (2) wipe it out entirely.

* * *

Republican leaders are plodding into another valley of decision without visible harmony or cohesion. No labor reform formula has been agreed upon by Senate and House GOP foremen. Unacceptable to the Senate is the House ban on closed shop and industry-wide bargaining. That points to another Republican family spat with the befuddled voters looking on and wondering about those GOP pledges last Fall.

* * *

Don't get the idea something new hasn't been added to the projected Greco-Turkish dollar dividend. Already, without much public noise, Greece got $451,500,000 and Turkey $101,051,769 from us in loans and grants. Now we've added much public noise to the program of an additional $400,000,000 for the sole purpose of warning off political marauders.

* * *

Vandenberg still looks like a good double-or-nothing wager. Already Taft and Stassen have been out-distanced by the Michigan Senator. Vandenberg is the man Dewey must beat.

Shelby Cullom Davis to Form Own Firm in N. Y.

Shelby Cullom Davis will retire as Deputy Superintendent of Insurance of the State of New York as of May 1, it was announced by Superintendent of Insurance Robert E. Dineen. Mr. Davis, who is retiring on the third anniversary of his appointment as Deputy Superintendent, will resume active membership in the New York Stock Exchange, in which he has been inactive during his tenure of office in the Department and during several prior years of war service. He will form Shelby Cullom Davis & Co. with offices at 110 William Street, New York City.

Shelby Cullom Davis

In commenting upon Mr. Davis' resignation Governor Thomas E. Dewey expressed his regret "that the State is losing the benefit of your fine services."

In submitting his resignation, Mr. Davis expressed deep regret at severing his official relations with the Department and with the Dewey Administration. Superintendent Dineen, thanking Mr. Davis for his assistance, cited contributions made by Mr. Davis, notably in directing the study of the fire insurance rate structure.

Strike May Break Out on Wall St. Next Monday

(Continued from page 4)

when the volume of trading is heavy and when the price trend is strongly downward. The union says all this in the confident expectation that a strike would succeed in actually shutting down the N. Y. S. E. Regardless of all that the union says, however, it is likely that, if there is going to be a strike, it will start Monday.

That the N. Y. S. E. has no intention of permitting the union to interfere with its normal functions was forcefully illustrated this past week when it sent out detailed instructions to its members, telling them exactly what to do "during the period of emergency" to keep the mechanism of the Exchange running smoothly and efficiently.

The real dispute in this case is between the union and A. M. Kidder & Co. but it is evident that the union will be directing most of its fire at the Exchange. The Exchange is to be the club—so the union figures—to be used to get A. M. Kidder & Co. and possibly other firms such as Harris, Upham & Co., Bache & Co. and White, Weld & Co. to sign on the dotted line.

As matters stand the union would be willing to submit the dispute to arbitration. A. M. Kidder & Co. says that it knows better than any arbitrator could how its financial affairs stand and consequently what it could grant to the union in the way of contract concessions. The union wants either a 20% across-the-board increase in pay or a 15% increase plus a bonus based on the volume of business transacted.

The fact that each side apparently wants a showdown in the dispute is undoubtedly making it difficult for the Mediation Board to get very far in its peace-making efforts. The feeling on Wall Street now seems to be, "Well, let's have it and get it over with." The union has been straining at the bit, so to speak. It seems hardly able to contain itself. In preparation for the strike, the officers are holding practically daily meetings and a general meeting for the entire membership is scheduled for this afternoon at the headquarters of the Seaman's Union, AFL, on Beaver Street. The seamen, it will be recalled, turned out en masse for picket duty in the strike against the New York Cotton Exchange.

Frederick Bullen, Executive Secretary of the Mediation Board, met with all the partners of A. M. Kidder & Co. Tuesday afternoon to present to them a plan for a possible settlement of the dispute. The partners met all yesterday morning, it is understood, discussing the proposition. On the return of David Keefe, President of the union, yesterday from Washington, D. C., where he went reportedly to discuss the issues and strategy of the coming struggle with William Green, President of the AFL, and other union big-whigs, Mr. Bullen met with him to present the proposition to him. Mr. Bullen had no report to give late yesterday afternoon on the progress he was making. The likelihood is he hasn't gone very far with his plan.

A. Russell Treadway With Ball, Burge & Kraus

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—A. Russell Treadway has become associated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Cleveland Stock Exchanges. Mr. Treadway in the past was with Prescott & Co. and the Guardian Trust Co.

NYSE Says Bulk of Business Originates in N. Y.

(Continued from page 14)

shares; of this amount, approximately one-half originated in New York State.

Transactions in full lots by odd lot dealers were included in the totals. However, transactions in odd lots by such dealers were excluded.

Combined figures for the 48 States and the District of Columbia as compared with Possessions and Foreign countries appeared as follows:

	United States	Possessions and Foreign	Total
Full lot transactions	67,246	1,191	68,437
Full lot shares	9,093,984	174,350	9,268,334
Odd lot transactions	40,553	1,146	41,699
Odd lot shares	1,199,278	29,957	1,229,235
Total transactions	107,799	2,337	110,136
Total shares	10,293,262	204,307	10,497,569

The detailed figures for the 48 States and the District of Columbia are set forth in the accompanying Schedule A. The figures for Possessions and Foreign countries are set forth in Schedule B.

The 48 States and the District of Columbia were divided into time zones. Those States which extended into more than one zone were arbitrarily assigned to the zone apparently occupied by the principal cities. Schedule C sets forth the States included in the four time zones. The results follow:

	Pacific Coast	Rocky Mountain	Central	Eastern
Full lot transactions	5,403	517	10,583	50,738
Full lot shares	682,500	67,950	1,448,378	6,895,156
Odd lot transactions	3,308	614	7,849	28,782
Odd lot shares	110,356	16,837	228,735	843,350
Total transactions	8,716	1,131	18,432	79,520
48 States & D. C. total	8.09%	1.05%	17.10%	73.76%
Total shares	792,856	84,787	1,677,113	7,738,506
48 States & D. C. total	7.70%	.82%	16.30%	75.18%

SCHEDULE A—48 States and District of Columbia

A breakdown of all stock transactions effected for customers and firms by members on the Floor of the Exchange for the period March 24, 1947, through March 29, 1947, trade dates

	Total		Full Lots		Odd Lots	
	Transactions	Shares	Transactions	Shares	Transactions	Shares
Alabama	389	33,703	224	28,820	165	4,883
Arizona	176	12,099	64	9,400	112	2,699
Arkansas	120	9,785	66	8,020	54	1,765
California	7,525	701,157	4,800	608,060	2,725	93,097
Colorado	565	40,411	263	31,850	302	8,561
Connecticut	1,880	150,140	841	121,480	1,039	28,660
Delaware	438	34,893	227	28,900	211	5,993
Florida	2,118	209,696	1,362	186,000	756	23,696
Georgia	856	67,201	436	53,670	420	13,531
Idaho	23	1,520	8	900	15	620
Illinois	6,094	599,940	3,700	527,935	2,394	72,005
Indiana	626	46,963	313	37,740	313	9,223
Iowa	383	27,101	170	20,740	213	6,361
Kansas	191	12,152	66	8,700	125	3,452
Kentucky	524	33,449	215	25,614	309	7,835
Louisiana	717	69,313	454	61,580	263	7,733
Maine	255	14,986	87	10,590	168	4,396
Maryland	1,392	109,761	609	88,348	783	21,413
Massachusetts	4,884	474,048	2,753	412,680	2,131	61,368
Michigan	2,237	199,530	1,459	175,400	778	24.130
Minnesota	1,086	85,239	556	69,875	530	15,364
Mississippi	107	9,053	69	7,800	38	1,253
Missouri	2,098	197,776	1,011	168,520	1,087	29,256
Montana	54	3,397	15	2,300	39	1,097
Nebraska	242	19,045	114	15,210	128	3,835
Nevada	38	3,527	21	3,200	17	327
New Hampshire	141	11,530	61	9,200	80	2,330
New Jersey	3,955	300,287	1,916	247,202	2,039	53,085
New Mexico	140	13,026	82	11,300	58	1,726
*New York	48,385	5,184,868	34,898	4,796,036	13,487	415,832
North Carolina	750	59,920	403	49,320	347	10,600
North Dakota	47	3,964	30	3,500	17	464
Ohio	3,922	315,943	2,010	260,902	1,912	55,041
Oklahoma	353	30,238	200	25,530	153	4,708
Oregon	388	25,733	168	18,960	220	6,773
Pennsylvania	6,909	549,826	3,585	458,218	3,324	91,608
Rhode Island	488	33,376	199	25,700	289	7,676
South Carolina	189	14,054	84	11,100	105	2,954
South Dakota	31	2,273	18	1,900	13	373
Tennessee	545	52,099	334	46,224	211	5,875
Texas	1,728	175,452	1,122	157,530	606	17,922
Utah	153	11,787	74	9,700	79	2,037
Vermont	162	10,220	63	7,670	99	2,550
Virginia	1,161	89,386	565	74,260	596	15,126
Washington	742	60,919	411	51,380	331	9,539
West Virginia	343	23,352	158	18,880	185	4,472
Wisconsin	914	70,038	462	57,740	452	12,298
Wyoming	43	4,067	19	3,400	24	667
District of Columbia	1,292	85,019	481	62,000	811	23,019
*48 States & D. C. total	107,799	10,293,262	67,246	9,093,984	40,553	1,199,278
Possessions & foreign total	2,337	204,307	1,191	174,350	1,146	29,957
*Grand total	110,136	10,497,569	68,437	9,268,334	41,699	1,229,235

*Odd lot trades by Odd lot dealers (41,128 trades—1,162,263 shares) not included.

