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1 MAY 2 - 1947

Final Edition

ESTABLISHED 1839

in 2 Sections – Section 1

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 165 Number 4590 | New York, N. Y., Thursday, May 1, 1947 | Price 30 Cents a Copy

Does a Sterling Crisis Impend?

By PAUL EINZIG

Dr. Einzig calls attention to approaching exhaustion of proceeds of American loan to Britain and prospects of application for a second sizable loan. Discusses drains on Britain's dollar resources and concludes it is doubtful whether Britain can maintain convertibility of sterling as required under Anglo-American Loan Agreement.

LONDON—Political circles here are discussing the possibility of a second dollar loan to Britain in the not too distant future. The origin of this speculation lies in the growing fears that the proceeds of last year's loan are likely to be exhausted before very long.

Dr. Paul Einzig

The adverse effect of the fuel crisis on the trade balance caused many people [illegible] Chancellor of the Exchequ[illegible]ton's estimate of this year's [illegible] deficit at $1,600,000,000 was over-optimistic. Even though the acute fuel crisis is gradually subsiding, there is a growing pessimism about the effect on fuel output of the five-day week and of the dis-

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Is the Money Supply Too Large?

By HOWARD R. BOWEN*

Economist, Irving Trust Company, New York

Dr. Bowen doubts present money supply is too large on ground that present ratio of money to national income shows continuation of a normal trend dating back several decades. Also doubts validity of quantity theory of money and holds public has greater need and use for circulating medium than in past. Sees no inflationary danger in present money supply and cautions against severe contraction of credit.

In all modern countries, bank deposits are the principal form of money. These deposits are created when banks increase the amount of their loans and investments outstanding and they are destroyed when banks decrease the amount of their loans and investments. Therefore, the operations of the banking system largely determine the supply of money.

Howard R. Bowen

During the recent war, the amount of bank deposits (or money) increased rapidly. This expansion in money supply resulted chiefly from the sale of [illegible] amounts of government securities to the commercial banks. This increase in money supply is shown in Chart 2. In 1939, before the war, the total of bank deposits and currency in circulation was about $60 billions. In 1946, this total was over $170 billions, or neary three times as large.

It is widely believed today that

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*Address by Dr. Bowen before 35th Annual Meeting of the U. S. Chamber of Commerce, Washington, D. C., April 30, 1947.

The Case for Scientific Stock Market Analysis

By NICHOLAS MOLODOVSKY

White, Weld & Co.

(Author of "New Tools for Stock Market Analysis")

Economist points out limitations appraising stock prices on basis of either intrinsic value of particular securities or underlying economic conditions. Emphasizes advantages of "direct" analysis of market's internal structure, as evidenced by differential relations of prices and volumes, as essential to sound investment policy.

From the days of my childhood an anecdote comes back to my mind. I ran across it when reading the life of Krylov, the great Russian fabulist, poet and successor of La Fontaine and Aesop. As his fame began to spread, he was invited one evening to dinner at the palace of a Grand Duchess. During the meal a discussion arose among the guests about a vital problem of the day. The opinions expressed were widely divergent. Perplexed, the Grand Duchess turned to Krylov and asked him how an identical fact could impress people in so many different ways. "Your Highness," replied the poet, "look at that magnificent chandelier whose

Nicholas Molodovsky

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Pictures taken at 11th Annual Dinner of Security Traders Association of New York appear on pages 29, 30, 31 and 32.

A Program for Debt Management

By W. RANDOLPH BURGESS*

Vice-Chairman, National City Bank, New York

Ex-President, American Bankers Association

Mr. Burgess outlines as essential to proper debt management: (1) reduction of Federal budget and gradual redemption of debt; (2) distribution of holdings of debt more widely among investors, so as to reduce inflationary money supply; and (3) tax reductions, interest rates decontrol, and improvement of quality of government so as to preserve and increase energy of our economic life.

There are two aspects to the problem of debt management. One of these is the problem of dealing with the debt itself and its financial phases. The other, and even more important, is to take every possible step to assure dynamic, vigorous, and stable economic life. Even though we are technically wise in handling the debt, it will be futile unless the country is strong and has a large national income with which to pay the service of the debt. How much debt we can carry depends on how strong we are, on how much the country produces in goods and services.