SCHEDULE B—Possessions and Foreign Countries

A breakdown of all stock transactions effected for customers and firms by members on the Floor of the Exchange for the period March 24, 1947, through March 29, 1947, trade dates

	Total		Full Lots		Odd Lots	
	Transactions	Shares	Transactions	Shares	Transactions	Shares
Argentina	56	7,815	52	7,700	4	115
Australia	15	467	2	300	13	167
Belgium	13	856	2	700	11	156
Bolivia	1	100	1	100	---	---
Brazil	17	1,310	9	1,000	8	310
Canada	339	32,774	234	30,210	105	2,564
Canal Zone	2	1,075	1	1,000	1	75
Chile	7	1,000	7	1,000	---	---
China	15	2,605	12	2,500	3	105
Colombia	8	800	5	700	3	100
Cuba	115	14,632	100	14,240	15	392
Dominican Republic	2	60	---	---	2	60
England	71	8,336	39	7,600	32	736
France	78	11,605	61	11,200	17	405
Greece	2	250	1	100	1	150
Guam	1	50	---	---	1	50
Hawaii	125	12,835	75	11,300	50	1,535
Holland	960	43,257	200	23,940	760	19,317
Ireland	2	205	1	200	1	5
Italy	3	400	3	400	---	---
Mexico	118	13,700	110	13,400	8	300
Morocco	2	15	---	---	2	15
New Zealand	1	100	1	100	---	---
Norway	2	150	1	100	1	50
Palestine	15	521	---	---	15	521
Peru	1	100	1	100	---	---
Philippines	6	512	5	500	1	12
Porto Rico	32	5,372	26	5,200	6	172
Portugal	3	123	1	100	2	23
Sweden	10	770	6	600	4	170
Switzerland	226	21,810	153	19,600	73	2,210
Trinidad	1	10	---	---	1	10
Uruguay	68	18,610	64	18,460	4	150
Venezuela	19	1,982	17	1,900	2	82
Virgin Islands	1	100	1	100	---	---
Possessions & foreign total	2,337	204,307	1,191	174,350	1,146	29,957
48 States & D. C. total	107,799	10,293,262	67,246	9,093,984	40,553	1,199,278
Grand total	110,136	10,497,569	68,437	9,268,334	41,699	1,229,235

SCHEDULE C

The 48 States and the District of Columbia were divided into time zones for the purpose of comparing statistics on the origin of orders survey. States which extended into more than one zone were arbitrarily assigned to the zone apparently occupied by the principal cities. In parentheses, the overlapping zone is set forth opposite the State:

Pacific Coast—California, Idaho, Nevada, Oregon, Washington.

Rocky Mountain—Arizona, Colorado, Montana, New Mexico, Utah (Pacific Coast), Wyoming.

Central—Alabama, Arkansas, Illinois, Indiana, Iowa, Kansas (Rocky Mountain), Kentucky, Louisiana, Michigan, Minnesota, Mississippi, Missouri, Nebraska (Rocky Mountain), North Dakota (Rocky Mountain), Oklahoma (Rocky Mountain), South Dakota (Rocky Mountain), Tennessee, Texas (Rocky Mountain), Wisconsin.

Eastern—Connecticut, Delaware, District of Columbia, Florida, Georgia (Central), Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio (Central), Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia.

James J. Caffrey Sticks to His "Riskless Transaction" Theory

(Continued from page 3)

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 believed that it has no authority under either Section 15 (c) (1) or any other section of the Securities Exchange Act of 1934 to adopt a rule requiring general disclosure by over-the-counter dealers of prevailing market quotations when effecting transactions in 'exempted securities,' a phrase which includes 'municipals.'

"Section 15 (c) (2) of the Securities Exchange Act of 1934 expressly provides for rules which 'prescribe means reasonably designed to prevent' fraudulent, deceptive or manipulative practices of fictitious quotations in the over-the-counter market. However, no rule, adopted under Section 15 (c) (2) could apply to transactions in 'exempted' securities,' since they are specifically excluded from that section. **As a result of the comments received in 1942, the Commission determined not to adopt the proposed Rule X-15C1-10.**" (Bold face ours.)

Mr. Caffrey, when approached at his office in Philadelphia, seemed somewhat mystified and perhaps just a little amused that there should be any questions at all over what the announcement was intended to say regarding disclosure. The newspapers in general seemed to know what the statement said, he pointed out. (The "Chronicle" itself headlined its original story on the announcement "SEC Abandons Idea of Promulgating Bid-and-Asked Disclosure Rule." It was only on sober second thought that this newspaper decided to inquire further into the question.) Mr. Caffrey referred to the New York "Herald-Tribune" article on the subject, carrying the headline, "SEC Refuses to Adopt Rule on Full Disclosure," and said that that just about summed up the matter. The Commission, he said, was not doing any double-talking.

The "Chronicle" first questioned Mr. Caffrey on the meaning of the announcement by phone a few days after the announcement was released and with this telephone conversation in mind, Mr. Caffrey said, he himself queried certain over-the-counter dealers in Detroit, where he had gone to attend a dinner, asking them what they thought the announcement said. They had no doubt what the Commission meant, he pointed out. As one of them put it, he said, the announcement simply meant that the SEC was not going to impose such a rule upon them.

As will be noted in the announcement on Rule X-15C1-10 above, the last sentence not only seems out of place, out of place literally, that is—it does seem to belong at the end of the first paragraph by way of continuing the thought expressed in that paragraph—but, more important, of course, it seems to refer to action taken by the Commission five years ago rather than just recently. If the last sentence were merely inserted in the announcement for purposes of historical reference, the announcement would leave very much in doubt about how the present Commission—that is, the Commission as at present constituted—feels about the whole matter of a bid-and-asked disclosure rule. The grammatical construction of the announcement with particular reference to the last sentence, its position and its use of the past tense in an obscure manner, thus only confused the issue.

In writing, Mr. Caffrey was then asked "whether or not the Commission currently definitely concluded that a bid-and-asked disclosure rule of any nature is unnecessary" and, "if so, what were the reasons for the Commission's conclusion."

In a sense, reformulating the last sentence of the original announcement, Mr. Caffrey dictated the following statement: "The Commission has concluded that a bid-and-asked disclosure rule need not be adopted at this time." (Previously, in the telephone conversation referred to above, Mr. Caffrey had said the last sentence meant that "the Commission did not propose the adoption of such a rule (as Rule X-15C1-10) at the present time.")

It may seem like making more out of a thing than is there, to attach any importance to technical niceties in the manner a thought is expressed. However, it was the revelation by an SEC staff member that the Commission in 1942 never took a formal vote on the question that led to doubts regarding the precise meaning to be given to the SEC announcement of a fortnight ago. It must be repeated it did seem as though the statement did refer exclusively to action taken by the Commission in 1942. The proposed rule was dropped in 1942, it seems, because of "informal understandings" which were reached, supposedly, we imagine, among the members of the Commission and the Trading Division, headed by James Treanor, who has long advocated the adoption of a bid-and-asked disclosure rule by the Commission, and still does.

The announcement of two weeks ago is the first bit of information which has been divulged by the Commission regarding any decision it reached on bid-and-asked disclosure in 1942. There is something vulgarly bureaucratic about the fact that it has taken the financial industry five years to find out what the decision of the SEC has been on this matter, a decision which, having been made by public officials, should have become public property the instant it was made. Mr. Caffrey himself, however, should be given credit for disclosing information which should never have been kept as a secret from the financial industry. In a sense, probably it is only incidental that the present Commission decided to go along with the previous Commission on the subject.

To those who say it has been evident right along what the SEC decided in 1942 to do about disclosure from the fact it never did put such a rule into effect, it can be replied that failure of the SEC to make any definite announcement could just as easily be interpreted as meaning that the Commission had not yet reached any final decision on the matter because of the pressures of the war or any other reason. If the "Chronicle" cannot discuss this question with any more definiteness than it is employing now it is because the data upon which definiteness could be based is not available.

From present advices, however, it does seem fairly evident that the SEC itself has different and varied views on the whole question of disclosure. The staff member referred to above is of the opinion, for instance, that though Rule X-15C1-10 itself may never be considered by the Commission again that does not mean the Commission wouldn't consider the adoption of another bid-and-asked disclosure rule. Rule X-15C1-10, he said, was discovered to have certain technical deficiencies and, he intimated, another rule could conceivably be drawn up entirely overcoming these deficiencies.

Despite its decision not to adopt a bid-and-asked disclosure rule at present, the Commission nevertheless realizes it has full authority to do so at any time it feels such a step is necessary, Mr. Caffrey also pointed out.

So far as he himself is concerned, Mr. Caffrey declared, he still believes in what the industry has come to call the "riskless transaction" theory, that is, he stated it as his opinion that disclosure should be required in transactions where dealers do not have in their own inventories the securities they sell. He stated that his views on this subject are well known throughout the industry and that he still holds these views. He admitted, however, that he had not yet had the opportunity to discuss the subject with the other members of the Commission and so did not know how they stood on the question.

Mr. Caffrey espoused this "riskless transaction" theory, which would change trade custom, when he was Regional Director of the New York office at which time he was condemned for it in no uncertain words by dealers right down the line. As a spokesman for one large dealer put it to the "Chronicle," "what the h—— does he mean by saying riskless transactions! Every day we open our doors we risk $7,000" (meaning his firm's daily overhead amounts to this figure).

If the "riskless transaction" theory were applied to merchants in other lines of business it would mean, for instance, if you wanted to buy six Van Heusen Van Jack collars in a haberdashery store and the proprietor had other Van Heusen styles but not a Van Jack, but was willing to secure them for you, before doing so he would have to tell you that they would cost him $2.25 but that he would charge you $3.00 for them.

The effect of any bid-and-asked disclosure rule, as has been pointed out in these columns before, would be to change trade custom and it would have a devastating effect on the securities business. It would reduce the earnings of small dealers and force them out of business and so create monopolistic conditions in the industry, compelling investors to place their orders with a relatively few large firms doing a volume business.

By no stretch of the imagination can legitimate profits in any field of business be considered "fraudulent," yet the Commission, as it has given evidence so many times, is inclined to take a different view when the operations of the over-the-counter market are concerned. It would seem as though the Commission were deliberately trying to smear the really legitimate profit-making functions of the over-the-counter market with insinuating implications of fraud to create acceptance of its radical proposals.

As mentioned in an article on the subject in our April 3, 1947 issue, 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. At the same time Congress should legislate to prevent a "riskless transaction" theory from becoming an accomplished fact.

Asked whether the Commission had in mind imposing any capital requirement rule on over-the-counter firms as implied in a request for comment by the industry on the subject circularized by the Commission last fall, Mr. Caffrey said that, though at first it was thought desirable to require non-member houses (that is, firms not affiliated with the New York Stock Exchange) to be subject to the same capital requirements as the member houses, the issue is now, in his opinion, a "dead duck."

The SEC is not yet ready to report on its study of the September stock market crash, Mr. Caffrey also said.

Regarding the proposition to extend the reporting and proxy requirements of the Securities Exchange Act of 1934 to unlisted companies with assets of more than $3,000,000, Mr. Caffrey pointed out, also in response to questioning, that, as he has already stated, he favored such extension because he thought it was in the interest of investors. To the assertion often made that requiring the large unlisted companies to come under the reporting and proxy requirements of the '34 Act would drive their securities to the Big Board of the New York Stock Exchange or to some of the other exchanges, Mr. Caffrey said that the smaller dealers in the securities industry are always crying that regulations of the type contemplated would drive them out of business, yet they do not go out of business. The SEC exists to protect the interests of the investors, he insisted.

Federal Reserve of N. Y. Defends Margin and Consumer Credit Controls

(Continued from page 9)

credits to which the Regulation was applicable, and by reducing from 18 months to 15 months the maximum permissable maturity for instalment loans not connected with the purchase of consumers' durable or semi-durable goods. (Instalment credits for the purchase of such goods remained subject to a maximum maturity of 12 months except in the case of instalment credits for the purchase of automobiles, the maximum maturity of which was 15 months.)

Important and sweeping revisions in the Regulation were made, however, effective Dec. 1. All types of consumer credit were freed from controls, with the exception of instalment credits (or cash loans) to finance the purchase of major durable goods. Many items were dropped from the list of goods subject to instalment sale restrictions. Required down payments for the remaining 12 items or classes of goods were continued at the same level (20% on furniture and 33⅓% on the other items) with one exception, and a uniform maximum maturity of 15 months was set. These revisions made the Regulation much simpler and easier to administer, but control was retained over those types of consumer credit which are subject to wide fluctuations and which, consequently, are most likely to accentuate economic instability.

Despite continued restrictions on consumer credit, and the fact that major consumers' durable goods (sales of which ordinarily are financed largely by consumer credit) were in many cases available to consumers only in limited quantities, the total volume of consumer credit rose very sharply during 1946. At the end of the year it was estimated at nearly $10 billions, or about the same amount as the previous peak reached in the fall of 1941. Within this aggregate, charge accounts, single-payment loans, and "service" credit were well above their 1941 peaks. Instalment credit, on the other hand, was still far below its level at the end of 1941, but it had expanded nearly 70% during the year, and is expected to grow even more rapidly in 1947 as automobiles and other major consumers' durable goods become more freely available.

Relaxation of credit terms for the financing of such goods would tend to accentuate the demands for them and, as long as demands continue in excess of the available supply, this would accentuate inflationary pressure on prices. Even though manufacturers resisted the temptation to raise prices, there would be danger of stimulating unauthorized practices by the less scrupulous dealers, which, in effect, tend to allocate available supplies to the highest bidders. And even when substantially greater supplies of goods are available, easy credit terms might tend to concentrate within a few years demands which, from the viewpoint of stability of business and employment, it would be better to spread over a longer period.

The reason for concentrating the application of consumer credit control in the area of instalment credit for the purchase of the principal consumers' durable goods is that the major fluctuations in industrial employment over a number of years before the war were in the production of durable goods, rather than in the production of non-durable goods, even though consumer expenditures for non-durable goods usually are much greater than expenditures for durable goods. Accentuation of demands for consumers' durable goods, by liberal extensions of consumer credit during periods of rising business activity and employment, tends to be followed by a drain on current consumer incomes (through the repayment of indebtedness previously contracted) and sharp curtailment of demands for such goods, in periods of declining business activity and employment. Thus, while instalment credit unquestionably serves a useful purpose in broadening the market for goods which many consumers would be unable to pay for in cash, unrestrained use of such credit in periods of high activity and general optimism is likely to prove harmful, both to business and to consumers.

If consumer credit regulation is to serve a useful purpose, it must be flexibly administered. To be effective in contributing to efforts to combat instability of business and employment, it must be applied restrictively in periods when demands tend to outrun supply; and must be relaxed in periods when more freely available credit can contribute usefully to the maintenance of demand and thus to the maintenance of production and employment. To expect consumer credit control, however wisely administered, to iron out the fluctuations in the consumers' durable goods industries would be to expect far too much. It is not too much to expect that it can help to moderate such fluctuations.

Michigan Gas & Elec. Pfd. Offered by Otis Co.

Otis & Co., Cleveland, and associates on April 14 made a public offering of the 4.40% preferred stock of Michigan Gas & Elec. Co. at $101 per share plus accrued dividends to yield about 4.36%. The shares being offered constitute the balance not taken in exchange by holders of the company's outstanding prior lien and preferred stock. The exchange offer, which was made by the company, expired at the close of business on Saturday, April 12.

The company supplies electricity and gas in territories in the upper and lower peninsula of Michigan having a total population of about 100,000. Among the larger cities served are Marquette, Holland, Niles and Ishpeming.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market break forecast weeks ago indicates nearly stopping point. Suggest holding up new positions until further verification.

* * *

Writing a weekly stock market column can often be an onerous task. It isn't easy, for example, to keep harping that prices are going lower, when everything of a statistical nature that's printed tends to prove otherwise. It is particularly disquieting when readers, in search of "bargains" disregard pessimistic interpretations, and demand information about what to buy.

* * *

Ever since we began writing this column (I think it's about 10 years ago) we have been stressing market performance as against statistical data. It wasn't because we wanted to be contrary, or tried to build a following. It was because in this business of making (and losing) money for ourselves, we have long ago learned that nothing is so sure to break you as inside information followed implicitly. We discovered inside information wasn't worth the breath it took to tell it if the market didn't confirm it by action. In the old days it was possible to test the veracity of information by testing the market. It took money to do it, but with margins cut to a minimum (not to mention options against established positions) it wasn't too hard to find out.

* * *

Today this method, while theoretically still possible, cost too much to follow haphazardly. Margins come too high and options are hedged around with so many obstacles that to use them as levers in market positions is too an expensive practice. The only thing that still exists today as it did years ago is the stock market and its action. The desire to make or save money is still reflected in the action of the tape. Those who have market savvy still buy and sell. Their buying and selling can still be seen by anybody who takes the trouble to look for it and interpret it correctly.

* * *

Monday we saw the market stage one of its worst days in many a long month. On that day prices melted away like snow in a heat wave. The averages went down to around 166 and the resulting gloom was heavier than the proverbial London fog. If the reaction was a surprise to the majority of traders it should not have been unexpected to readers of this column. For weeks we have been warning readers that things didn't look too good. As recently as last week we wrote: "... the market was in for a beating."

* * *

Just to show you that we had no inside information we also recommended the purchase of Bethlehem and U. S. Steel at specific prices. The former was to be bought between 87 and 89 with a stop at 86; the latter between 67 and 68 with a stop at 66 (error last week gave stop at 68). Both issues became available and both were stopped on Monday's break. The net resut was a loss. It must be obvious if we had any inside information we would have (1) not recommended buying, and (2) we should have advised short selling. We didn't do either.

* * *

Yet while losses aren't pleasant to take, losses taken earlier are preferable to those taken later. It doesn't make the result any easier to swallow (metaphor is kind of mixed, but I think you get the idea).

* * *

Question now is doubtless, what happens from here? On this point the market is silent. All it says is that still lower prices are ahead. Where they will stop it doesn't indicate. Had there been some clue as to the stopping point I either would have postponed even the small buying I recommended, or would have given you a stop which wouldn't be wiped out in the first break.

* * *

The situation as it exists today indicates some news of a disquieting market nature. What it will be and when it will come we obviously don't know. But whatever it is we would like to point out that the market doesn't discount the same thing twice.

* * *

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.]

Longer Work Week Needed!

(Continued from page 8)

factors. There is still the threat to our system of ups and downs—plenty and want—boom and bust.

Perhaps the first World War could not have been averted. Who is there to say that the second World War—with all the danger signals shown—could not have been averted by adequate readiness and alertness of action; for war had indicated its coming as surely as that the day follows the night. Yet the world refused to face the inevitable. So, when the enemy struck, we were unprepared—militarily, economically and spiritually. We had refused to learn the lessons of the preceding war. We fumbled and stumbled—industrially and financially—without taking heed of the mistakes we had made.

The Past

Someone has said that the only lesson history teaches us is that it teaches us no lesson. It seems to me that that is mostly because people do not read history. Particularly is it so in contemplating this second catastrophe into which we were thrust and the manner in which we are now handling the problems resulting from its aftermath.

On the martial side of World War II the spirit of America rose in a mighty effort. We fended for ourselves and provided for our friends. Nothing they needed was too much for us to give, for what we did for them we were doing for ourselves and for the common cause.

Our war was fought on fronts 15,000 miles away from each other. Never in the history of mankind have there been such military achievements. Marshall, MacArthur, Eisenhower, Arnold, Patton, Stilwell, King, Halsey, Nimitz, Mitcher and all the young men and women in our armed forces added new and great glory to America. The civilians and workers at home did their magnificent share, showing that the greatest form of efficiency is the voluntary cooperation of a free people. You, in South Carolina, took a great part, for you were always in the front with volunteers. Finally, the genius of our scientists, our engineers, our industrialists, produced the supreme weapon of all time—the atomic bomb. That we shall never give away, until and unless security for us and for the world is established. Until that time comes, the United States will remain the guardian of safety. We can be trusted with that solemn responsibility. Only two countries (really only one) have dissented from that declaration—Russia and its satellite, Poland, which abstained from supporting the American atomic plan.

So much for the past.

The Future

I wish I could say that the immediate future looks bright. But it is not entirely black. The future of ourselves, in fact of the world, lies within our grasp. The Nazis made a thorough job of scorching the earth physically, economically and spiritually. They destroyed men's faith in their fellowmen; in their governments; in their ability to do for themselves; and in the spiritual values of life.

There is no place left to which to turn for regeneration except to America. We must answer that call or we shall fail civilization in its most tragic moment and thus fail ourselves. We cannot do it by loans, grants, subsidies, bonuses or pious resolves. We can do it only by showing the real might of America—by justice; by helpfulness which insists upon self-help, and finally, by production and still more production. Then will come a respite in which the world may bind its wounds. Then man will find work so that he and those dear to him may live in a manner of his own choosing.

Wants an Inventory of Resources

We are called upon from every direction. Can we answer all the calls? Not long ago I asked for an inventory of America's resources. I wanted this country to know what it has to give before it promises aid. If we find we haven't enough to help everybody, we then must help those who can most readily help themselves.

After the first World War, I urged that the peoples be helped to go back to work. Who, if left alone, is not eager to work if, through his labor, he lives under better conditions in body and spirit? That is the way to gain self-respect and regain human dignity—deliberately destroyed by Totalitarianism, regardless of what label it wears.

Never have there been such schisms between segments of society. Never has labor been so powerful. And now it must use that power through leadership in cooperation, or lose that power.