W. R. Burgess

I
Control the Budget

The very first step in dealing with the debt is to get the national budget under control. The President has found it necessary to lay before the Congress a $37½ billion budget. This budget is four times as much as in the biggest spending years in the '30s. The budget

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*Remarks by Mr. Burgess at the 35th Annual Meeting of the U. S. Chamber of Commerce, Washington, D. C., April 30, 1947.

Menace of Rising Federal Expenditures

By FRED R. FAIRCHILD*

Professor of Political Economy, Yale University

Prof. Fairchild, holding benefits of heavy government spending are illusions, attacks theory deficit financing can stabilize national economy. Holds 1948 Federal Budget is excessive and contends it could be held down to $25 billions. Points out sources of Government wastes and concludes a new crisis in Government finance is threatening unless effective steps are taken to produce greater order, economy, and efficiency in Federal Government.

My subject is "Control of Federal Expenditures." I am sure that your program committee would not have invited me to address you and that you would not have assembled here this morning in such goodly numbers if you had nct believed that government spending presents a major problem. And I can assure you that I would never have directed so much of my own time and thought to this matter if I had not been fully aware of the menace of swollen government spending.

Fred R. Fairchild

But why shouldn't the government spend a lot of money? Why worry as the level of government spending rises and the share of the national income taken and spent by government goes on increasing? We have all heard of the many and glamorous blessings alleged to flow out of the spending of government money, from more generous provision of the necessities and comforts of life to increased purchasing power, more employment of labor, and official control of the business cycle. Why try to control the source of such blessings as these?

Before we settle down to our main problem I think we must give some attention to these questions.

Benefits of Government Spending An Ilusion

In the first place I am convinced that the supposed benefits of government spending are an illusion. Government has no magic power to raise the standard of living by spending money. What it gives to some, it takes from others; and in the doing, it tends to impair some of the finest attributes of our American character and our free economy.

Government spending of money raised by taxation does not en-

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*An address by Dr. Fairchild at 35th Annual Meeting of the U. S. Chamber of Commerce, Washington, D. C., April 30, 1947.

Bird's Eye View of Central Europe

By WILLIAM R. MARTIN*

Export Manager, Publicker Industries, Inc.

Recounting impressions of a tour of Western Europe, Mr. Martin finds business outlook favorable in Scandinavian countries, some improvement in Italy, Switzerland and France. Says Germany is a vacuum in the middle of Europe, and welfare of surrounding nations is vitally concerned with Germany's economic recovery. Points out Europe's intense concern over America's foreign policy and warns high U. S. prices are being resisted by import restrictions despite Europe's needs. Stresses U. S. aid for expansion of European production.

A couple of weeks ago I completed a three-month tour of Sweden, Norway, Denmark, Holland, Belgium, France, Switzerland and Italy. The object of my visit to Europe was not to make surveys; I went there for the object of ascertaining if our particular sales outlets were operating efficiently, and what our prospects might be for the future. However, in the course of my travels certain observations were made, certain opinions were formed, and this, I hope, will be at least informative.

William R. Martin

I am not interested in indulging in any travelogues, and I am sure you aren't either. So let's get down to cases and find out what we can get out of this.

I think in this report I will touch upon four topics:

(1) Trade factors as I saw them.

(2) Business outlook in some of the countries visited.

(3) Germany's place in the European economy.

(4) Europe's concern with America's foreign policy.

What Are the Trade Prospects Today in Europe?

In answering that question it is not enough to say that there is an enormous demand. That, of course, is universal. In my own experience I reduced the question to determining what the trade factors would be. As a result of that I have, in our own case, determined that the factors are these:

(1) Essentiality of the commodity to the industrial rehabilitation of the country of importation.

(2) Production, if any, of the commodity in the country of importation.

(3) The ability and readiness on the part of the American producer to set forth a regular program of deliveries.

Whether a man merely sits and stares into space or whether he expends all his energies in any venture, he must eat. Food must be imported in most of the liberated countries of Europe. That means a drain on their finances; that means a drain on available

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*An address by Mr. Martin before the Export Managers' Club, New York City, April 15, 1947.