Today, as 30 years ago, the need is present. The same call is heard. Let all of us go back to work—to work, not for war, but for peace—to work under a system that gives each a share of the wealth he produces.

We will find that work will solve many of the problems threatening security—the interrupted productivity in America; the lack of coal in Britain; the deficiency of the food and other life supplies in Europe. Even the spirit of the savage enemy countries will be bettered by bettering their economic condition. And that can be done only by work.

One of the world's delusions is that the world can be set right by borrowing money. It can get going only if men work. If we accept the challenge to preserve civilization, it means greater effort—greater even than that exerted during the war. It will be without the fanfare of war. It means sweat and thrift to make the things the world needs, to start anew, the physical things which it must have in order to feed, clothe and house the peoples —to educate, spiritualize, medicate, transport and entertain them. Work is the alchemist that changes drudgery into joy. That is every man's goal—that is every man's right.

Must Work Longer and Harder

But we might as well look facts in the face: we cannot achieve our purpose with the present hours and limitations on work. Men and women will have to work longer and harder for some time to come in order to catch up with the ravages of war, if we are to regain our heritage; if we are again to be the missioners of hope and be rewarded for effort.

During the war I always contended that six days a week and eight hours a day was the fastest pace at which we could go in a long war. That, too, would be the limit for peace. But if we adopted, wholeheartedly, a 5½-day, 44-hour week, with no strikes or lay-off, to Jan. 1, 1949, the result would be electrifying.

Production would flow smoothly; a sense of security would return to worker and employer; and the reaction upon the economy of the world would be deep and lasting. Until we have unity; until we straighten out and solve our own problems of production, and have internal stability, there is no basis on which the world can renew itself physically or spiritually.

And upon this change in our material outlook, there would follow a change in our sense of security. Make no mistake; our military lines are no stronger than the industry behind them. Unless we work, we shall see a vast inflation; unless we work, we shall not be able to maintain our claim to power. That would be the greatest blow we could receive, for it would strip us of our strength to preserve our way of life.

In Midst of a Cold War

Let us not be deceived—we are today in the midst of a cold war. Our enemies are to be found abroad and at home. Let us never forget this:

Our unrest is the heart of their success. The peace of the world is the hope and the goal of our political system; it is the despair and defeat of those who stand against us.

We can depend only on ourselves. One by one, our Allies are—or they think they are—exhausted. That means they stop work. But usually we find that exhaustion is the result of stopping work and not the other way around. That can happen here. Don't let us be sucked into the maelstrom.

Be sure of this: Today we are on the brink of an engulfing inflation. There is only one way out. That is by work.

The more we produce, the less will be the cost of living; the more things we can buy, the easier will be the building up of our reserves—physical, financial and spiritual, too, for we shall be free of worry, the absence of which is a sense of security.

As I say this there comes to my mind, as support, the motto of our native state: Animis Opibusque Parati—ready in soul and resources.

And now I close by saying that no greater compliment could have been paid me than to hang my picture in the Legislative Chamber of my Motherland. From her sprang men great in the beginning of America—the Rutledges, the Pinckneys, the Lynches, Heywards, Middletons, Laurens. And, in more recent days, a great Senator, Supreme Court Justice and Secretary of State—James F. Byrnes—has added his name to the immortals.

South Carolina—I thrill at the name. Deserving her place in history, by her years and efforts, she remains forever young in her determination to do even better in the time to come. And to that, as one of her proud sons, I pledge as did our forefathers, my life, my fortunte and my sacred honor.

Kaufman Heads New Kalb, Voorhis Office

Rochester, N. Y. — George J. Kaufman will be in charge of the recently opened branch of the New York Stock Exchange firm of Kalb, Voorhis & Co., in the Reynolds Arcade. Mr. Kaufman was formerly in charge of the Rochester office of Herrick, Waddell & Co.

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 Hydraulics, Inc., Sheyboygan, Wis.
April 2 (letter of notification) 50,000 shares of common. **Price**—$6 a share. To be offered initially to stockholders. **Underwriter**—Heronymus & Co., Sheboygan, Wis., and Lon L. Grier & Co., Milwaukee, Wis. For new machinery and for working capital.

American Iron & Machine Works Co., Oklahoma City, Okla. (4/23)
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.

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.

● **American Mining & Refining Corp., Boise, Ida.**
April 8 (letter of notification) 15,000 shares ($10 par) common and 7,500 shares ($10 par) 4½% preferred. **Price**—$10 per unit consisting of 2 shares of common and one share of preferred. No underwriting. For mine development.

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.

American Tobacco Co., New York (4/22)
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 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. **Bids**—Expected about April 30.

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.

Astor Zipper Corp., New York (4/21)
April 7 (letter of notification) 87,500 shares of common stock (par 50¢). **Underwriter**—A. M. Kidder & Co. **Price**—$3 per share. Proceeds, working capital.

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. **Bids**—American Gas & Electric Co. invited bids April 15, at 30 Church Street, New York, for the purchase of 522,416 common shares, but the sale has been postponed.

● **Aztec Mining Co. of Nevada, Reno, Nev.**
April 11 (letter of notification) 100,000 shares of common. **Price**—10 cents a share. No underwriting. For mill tests of ore.

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. (4/25)
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.

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

(Continued on page 50)

NEW ISSUE CALENDAR

(Showing probable date of offering)

April 21, 1947

Astor Zipper Corp.------Common
Hamilton Mfg. Co.------Common
Northern Natural Gas Co.
11 a.m. (CST)------Debentures
Upper Peninsula Power Co.--Bonds, Pfd. Common

April 22, 1947

American Tobacco Co.------Common B
California Oregon Power Co.----Pfd. and Common
Cohart Refractories Co.------Common
Northern States Power Co. (Wis.)
11:30 a.m. (CST)------Bonds

April 23, 1947

American Iron & Machine Works
Co.------Debs., Pfd. and Common

April 24, 1947

New Brunswick (Province of)------Debentures
Norway (Kingdom of)------Bonds

April 25, 1947

Black, Sivalls & Bryson Inc.------Common

April 28, 1947

Lithium Corp. of America------Common

April 29, 1947

(E. I.) du Pont de Nemours & Co.------Preferred
Pitney-Bowes, Inc.------Preferred

April 30, 1947

Tide Water Power Co.------Common

May 1, 1947

Fairbanks, Morse & Co.------Debentures
Northwest Airlines------Preferred
Suburban Propane Gas Corp.------Preferred
Whites Auto Stores Co.------Common

(Continued from page 49)

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.

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**—$7.125 per share. **Proceeds**—Stock is being sold by shareholders who will receive proceeds.

• **Brantly-Bennett Helicopter Corp., Philadelphia**

April 9 (letter of notification) 198,000 shares ($1 par) common. **Price**—$1.50 a share. To be sold through a director of the company. For the purchase of 75% of the outstanding capital stock of Kite Aircraft Corp.

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.

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.

California Oregon Power Co. (4/22)

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. **Bids**—Bids for purchase of securities expected about April 22.

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.

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.

• **Castle Mining Co., Spokane, Wash.**

April 7 (letter of notification) 300,000 shares of common. **Price**—50 cents a share. No underwriting. An officer of the company will act as agent for the sale. For exploration and development of mining properties.

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 7½ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. Proceeds—Working capital, etc. Offering indefinitely postponed.

• **Cincinnati & Suburban Bell Telephone Co.**

April 14 filed 100,738 shares ($50 par) capital stock. **Underwriting** — None. **Offering** — For subscription to common stockholders in the ratio of one share for each six shares held as of May 12, 1947. Price at par. **Proceeds**—To reimburse company treasury for construction expenditures and for additional improvements.

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%.

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.

Cohart Refractories Co., Louisville, Ky. (4/22)

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.

Connecticut Light & Power Co., Hartford, Conn.

April 8 filed 336,088 shares of $2 preferred stock and 163,912 shares of $1.90 preferred stock. Both without par value.—**Underwriters** — Putnam & Co., Hartford, Conn.; Charles W. Scranton & Co., New Haven, Conn.; and Estabrook & Co., Boston. **Offering**—The $2 preferred stock will be offered in exchange on a share for share basis, for company's outstanding $2.40 preferred and $2.20 preferred, plus a cash adjustment. Shares not issued in exchange and all of the $1.90 preferred will be sold to the underwriters for public offering. **Price**—By amendment. **Proceeds**—Proceeds will be used to redeem unexchanged shares of old preferred and to finance company's construction program.

• **Connecticut Mining & Milling Co., Bristol, Conn.**

April 9 (letter of notification) 19,648 shares ($5 par) common. **Price**—$10 a share. To be sold through brokers whose names will be filed by amendment. To test and develop mining property.

• **Consolidated Edison Co. of New York, Inc.**

April 11 filed $100,000,000 first and refunding mortgage bonds, Series B. **Underwriters**—Names to be supplied by amendment. Probable underwriters: Morgan, Stanley & Co.; Halsey, Stuart & Co. Inc. Price by amendment. **Proceeds**—To redeem 10-year 3½% debentures, due 1948, and to make payments on short term bank loans.

Consolidated Gas Electric Light & Power Co. of Baltimore

April 3 filed $16,677,100 15-year convertible debentures, due May 15, 1962. **Underwriters**—Harriman Ripley & Co., Inc., and Alex. Brown & Sons. **Offering**—Debentures initially will be offered at par to common stockholders of record April 18 on the basis of $100 of debentures for each seven shares held. Unsubscribed shares will be offered publicly at $100 per unit through the underwriters. **Proceeds**—Proceeds, estimated at $16,507,162, will be used to reimburse its treasury for capital expenditures and for general corporate purposes including extensions and improvements of its properties and plants.

• **Continental Air Filters, Inc., Louisville, Ky.**

April 8 (letter of notification) 44,600 shares ($5 par) Class A common and 74,600 shares ($1 par) Class B common. To be sold at par. No underwriting. For additional facilities and for working capital.

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.

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.

Cudahy Packing Co., Chicago

April 4 filed $15,000,000 first mortgage sinking fund bonds, series C, due 1967. **Underwriters**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. **Proceeds**—For redemption of 102¾% $14,000,000 first mortgage fund bonds series B, due 1964. The registration said $1,000,000 of the funds will be used to acquire additional facilities. **Business**—Meat packing industry.

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.

Disticraft Inc., Chicago
April 3 (letter of notification) 15,000 shares of class B common on behalf of Clarence W. Kraft, Ray T. Haas, and William A. Spanier, all officers of company. The securities may be sold through Bennett, Spanier and Co., Chicago, as agent.

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.

● **du Pont (E. I.) de Nemours & Co., Wilmington, Delaware (4/29)**
April 10 filed 1,000,000 shares (no par) preferred stock. **Underwriter**—Morgan Stanley & Co., New York. **Offering**—An unspecified number of the shares will be held for sale on or before May 7 to the trustee of a Pension Trust established by the company, without underwriting discounts. Price by amendment. **Proceeds**—To be added to general funds to be used with other cash for general corporate purposes. Company has inaugurated a postwar expansion and betterment program of which construction expenditures approximating $92,300,000 in 1946 represented the initial phase.

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.

● **Eastern Oregon Canning Co., Inc., Weston, Ore.**
April 9 (letter of notification) 30,000 shares ($10 par) common. **Price**—$10 a share. **Underwriting**—Field & Co., Inc., Portland, Ore. To retire indebtedness 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.

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.

● **Fairbanks, Morse & Co., Chicago (5/1)**
April 11 filed $17,500,000 20-year debentures, due 1967, and $2,500,000 of serial debentures, due 1948 to 1952. **Underwriter**—Harriman Ripley & Co., New York. Price by amendment. **Proceeds**—To retire outstanding loans, complete property extensions and for general corporate purposes. **Business**—Internal combustion engines.

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
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.

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.

Films Inc., New York
June 25, filed 100,000 shares ($5 par) class A stock and 300,000 shares (10 cent par) common stock, of which 200,000 shares reserved for conversion of class A. Each share of class A stock is initially convertible into 2 shares of common stock. **Underwriters**—Herrick, Waddell & Co., Inc., New York. **Offering**—To be offered publicly at $8.10 a unit consisting of one share of class A stock and one share of common stock. **Proceeds**—$201,000 for retirement of 2,010 shares ($100 par) preferred stock at $100 a share; remaining proceeds, together with other funds, will be used for production of educational

Florida Fruit Products Co., Clearwater, Fla.
April 7 (letter of notification) 25,100 units consisting of 1 share ($1 par) class A stock and 2 shares ($1 par) class B stock. To be sold at a minimum of $9 per unit or a maximum of $10 per unit. Initially shares will be offered to stockholders at $9 per unit with unsubscribed shares to be offered to public at $10 a unit. To provide additional working capital. Cohu & Torrey, New York, will use its best efforts to procure purchasers for the stock.

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
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 52.50 per share. Of the remaining, 3,414 shares will be offered to certain officers and one large stockholder who have indicated their willingness to surrender shares of 6% preferred stock held by them in exchange for shares of new preferred. The remaining 1,086 shares are being issued in satisfaction of an obligation to pay $57,000 in connection with the purchase of a plant in Jacksonville, Fla. **Proceeds**—For redemption of 25,233⅓ shares of 6% preferred and for other corporate purposes.

Fostoria Pressed Steel Corp., Fostoria, Ohio
March 31 (letter of notification) 11,285 shares ($5 par) common. **Price**—$12.50 a share. No underwriting. The shares initially will be offered for subscription to stockholders. Unsubscribed shares will be sold to such persons as may then be determined. To retire current bank loans and to increase general funds.

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.

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
April 2, 1947 (by amendment), 30,000 shares at 4¾% cumulative preferred stock ($50 par) and 170,000 shares of $1 par common stock. **Underwriters**—Riter & Co. and Hemphill, Noyes & Co. **Offering**—Underwriters to purchase from the company 30,000 shares of preferred and 70,000 shares of common; and from Fred P. Murphy and J. C. Graham, Jr., 100,000 shares of issued and outstanding common. **Proceeds**—To retire $6 cumulative preferred, balance for reduction of bank loans.

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.

Hamilton Manufacturing Co. (4/21-23)
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.

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
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.

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.

● **High Vacuum Equipment Co., Las Vegas, Nev.**
April 11 (letter of notification) 500 shares ($100 par) preferred and 500 shares ($1 par) common. **Price**—$100 a unit consisting of one share of preferred and one share of common. No underwriting. To build machines covered by patent and for other expenditures.

● **Hoberg Paper Mills, Inc., Green Bay, Wis.**
April 9 (letter of notification) 17,000 shares (no par) common. **Price**—$15 a share. No underwriting. For erection of power plant and other purposes.

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.

● **Insurance Service Co., Inc., Albuquerque, New Mexico**
April 9 (letter of notification) 400 shares ($100 par) capital stock. **Price**—$100 a share. Offering to be made through own officers. To purchase certificates of indebtedness of Pioneer Mutual Compensation Co., an affiliate (which see).

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.

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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.

● **Kauffman-Lattimer Co., Columbus, Ohio**
April 7 (letter of notification) 500 shares ($100 par) 4½% cumulative preferred. **Price**—$100 a share. No underwriting. For additional working capital.

Kelley Boat Co., Inc., Milwaukie, Ore.
March 31 (letter of notification) 15,000 shares (no par) common. **Price**—$7.50 a share. **Underwriter**—A. D. Wakeman Co., Portland, Ore. For working capital.

● **Lakefront Realty Corp., Chicago**
April 14 filed 100,000 shares ($10 par) common. **Underwriting**—The underwriting will be handled by Lake Shore Club of Chicago which organized the registrant to carry out the proposed transactions. **Offering**—To members of Lake Shore Club. **Price**—$10 a share. **Proceeds**—To purchase property presently leased. **Business**—Operation of club.

Lithium Corp. of America, Minneapolis (4/28-30)
April 2 (letter of notification) 85,000 shares of common and 42,500 common stock warrants not exercisable until May 1, 1948. **Price**—$3 a common share and two cents a warrant. **Underwriter**—Hautz, Engel & Andrews, New York. For mine development and for working capital.

Lucky Stores, Inc., Oakland, Calif.
April 4 filed 50,000 shares ($25 par) 5½% cumulative preferred and 50,000 shares of $1.25 par common. **Underwriter**—Blair & Co., Inc. **Price**—By amendment. **Proceeds**—For payment of notes, redemption of 10-year 4% sinking fund debentures for purchase of new trucks, fixtures and for working capital.

Luscombe Airplane Corp.
March 31 (letter of notification) 453,092 shares (50c par) capital stock. **Price**—$1.50 a share. No underwriting. For payment of long term note and to increase working capital.

● **McClanahan Oil Co., Grand Rapids, Mich.**
April 8 (letter of notification) 260,109 shares ($1 par) common. **Price**—$1 a share. To be offered for subscription by stockholders of record April 22 in ratio of one for each five shares held. No underwriting. For working capital.

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 3½ 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.

● **Manontqueb Explorations, Ltd., Toronto, Can.**
April 10 filed 300,000 shares ($1 par) common. **Underwriter**—Name to be supplied by amendment. **Price**—40 cents a share. **Proceeds**—For exploration and development of mining claims. **Business**—Mining.

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.

Morris Plan Corp. of America, N. Y.
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.

Motors Securities Co., Inc., Shreveport, La.
Feb. 19 filed $5,000,000 collateral trust notes, series 118 to 137 inclusive, with 4% interest from maturity. **Underwriting**—No underwriting. **Proceeds**—For purchase of automobile time sales paper which is its principal business as a finance company.

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.

● **Neptune Meter Co., New York**
April 9 (letter of notification) 7,400 shares (maximum) common stock. To be sold through Drysdale & Co. on New York Curb Exchange. Stock being sold on behalf of certain stockholders.

Nesbett Fund Inc., New York
March 12 filed 150,000 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 1,603,500.

● **Nevada Zinc Corp., Inc., Caldwell, Ida.**
April 11 (letter of notification) 300,000 shares (5c par) common. **Price**—5 cents a share. To be sold through officers of company. To build mill for mine.

● **Neville Island Glass Co., Inc., Pittsburgh, Pa.**
April 8 (letter of notification) 2,000 shares (10c par) common, for the account of Charles G. Wray, a stockholder. **Price**—3¼ a share. **Underwriting**—Kalb, Voorhis & Co., New York.

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.

New Brunswick (Province of), Canada (4/24)
April 9 filed $5,000,000 of 5-year debentures, due 1952. **Underwriters**—Smith, Barney & Co., The First Boston Corp., and Harriman Ripley & Co. **Price**—By amendment. **Proceeds**—Proceeds, together with other funds. Will be used to redeem $5,000,000 of 3½% debentures, due 1949.

Northern Natural Gas Co., Omaha, Neb. (4/21)
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. **Bids Invited**—Bids for purchase of debentures will be received up to 11 a.m. (CST) April 21, c/o Pam, Hurd & Reichmann, 231 South La Salle St., Chicago.

Northern States Power Co. (Wis.) (4/22)
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. **Bids Invited**—Bids for purchase of the bonds will be received up to 10:30 a.m. (CST) April 22, at Room 1100, 231 South La Salle St., Chicago.

Northwest Airlines, St. Paul, Minn. (5/1-5)
April 8 filed 395,000 shares ($25 par) cumulative preference stock and an unspecified amount of common, reserved for conversion. **Underwriters** — Auchincloss, Parker & Redpath, Washington, D. C.; The First Boston Corp. and Hornblower and Weeks, New York. **Price**—By amendment. **Proceeds** — To be added to general funds for investment and corporate purposes.

● **Norway (Kingdom of) (4/24)**
April 15 filed $10,000,000 10-year 3½% sinking fund external loan bonds, due 1957. **Underwriters**—Kuhn, Loeb & Co., Harriman Ripley & Co., Inc., Lazard Freres & Co. and Smith, Barney & Co., all of New York. Price by amendment. **Proceeds**—To finance imports from the United States.

Oglethorpe Fund, Inc., Savannah, Ga.
March 10 filed 200,000 shares of common (par $1). **Underwriter**—Southern Securities Corp. **Price**—Based on market (approximately $3,048,000). **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.

● **Pacific Coast Letter Carriers' Uniform Department, Burbank, Calif.**
April 7 (letter of notification) 5,000 shares of preferred and 1,000 shares of common. **Price**—$5 a share. No underwriting. To pay current liabilities, purchase merchandise and to maintain operating capital.

● **Pacific Gas & Electric Co., San Francisco**
April 9 filed 626,136 shares of common stock (par $25). **Underwriters**—None. **Offering**—To be offered for subscription to common stockholders of record May 12 at par in ratio of one new for each 10 shares held. Rights will expire June 30. **Proceeds**—To finance construction program.

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.

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.