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Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, May 1, 1947

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)
Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

How Can We Avoid a Recession?

By LEON H. KEYSERLING*
Vice-Chairman, Council of Economic Advisers

Though stating a recession may not be avoided, President's economic adviser contends it can be moderated by private enterprise performing stabilizing functions exercised by government during war. Calls for synchronization of wholesale and retail price reductions, even with temporary shrinkage of profit margins.

The topic "How Can We Avoid a Recession?" is well-stated, because it emphasizes that the American economy has sufficient strength and intelligence to avoid recessions and depressions if it applies itself forthrightly to the task.

Leon H. Keyserling

There are three groups who are making it more difficult to avoid a recession:

First, there are those who, since 1945, have been recurrently predicting a serious recession within a few weeks. Several times already they have been proved wrong. But they figure that on the law of averages, they will undoubtedly make a right guess once and be hailed as prophets. This is an easy way to cash in by being irresponsible.

Second, there are those who believe that a recession is inevitable and beyond human power to prevent or mitigate. They believe that the only sensible counsel is to prepare for a certain storm. They forget that for businessmen and buyers to dig in for bad times instead of working to prevent them is the surest way to manufacture bad times.

Third, there are those who know that over-reaching and short-sightedly selfish economic behavior is bad for the economy in the long run, but who want to take all they can for themselves while the going is good. This is the most difficult group to deal with, and the most pernicious.

Even the hardest and most persistent efforts may fail to avoid a recession. The task is difficult. But these efforts at best could be fully successful. At least, they can reduce a recession to mod-

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*A statement by Mr. Keyserling broadcast over Columbia Broadcasting System, April 27, 1947.

Presidential Adviser Anticipates Further Labor Trouble

John D. Clark charges business with meeting labor's demands with power alone; and labor, business, and Congress with opposing legislation to protect the public in advance of trouble.

WASHINGTON (Special to the "Chronicle")—That labor relations are heading for trouble would seem to be the conclusion of John D. Clark, member of the President's Council of Economic Advisors. In Washington recently Dr. Clark discussed the subject before alumni of the Harvard Graduate School of Business, gathered here from various parts of the East.

Dr. John D. Clark

In his informal address, Dr. Clark made two major points. First: a year ago labor based its request for higher wages on the fact that large profits were being made by business. But business rejected that argument as irrelevant. This year labor's demands have been based on the high cost of living, while the business world has rejected that thesis. Dr. Clark stated that these two standards of proper wage adjustment are the only two he can think of which can be measured quantitatively. When labor is told that neither will be accepted, Dr. Clark continued, as the principle on which its wage proposals will be determined, then in substance labor is being told that wage determinations will be the result of power alone.

Dr. Clark's second point is that both labor and management have been equally determined in opposing any legislation to protect the public in cases of work stoppage of critical character. Each side admits, according to Dr. Clark, that there may be such crises in the future as in the recent past and that when they occur the Government will have to take action to bring about the continuance of essential services, yet both sides refuse to accept any legislation which will in advance authorize the President to act instead of leaving him under compulsion to act without specific authority from the people.

The same reluctance to consider the legislation which is most vital at this time, Dr. Clark holds, is being shown in the Congress, where there are many proposals about action which may be taken before an ultimate crisis occurs, but no legislation proposing action if the preventive

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Why Tax Reductions Immediately!

By JOHN W. HANES*

Chairman, Board of Trustees, Tax Foundation
Formerly, Under Secretary of the Treasury

Former Treasury official points out taxes constitute large factor in prices, so if price reductions are to come, taxes must be immediately reduced. Illustrates effects of high taxes in destroying risk incentive. Contends tax reduction would be deflationary rather than inflationary and denies across-the-board reduction favors higher income brackets. Says present tax schedules abuse "ability to pay" principle.

Tax reduction and debt reduction are practical when a surplus comes within view; they are meaningless while deficit financing proceeds and while inflationary forces continue to be powerfully at work, as has been the case during the past decade. My approach to the problem has not been on an "either or" basis, that is, that we must choose between one or the other course,—debt reduction or tax reduction. My position has been that we could have both—that the Treasury surplus will be sufficiently large to provide effective taxpayer relief and to make at the same time, substantial reductions in the federal debt. (I am assuming of course that Congress will proceed with its present plan of reducing the Executive budget for 1948). We should not lose sight, however, of the great importance of holding to a minimum every appropriation for the balance of the fiscal year 1947.

John W. Hanes

The problem this Committee faces is far larger than a mere technical debate over fiscal policy. In the action you take, you must weigh not only effects upon future Government revenues, but the economic consequences incident to every change in taxation, no matter what economic groups may be affected. It's been a long time since the Government was even willing to think in terms of subordinating its wishes to citizen or taxpayer interests. That time has now arrived, and the quicker we face up to that fact, the sooner our economy will rest upon a substantial and permanent foundation.

*Statement by Mr. Hanes before the Senate Finance Committee, April 24, 1947.

I have urged speed in enacting tax reduction for reasons which every passing day not only confirms but makes doubly imperative. The more promptly the question can be acted upon, the more positive will be the constructive effects upon business and our national economy.

Many economic experts currently feel that our existing high-level production is at a critical point. Our maladjustments seem to grow worse rather than better as prices and wages seem ready for another inflationary upturn. The President consults his Council of Economic Advisers, and then calls upon business to reduce prices. If prices don't come down, he says in effect, then labor is justified in asking higher wages. Instantly inflationary pressures are increased as a new wage-price struggle impends.

It is a mistake to assume that, in these contests, the government is a mere outside observer, acting in a detached way as the public's representative. That is not the case. While labor and industry must carry their fair share of the blame for our present situation, primary responsibility must be assessed against the Government itself. We must not overlook the fact that, in the fixing of prices which the public is called upon to pay—in recovering the mounting costs of production—one of the most important factors is the cost of Government services, expressed in the form of taxes, which is compounded into the price of goods and services which the public buys.

If we really mean to go about reducing the price level—and cancel out some of our wartime excesses—then let's begin at the point where Government assistance can be most effective. This is in cutting the high cost of government itself, which today is a

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BUSINESS BUZZ

"Sorry, He's on the Floor Just Now!"

Tax Relief Needed to Retire Debt

By LEVI P. SMITH*

President, Burlington Savings Bank, Vermont

Savings banker says we must plan now to promote cheerfulness and confidence in future by enacting both tax relief and debt retirement and thereby promote thrift to drain off inflationary spending.

There is every reason to believe that some degree of tax relief now is not only entirely consistent with a sound long-range plan for debt retirement, but is necessary to it, if the debt retirement is to prove continuous, steady and successful. Long-range thinking is vitally important in setting up a pattern for future financial stability.

Levi P. Smith

The Spartan view that all possible government savings be directed exclusively to debt retirement and that taxes be continued at war levels commands respect by its logic and courage. It is true that we are overshadowed by the threat of inflation and will continue to be as long as we have such a monstrous national debt. It must also be granted that tax relief is in some respects inflationary and is likely to be especially inflationary in a democracy where most relief will always go to the most people and where, therefore, that part of the budget savings will swell the pocketbooks of spenders more than it will swell the funds of enterprisers likely to use it to lower prices or to create more production and more jobs.

All of this, however, fails to take into account the effect of such action on a populace which has carried war taxes to victory and beyond. We are confronted with a problem which is 90% human or, if you will, political in the sense that if the debt is to be carried evenly and triumphantly, it will be done by enlisting the energies of the people for a long, steady, continuous pull, as contrasted with the sporadic action and reaction certain to result in an economy of boom and bust.

The public debt is so immense that whether all budget savings or only a part of them are directed to its retirement now, will make relatively little difference. What we must plan now, therefore, is a pattern of life under which our people may live with the debt with some degree of cheerfulness and look forward to its eventual retirement with some degree of confidence. To tell a person that he must go on all his life still carrying these drastic war taxes is not conducive of cheerfulness and confidence.

Any sound program must relax the pattern of war taxes now, must offer definite relief in such form as will be encouraging to as many people as possible and, to counteract the inflationary effect of such encouragement, must rely upon redoubled efforts to mobilize the thrift of all the people to drain off the spending-money and to turn back into the government pool a flood of savings. It would seem that the suggested tax relief, if combined with a consistent plan for debt retirement and balanced off by a continued and increasing promotion of the savings-bond program, must be the line most likely to enlist the overwhelming popular support necessary to the successful solution of this vital problem.