● **Pioneer Mutual Compensation Co., Albuquerque, New Mex.**
April 9 (letter of notification) $150,000 5% certificates of indebtedness. **Price**—$100 per unit. To be offered through officers and employees of company and through an affiliate, Insurance Service Co., Inc., Albuquerque. To establish surplus fund and for contingent liabilities of its insurance business.

Pitney-Bowes, Inc., Stamford, Conn. (4/29)
March 27 filed 45,736 shares ($50 par) convertible preferred stock. **Underwriter** — First Boston Corp., New York. **Offering**—Shares are being offered for subscription to common stockholders of record April 17 in the ratio of one share of preferred for each 20 shares of common held. Rights expire 3 p.m. April 28. Unsubscribed shares will be offered to the public. **Proceeds**—Proceeds will be used to repay short term bank loans and for working capital.

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.

Producers Corp. of Nevada, San Antonio, Texas
March 31 (letter of notification) 100,000 shares ($1 par) common. **Price**—$1.50 a share. No underwriting. Some sales to be made through Merrill Lynch, Pierce, Fenner & Beane, Oklahoma City. To pay debts, acquire additional properties and to develop oil and gas properties.

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.

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.

Reed-Prentice Corp., Worcester, Mass.
April 7 (letter of notification) 5,000 shares ($2.50 par) common. **Price**—At market. Being sold on behalf of Charles S. Payson, Vice-President. Tucker, Anthony & Co., is broker for the sale.

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.

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.

Rosslyn Loan Co., Inc., Arlington, Va.
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.

● **Service Caster & Truck Corp., Albion, Mich.**
April 10 filed 32,000 shares ($25 par) $1.40 convertible preferred and 53,962 shares ($1 par) common. **Underwriter**—Smith, Burris & Co., Chicago. **Price**—$25 a preferred share and $10 a common share. **Proceeds**—Proceeds, together with funds to be provided by a term bank loan, will be used to discharge indebtedness to Domestic Credit Corp. **Business**—Manufacture of industrial casters and hand-lift and platform trucks.

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.
March 31 filed 200,000 shares (no par) common and $4,000,000 first and refunding mortgage bonds, due 1977. **Underwriters**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Harriman Ripley & Co.; Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. (bonds); Kidder, Peabody & Co. and Merrill Lynch, Pierce, Fenner & Beane (jointly); W. C. Langley & Co. and Carl M. Loeb, Rhoades & Co. (jointly). Price to be determined by competitive bidding. **Proceeds**—To reimburse its treasury funds expended for property improvements.

● **Southern California Edison Co., Los Angeles**
April 15 filed 1,653,429 shares of cumulative preferred and 1,653,429 shares of $25 par preference stock. **Underwriters**—First Boston Corp., New York, and Harris, Hall Co. (Inc.), Chicago. **Offering**—Shares will be offered in exchange for outstanding Series B, 6%, and Series C, 5½%, preferred stocks in the ratio of one-half share of each of the new stocks for each share of old stock held. Unexchanged shares will be sold publicly through the underwriters. **Price**—Not less than $28.75 a share. **Proceeds**—To redeem unexchanged shares of old stock and for new construction and improvement purposes.

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 Mfg. 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.

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.

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. (5/1)
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.

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. 28 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. (4/30)
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.

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 $56,906,590, exclusive of interest and dividends.

● **Transfluential Drive Corp., Cleveland**
April 9 (letter of notification) 200 shares 6% cumulative preferred and 200 shares ($1 par) common. **Price**—$100 per unit consisting of one share of common and one share of preferred. No underwriting. For working capital.

United States Rubber Co., New York
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.

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. (4/21)
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. **Bids**—Bids for purchase of securities expected April 21.

Utah Chemical & Carbon Co., Salt Lake City
Dec. 20 filed $700,000 15-year convertible debentures due 1962, and 225,000 shares ($1 par) common. The statement also covers 112,000 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.

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.

● **Western Metalcraft, Inc., Olympia, Wash.**
April 7 (letter of notification) 300,000 shares ($1 par) 6% preferred. **Price**—$1 a share. **Underwriting**—Grande & Co., Inc., Seattle, Wash. For working capital.

Whites Auto Stores, Inc. (5/1-15)
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. Debentures are to be placed privately with insurance companies. **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.

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 54)

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 53)

● Brooklyn Union Gas Co.
April 12 the 1946 annual report states that the bulk of the cost of the company's expansion program, estimated at $16,150,000, will have to be financed by issuance of securities.

● Dayton Power & Light Co.
May 21 stockholders will vote on creating a new class of preferred stock.

● General Electric Co.
April 15 Charles E. Wilson, President, said the company may undertake additional financing shortly. Last fall company borrowed $200,000,000 from banks and insurance companies.

● Goodall-Sanford, Inc.
April 30 stockholders will vote on authorizing an issue of $4,500,000 4% preferred stock. Company, it is said, intends to sell the issue privately to a group of insurance companies. Funds will be used to retire $4,059,500 3½% debentures due 1956.

● Idaho Power Co.
May 7 stockholders will vote on increasing authorized preferred from 100,000 to 200,000 shares (par $100) and common from 450,000 to 900,000 shares (par $20).

● Interstate Power Co.
April 10 Judge Paul Leahy of U. S. District Court, Wilmington, Del., approved recapitalization plan, which among others provides for issuance and sale at competitive bidding of $19,400,000 bonds and 2,700,000 shares of common stock (par $3.50) the latter to net $18,610,500. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only), and Dillon, Read & Co. Inc. (stock only).

● Libby, McNeill & Libby
May 15 stockholders will vote on creating a new issue of 100,000 shares of cumulative preferred stock (no par) to carry an annual dividend rate of not more than $4. Stockholders will also be asked to waive their preemptive rights to the new preferred. Negotiations are being carried on with Glore Forgan & Co., New York, to underwrite the issue.

● Liberty Products Corp.
April 15 stockholders of Liberty Aircraft Products Corp. voted to change name to Liberty Products Corp. and increased authorized common shares from 487,064 to 600,000 shares.

● Monongahela Power Co.
April 16 reported company will have to do some public financing later this year or early in 1948.

● O'Sullivan Rubber Corp.
April 22 stockholders will vote on increasing preferred stock from $750,000 to $3,000,000 and authorized common from 300,000 to 600,000 shares. Increase in common is to provide funds for expansion of company's plastic division.

Moderation in Labor Reforms Needed

(Continued from page 6)

key. I might well devote these remarks to a consideration of that subject, but it has now been so thoroughly explored since it was unexpectedly thrust into our midst early in March that there is little I could add to the information and comment which have already been made concerning it.

Let it suffice that it seems to me that with the provisions safeguarding the integrity of the United Nations and protecting our own country, which have been offered by way of the Vandenberg amendments of the legislation now before us, the plan should be approved by the Congress and should become operative. I feel very strongly that both the world and ourselves stand to lose much more if we refuse to provide the aid which has been proposed and to accept the new role in world affairs which the British situation requires of us.

In Our Own Interest

It seems to me that in resolving this question it is our own self-interest which is of first concern to us and to the world and which should receive our first consideration. I believe that what is best for us as a nation in the long run will prove best for the world. On the basis of the analysis submitted by Senator Vandenberg and our State Department, it would appear that our greatest hope for avoiding future conflict and for preserving the peace of the world lies in our acceptance of this new responsibility. The alternative course would seem to lead inevitably to disaster for us and to the annihilation of freedom in the world. More or less along these lines the Congress appears now to be thinking and more or less along these lines it is probable that the Congress finally will act.

Labor Relations Important Domestic Issue

Tonight, however, I shall speak principally of a matter which is of immediate transcendant domestic importance and which is now squarely before the Congress. I refer to legislation dealing with labor relations.

All of you are acquainted with the conditions which have arisen during the past decade in connection with the relationship between labor and management. Most of you are aware of the circumstances which preceded the enactment of the National Labor Relations Act—circumstances which in themselves produced the National Labor Relations Act. You are aware of the chief purpose inherent in the enactment of this legislation, which was to bring about equality of bargaining power between management and labor.

Labor Wields Greatest Power

However, as so frequently happens in America and wherever free government exists in the world, in moving out of one unbalanced condition we move into another unbalanced condition. So it has been with the National Labor Relations Act. Whereas formerly the preponderance of power rested with management, as a result of the enactment of the National Labor Relations Act and through its administration, this preponderance has now come to rest with labor. Neither of these conditions is desirable and either of them leads to certain industrial strife. Of such is the story of the labor relations in the more recent history of the United States.

All of you are familiar with the abuses which have arisen under our present statutes affecting labor relations, particularly as these statutes deal with collective bargaining. Most of you undoubtedly are acquainted with the real causes of these abuses. These causes may be divided into three main categories.

The first of these categories covers conditions now prevalent where the so-called "closed shop" is concerned. Immediately we are faced here with questions as to whether employees should be obliged to belong to organizations against their will in order to obtain work and whether employers should be obliged to hire only employees who are members of labor organizations. These restrictions would appear to violate basic American principles. The situation becomes aggravated further when in many instances the majority of employees themselves seem to have little or nothing to say about their status with respect to the "closed shop." In the light of these conditions there would appear to be no justification whatever for any institution known as the "closed shop."

Closed-Shop Fundamental

However, in this instance we are confronted with more than a single set of principles. We are faced also with a compelling condition. The "closed shop" is an ancient institution in labor organization in the United States. It was first established almost a hundred years ago—generations before the New Deal or anything like modern labor legislation was even dreamed of. In asserting its right to the "closed shop," labor has insisted—and not without real provocation—that those who are to benefit from the efforts and activities of a labor organization should belong to and support that organization and accept their full measure of responsibility, not only for the conduct of its affairs, but for the cost of its operation. Moreover, many employers who have dealt with their employees through the medium of a "closed shop" contract have come to prefer this kind of arrangement and object to abandoning it. In other words, as an institution which in wide areas of industry is fundamental in the relationship between labor and management, the "closed shop" in the United States has attained an historical position where its banning by law would be an extremely dubious procedure.

On the other hand, abuses which have arisen where the "closed shop" exists can and should be eliminated. On this point there should be no difference of opinion among all who seek to help produce a satisfactory relationship between workers and employers. In seeking to prevent these abuses, men of good will differ only in the method by which they would remove them.

"Cross-Picketing" Obnoxious

Again, in the matter of jurisdictional strikes and secondary boycotts, including the obnoxious practice of cross-picketing which has sometimes been so evident in New York City, there is a strong feeling among all people, even among the labor organizations themselves, that these unhappy conditions should be corrected. Furthermore, inasmuch as labor itself thus far has shown no will to clean its own house, there has been a growing sentiment that this particular job must be done through the process of government. Here again the only difference among those seeking to prevent jurisdictional strife and other unwarranted conditions pertaining to it concerns the question of the method to be used by which to bring about corrective measures.

So also, in resolving the problem of industry-wide bargaining, concerning the undesirable quality of which there is general agreement among most people, it becomes a question of plan or method in applying corrective measures. Here we have a situation where the chief objections fall largely into two categories—one of which pertains to the spread of monopoly through industry-wide bargaining, the other of which is a sequel of the first and concerns that condition of serious strife in a whole industry resulting in national economic paralysis.

Must Protect Labor's Rights

All of the legislation now before the Congress which deals with the undesirable conditions I have cited is intended to correct them. In the exercise of corrective measures, however, extreme caution should be taken to make sure that results which follow are not to be worse than the conditions which they are intended to cure. In our efforts to give to management additional prerogatives which would aid in establishing a balanced relationship with labor, we should be sure that the rights of labor are protected and preserved. It seems to me that here we are faced with a task not of taking from anyone, but of adding to someone.

For example, in the matter of the "closed shop" I am convinced that every employer should be granted the right to say whom he shall or shall not employ. Furthermore, I am equally convinced that no "closed shop" contractual relationship should be consummated unless a majority of all employees are in favor of it. Provision to guarantee these standards should be basic in any legislation which may be enacted. Even further safeguards may be required and if these can be imposed without incurring consequences as undesirable as the conditions to be corrected, they also should be incorporated in the legislation. The situation here is one involving collective bargaining and would seem obviously to entail amendments to the National Labor Relations Act.

Wagner Act Should Be Amended

Jurisdictional strikes and other controversies involving primarily the matter of representation in collective bargaining agreements should also be corrected by amendment to the National Labor Relations Act. In fact, any unwarranted action or abuse on the part of employers, employees, or labor organizations, where the matter of collective bargaining representation is concerned, should be adjusted by amendment to this Act. By this process this kind of dispute or controversy would be outlawed by utilizing the machinery already established to insure the proper exercise of the collective bargaining process. On the other hand, any action to cure these abuses which would allow direct court procedure and at the same time by-pass the agencies of government I have mentioned or which would revive other abuses that the Norris-LaGuardia Act was intended to remove, would appear to offer no appropriate solution to the jurisdictional problem.

In seeking to answer the question of industry-wide bargaining there is insufficient information at the present time to permit of satisfactory legislation on this subject. No one is sure, for instance, what the appropriate bargaining unit should be. Presumably the company is the most natural unit and is subject generally to the least objection, but even here there are a number of important situations which cannot be handled on a company unit basis.

Questions Legislation Banning Industry-Wide Bargaining

All the legislation thus far proposed for the purpose of abolishing industry-wide bargaining contains some seriously objectionable features, aside from the dubious matter of the bargaining unit itself. One provision which might easily cause serious repercussions is that by which the international union in the labor organizational structure could be destroyed or at least made impotent. Although I recognize that the organizational structure of trade unions is far from perfect in some respects and should be altered for the welfare of labor itself, I can see no profit for anyone in abolishing the international union or in attempting by statute to reorganize the structure of our trade unions. To say the least, such an undertaking would very likely result in added strife and turmoil.

The complicated problems to which I have referred fall almost entirely within the purview of the National Labor Relations Act and should be corrected by amendment to that Act. They should not be handled by new statutes by-passing the Act or by establishing new governmental machinery which would either parallel or compete with the machinery already established by the provisions of the Act.

There is, however, great need for other legislative action if we are comprehensively to meet the management-labor problem with which we seem now to be confronted. Insofar as strictly legal compulsion is concerned, further action would seem necessary to make certain that the contractual obligation, which is the foundation in the labor-management relationship, is fully supported and protected by law. Additional legislation of this nature is now proposed and I am hopeful that it will be enacted. The sacredness of the contract is the keystone in the arch of collective bargaining.

Legal Compulsion Inadequate

At the same time, let us remember that legal compulsion alone and of itself is no adequate answer to the problem of establishing happy labor relations. Unless we are able to make more effective the voluntary processes by which workers and employers can get together and reach agreement harmoniously, our efforts—no matter how lofty in purpose—must fail. To this end it is now proposed to reorganize and reorient our national mediation and conciliation services. This would be done under the direction of a single administrator, presumably with an advisory council or panel consisting of leading representatives from management and labor.

Heretofore in the field of mediation the chief emphasis has been placed on applying the remedy after the disease of industrial strife has taken hold. And yet, this is only half of the real function of mediation. Prevention of industrial strife is just as important as is its cure. So, in the proposals for a new and broader approach through mediation, emphasis is being placed just as much upon prevention as upon cure.

Injunction Use Favored

Furthermore, in the legislation before us, nation-wide work stoppages in key industries affecting the health and safety of all the people are recognized as requiring special attention and provision is made in such cases for a possible 80-day delay through court injunction obtained by action of the Attorney General of the United States and beginning with the effective date of the strike or work stoppage. Before taking such drastic action, however, a board of inquiry would be appointed by the Attorney General to ascertain the facts and to report the facts to him and to the public—without recommendation. This board would collaborate with the mediation services and would act as an instrument in helping to reduce tension and to bring about peace even before the effective date of any strike.

Thus, before the exercise of the injunctive process, every possible means of utilizing all the voluntary processes would have been exhausted. In the course of the overall procedure, moreover, it is altogether probable that nearly every situation of the kind I have described would be reconciled long before reaching strike proportions.

In view of the fact that it is probable that legislation providing for this kind of approach by mediation and special governmental intervention will be passed during the present session of the Congress, there would seem to be even less need for immediate direct legislative action against industry-wide bargaining. As I have stated, the most serious consequence of industry-wide bargaining is its potential for nation-wide paralysis, and with this potential largely reduced through the operation of the procedures I have outlined, there remains for the most part only the question of dealing with its monopoly aspects. Here again the program which I hope will receive favorable consideration by the present Congress provides an answer.

Program Before Senate

This program, as presented in the United States Senate, provides for the creation of a Joint Congressional Committee to make studies, surveys and investigations into all aspects of the management-labor relationship. Furthermore, such a committee would investigate the industrial set-up in the United States and in this investigation would be able to determine on the plan or pattern which would seem most suitable for the effective solution of the industry-wide bargaining problem. Not only would this committee investigate the whole industrial field from the aspect of labor, management and ownership, with the purpose of ascertaining what additional legislation might be needed, but it would have as its responsibility the checking of existing statutes and their operation through existing administrative machinery with the further purpose of ascertaining what amendment or changes might be advisable, either in the law or in its administration. Nine years ago this policy was adopted in the State of New York where it has met with extraordinary success. If it can be employed effectively in the Empire State, with all of our variations in population, in interests, and in activities, it should work with equal success in the Nation.

In this outline of proposed corrective measures to deal with present labor-management difficulties—an outline which is of necessity perfunctory—I have indicated a comprehensive approach to the solution of every major problem in the field of labor relations. If such a legislative program were to be enacted this year, it would largely overcome present difficulties and go far toward establishing industrial peace.

Non-Political Approach Essential

It seems to me vital that in our approach to this most important of all domestic problems we should be as non-political as possible. I have always felt that the relationship between management and labor never should be permitted to become an issue in partisan political politics and during the major portion of my activity in public life I have sought to obtain as wide acceptance of this policy as possible. No good can come to management and no good can come to labor when either or both of them are made footballs in the game of politics. Nor do I believe that in the long run it is profitable for any political party or for any other group in our society to try to play politics with questions pertaining to the worker-employer relationship.

It seems to me most unfortunate, therefore, that some would now play politics with labor relations. In dealing with this subject, what the country needs right now is the enactment of sound corrective legislation and not an issue for a political campaign.

Living in Dynamic Society

A great social and economic upheaval, such as that from which we are now emerging, is followed generally by a tendency toward reaction. There are some who would like to turn the course of progress backward and to revert to the so-called "good old days." Obviously, such a course of reaction can never be long followed without leading to further complications and difficulties.

All of us know that we are living in a dynamic society. It is constantly on the move. When we try to hold it back, we are overwhelmed by conditions over which we can have no control and we are engulfed in consequences far more serious than those which we would at first avoid.

If during the years immediately ahead we shall strive blindly to deny great social and economic demands with which we may be faced, we shall lay in store for ourselves an even more evil day than any we would thus escape. The reaction of today must inevitably produce the counter-reaction of tomorrow.

Moreover, in a world where popular government is more and more giving way to stateism, we can survive only if we make of our own free society the great success which it can be in meeting and overcoming the problems and difficulties and obstacles which may confront our people. With good faith and good will and sympathetic understanding toward one another, accepting our mutual responsibilities with respect to one another, we can have here in America the kind of country we want. Working together harmoniously, helping one another, cooperating with one another, we can produce here in America among all our people an *esprit de corps* which will scorn the blandishments and defy the threats of every hostile ideology. We can move forward confidently toward the attainment of new goals in social and economic progress which are within our reach.

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25 BROAD STREET, NEW YORK 4, N. Y.

April 10, 1947

The Board of Directors has this day declared a dividend of 30c per share on the common stock of the Company, payable on May 15, 1947, to stockhholders of record at the close of business on May 1, 1947. Checks will be mailed.

EDWARD FRAHER, Secretary

MAHONING INVESTMENT COMPANY

The Board of Directors of Mahoning Investment Company declared on April 10, 1947 a dividend of $3.00 per share on its Capital Stock, payable April 30, 1947 to stockholders of record at the close of business April 23, 1947.

O'DONNELL ISELIN, *Secretary.*

FLEMING-HALL TOBACCO CO., INC.

Dividend No. 6 on Preferred Stock

Directors of this Corporation have declared the regular quarterly dividend, the sixth consecutive dividend paid, of fifteen cents (15c) per share on the 6% Cumulative Preferred Stock, payable April 15, 1947 to stockholders of record at the close of business April 5, 1947.

FLEMING-HALL TOBACCO CO., INC.
By S. C. Korn, *President and Treasurer*

PLYMOUTH RUBBER COMPANY, INC.

The Board of Directors has declared a quarterly dividend of 25 cents per share on the Common Stock of the Company, payable on May 15, 1947 to stockholders of record at the close of business on April 30, 1947.

IRA M. HAMILBURG
Chairman of the Board

Kingwood Test in Noble County Good

One and three-quarter miles southwest of the Ceres pool discovery well in Noble County, Okla., Kingwood Oil Co. 1 Bolay, SW SW NW 35-23n-12, recovered 660 feet of oil and distillate and 360 feet of oil and gas-cut mud, in 12 minutes, on a drill stem test at 4,444-69 feet. A second drill-stem test at 4,471-83 feet, open 12 minutes, showed gas in three minutes and recovered 800 feet of 41-degree-gravity oil, and 120 feet of oil-cut mud. The Bartlesville was logged at 4,466 feet. Saturation was cored at 4,483 feet total depth. Operators are running casing.

DIVIDEND NOTICES

ROCHESTER & PITTSBURGH COAL COMPANY

The Board of Directors of Rochester & Pittsburgh Coal Company declared on April 10, 1947 a dividend payable out of net profits for the year 1946 of 5% on its Preferred Stock, payable April 24, 1947 to stockholders of record at the close of business April 17, 1947.

O'DONNELL ISELIN, *Secretary.*

ROCHESTER & PITTSBURGH COAL COMPANY

The Board of Directors of Rochester & Pittsburgh Coal Company declared on April 10, 1947 a dividend payable out of net profits for the year 1946 of $1.00 per share on its Common Stock, payable April 24, 1947 to stockholders of record at the close of business April 17, 1947.

O'DONNELL ISELIN, *Secretary.*

Spencer Kellogg & Sons, Inc.

A quarterly dividend of $0.60 per share has been declared on the stock, payable June 10, 1947, to stockholders of record as of the close of business May 17, 1947.

JAMES L. WICKSTEAD, Treasurer.

NATIONAL DISTILLERS PRODUCTS CORPORATION

The Board of Directors has declared a quarterly dividend of 50¢ per share on the outstanding Common Stock, payable on May 1, 1947, to stockholders of record on April 11, 1947. The transfer books will not close.

THOS. A. CLARK
TREASURER

March 27, 1947.

The United Corporation

$3 Cumulative Preference Stock

The Board of Directors of The United Corporation has declared a dividend of 75c per share, accrued at April 1, 1947 upon the outstanding $3 Cumulative Preference Stock, payable May 5, 1947 to the holders of record at the close of business April 28, 1947.

THOMAS H. STACY,
Secretary.

April 16, 1947
Wilmington, Delaware

The Board of Directors of

Wentworth Manufacturing Company

has declared a dividend of twelve and one-half cents (12½c) per share on the outstanding common stock of the Company, payable on May 26, 1947, to stockholders of record at the close of business May 8, 1947.

Checks will be mailed.

JOHN E. McDERMOTT,
Secretary.

MEETING NOTICE

NORFOLK AND WESTERN RAILWAY COMPANY

Roanoke, Virginia, April 2, 1947.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of Norfolk and Western Railway Company will be held, pursuant to the By-laws, at the principal office of the Company in Roanoke, Virginia, on Thursday, May 8, 1947, at 10 o'clock A. M.:

(1) to elect four Directors for a term of three years,

(2) to act upon a recommendation of the Board of Directors to amend the Company's Charter to empower the Company to effect a stock-split of its present Adjustment Preferred Stock and Common Stock, respectively, on a four shares for one share basis, and to consider and act upon resolutions to effectuate such Charter amendment and issue and exchange of stock.

(3) to act upon a proposal to amend the By-laws of the Company to increase from twenty dollars to fifty dollars the fee paid each Director for each Board meeting attended.

Stockholders of record at the close of business April 18, 1947, will be entitled to vote at such meeting.

By order of the Board of Directors,
L. W. COX, *Secretary.*

Progress of Inflation in Europe

Correspondent reviews varying degrees of monetary inflation in former belligerent and neutral countries of Europe. Points out neutrals have had no serious inflation and several belligerent nations, such as Low Countries and Scandinavia, have kept it under control, but Greece and Hungary have both passed through chaotic inflation. Holds France and Italy are still in inflationary process. Sees in this a set-back to working of International Monetary Fund.

GENEVA, SWITZERLAND—During the first few months that followed the cessation of hostilities, the European countries were classed, from an economic point of view, in two categories: former belligerents and former neutrals. The latter enjoyed a fair degree of stability, while conditions in most of the former were more or less chaotic. Inflation was proceeding fast in the defeated and liberated countries. While the destructive process differed in degree from country to country, the fundamental characteristics were largely identical.

Nearly two years have now passed since the end of the war in Europe and some of the former belligerents have in the meantime succeeded in achieving a certain degree of stability, either as a result of having passed through extreme inflation or of having checked inflation before it got out of control. Greece and Hungary are instances in which inflation had reduced itself to absurdity. Belgium, Holland and Denmark are the leading examples of countries which had succeeded in calling a halt to the destructive process. France, Italy, Germany and Austria are countries where inflation is still proceeding.

In Greece inflation reached its climax in 1944 and in Hungary in 1946. Both countries devalued their currencies to an insignificant fraction of their original value. But while the currency reform has proved to be surprisingly successful in Hungary, it failed to prevent a further currency depreciation in Greece. The reason for this is that Hungary, under the shadow of Russian bayonets, is experiencing enforced political stability, while unrest and uncertainty in Greece continued to undermine confidence in the new Greek currency. Nevertheless, comparatively speaking, monetary conditions are relatively stable in Greece.

A different kind of stability has been achieved in the Low Countries, especially in Belgium, and in Scandinavia. There hard work and good administration has checked the process of destruction, and the nations are now in a position to concentrate on reconstruction without having to fear that, owing to monetary instability, they are building on quicksands. Admittedly, stability is far from being absolute. There is in most countries still a moderate rising trend in prices, due to scarcity of goods and inflation of purchasing power. The situation is, however, well in hand.

This is not the case with countries such as France or Italy. Here inflation is still proceeding and all efforts to bring it under control have failed thus far. The much vaunted 10% cut in prices in France means in practice very little, for merchants can charge for most goods what they like so long as they reduce by 10% the prices they themselves have determined. A sign of inflation is the comparative absence of price quotations in shop windows. Merchants are reluctant to commit themselves to a figure, since they are liable to change it frequently.

In Germany and Austria, too, inflation is proceeding fast, largely as a result of the issue of military currencies. Rumania has surpassed all European belligerent countries in the degree of inflation with the exception of Greece and Hungary. On the other hand, inflation is relatively moderate in Bulgaria and Yugoslavia, while the Czechs, with their well known capacity for hard work and organization, have managed to approach a certain degree of equilibrium.

Given the difference between the relative degrees of inflation and instability in various parts of the Continent, it would seem that the stabilization of their exchange rates through the International Monetary Fund has been somewhat premature. But then, most governments now prefer stable exchanges even if the internal value of their currencies is far from stable. Indeed, the role played by the Fund seems to be exactly the opposite to the one anticipated by both the supporters of the Bretton Woods plan and by its opponents. It was generally expected that the Fund would stand for rigidity of parities in face of the recent demands of permission to change them. Instead, it is the Fund that would like to effect adjustments of parities to changed internal values, and it is the member countries that are reluctant to effect such changes.

Sooner or later, however, the discrepancies in the degrees of inflation in various Continental countries will produce their effect on the exchanges. At the moment devaluations are unpopular because exporters can manage quite well in spite of overvalued currencies. The moment the world turns once more to a buyers' market, the Fund will have no difficulty in persuading various governments to agree to the necessary adjustments.

Bauman, Seeger Co. in NYC

Bauman, Seeger Co. is being formed with offices at 150 Broadway, New York City, to engage in the securities business. Partners are George I. Bauman and Jacob Seeger. Mr. Bauman was previously a partner in Sterling Investing Co.

With Edw. E. Mathews Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Edw. E. Mathews Co., 53 State Street, has added Gilbert B. Cutler, John F. Ryan, J. F. Sweeney, and Martin Stone to the firm's staff.

Our Reporter's Report

The securities business has dropped into a blue funk again what with the latest blast from the White House advocating price reduction and warning that wages will rise further if prices don't fall; the impending strike against the major stock exchanges, set for next week and the crumbling of equity values as a consequence of the foregoing combination.

It may be spring in other parts of the country, but it will take considerably more sunshine to bring out the buds in the financial community. Brokerage houses, with the strike looming, have not been making money and some already are cutting back on their working forces.

Unless there is a distinct change for the better, the trend is likely to continue in that direction for a time since Wall Street, as might be expected, places a good deal of stock in what security prices are doing.

Most people can't or perhaps don't like to see it that way, but they are inclined to read into the current decline in stocks the likelihood of a recession six months hence.

They recognize that industry has an inventory problem, but not of the usual order. This time the situation revolves around what they term "dead inventory," that is partially finished goods which could be completed and moved to market if certain parts and materials were to become available.

Until recently they were hopeful that such goods would be completed and moved along to the consumer. Now, however, with a new round of strikes threatening, and the more or less frantic emphasis on price reduction, they are becoming doubtful of industry's ability to do that part of the job.

U. S. Rubber's 2⅝s

Some people were of the opinion that the public offering of U. S. Rubber Co.'s $40,000,000 of new 20-year 2⅝% debentures, expected on the market today, might go over for a time.

Upon registration of the issue last week, the company requested the SEC to accelerate clearance with a view to proceeding with the business as soon as possible. But current conditions quite logically could cause a delay.

The company seeks the funds to provide it with additional working capital to meet the needs of its vastly expanded business.

First European Issue

With no European nation having attempted to borrow here since before the war, it remained for the Kingdom of Norway to break the ice with registration of a projected offering of $10,000,000 of ten-year 3½% sinking fund bonds.

SEC has been asked to accelerate matters on this proposal and if the Commission acquiesces in the request, it is the intention of sponsoring bankers to market the issue next week, probably on Thursday.

Under the sinking fund provisions set up in the indenture 37% of the issue, which is a direct obligation of the Norwegian Government, would be retired by maturity.

Underwriters Nettled

Underwriters who had prepared to bid competitively for a sizable block of stock to be offered by a utility company the other day were a trifle disturbed by the delay in calling the transaction off.

They felt that Monday's market should have been more than ample warning for company officials and that the decision to defer the sale should have been made by the close of business that day.

But for one reason or another, even though the managers of one of the group had informed the company that it would withdraw from the competition, the issuer delayed notice of postponement until well after business hours.

As a consequence, the two other syndicates had to call their participating firms together on Tuesday to go through the process of dissolution and closing out, which might have been done just as well on Monday afternoon.