*Statement of Mr. Smith before the Senate Finance Committee, Washington, D. C., April 24, 1947.

Washington . . . And You

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

Senate Republicans have decided to put President Truman squarely on the tax reduction veto spot. That means they (1) won't make concessions to the White House; (2) will pass the House approved tax bill with but slight modification. It now looks as though the only important alteration in the House formula will be advancing the retroactive reduction date from Jan. 1 to July 1, this year.

* * *

Democratic proposals that exemption increases be substituted for percentage rate reductions will be rejected. Hiking exemptions would free uncounted citizens from Federal taxes. That would be politically unwise from the viewpoint of GOP policy makers. They well know the sins of Administration extravagance and the righteousness of Republican economy will be most apparent to the fellow who must fork over to the tax collector.

* * *

There's a good chance the Senate Finance Committee may get the tax bill reported out favorably before this week ends.

It's just as apparent now—as weeks back—that landlords needn't expect any legislative across-the-board rental hike. Both major parties are playing prudent politics on that issue. Renters outnumber landlords. Ergo, Congress deems it most unwise to legislate rent costs upward.

* * *

After 10 days of House Commerce Committee hearings on international airlines, it's still safe to wager and invest on the theory Congress will not endow any single American flagship line with an international flying monopoly.

* * *

House Commerce Committee members took time off from the air hearings last Friday to huddle behind locked doors on proposals by Connecticut's Republican Representative Miller that Federal Power Commission be walled off from industries producing power for their own consumption and from strictly local utility operations. Watch for formal committee hearings within a fortnight.

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Observations . . . .

By A. WILFRED MAY

THE PRICE OF OUR DEMOCRACY

Twenty Months Before Election Day the Politicians Ghost-Write the Nation's Economic Policy

It may be naive to expect a government to treat tax policy or any other issue with any degree of objectivity only 20 months before a national election. Nevertheless the economic pronouncements being currently handed down by our Administration leaders seem to be setting new highs in special pleading.

A. Wilfred May

A striking example is Secretary of the Treasury Snyder's statement on tax legislation before the Senate Finance Committee last week. Thorough perusal forces the conclusion that in essence—far from being a sound technical analysis—it is a lawyer's brief persistently arguing for a preconceived objective.

In the first place, the various arguments marshalled by Secretary Snyder to prove that now is not the time for tax reduction, can similarly be brought forth at any time in the future, so that acceptance of his arguments would preclude the lowering of taxes *in perpetuo*. In this vein Mr. Snyder says "the desirability of maintaining present tax rates *for this year* is emphasized by the size of the public debt." But the question must be asked *when* would this Administration (which has in the past soothed the people's debt worries with the "we owe it to ourselves" reasoning) conceivably agree that our $258 billion debt has been reduced far enough to permit tax cuts? If the debt is unsound at $258 billion, will it be sound at 250, or 200? And in what generation will such lower level be reached, particularly in view of the current violent opposition of Mr. Snyder and his Administration to reducing the outrageously high level of Federal expenditure?

Of course, the size of the debt at $258 billion is dangerous, but the current economic injury to the workings of our present enterprise structure ensuing from maintainance of the present, high tax rates far outweighs the advantage of reducing the debt structure by less than a possible 2%.

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The Seasonal Trend In Stock Prices

Waldheim, Platt & Co., 308 North 8th Street, St. Louis 1, Mo., has compiled a circular giving a list of 176 important common stocks, listed on the New York Stock Exchange, with unbroken dividend records of 15 years or more together with other pertinent data. The circular also contains a chart showing the seasonal trend of stock prices as developed in the study of such movements over a 50 year period made under the direction of Major B. Einstein, a partner in Waldheim, Platt & Co.

Taxes In the Years Ahead

By HARRY A. BULLIS*

President, General Mills, Inc.

Mr. Bullis forecasts for normal future Federal taxes of $25 billion and state and local taxes of $10 billion. Says this taxation requires national income of $165 billion and accordingly incentives must be provided to maintain production. Proposes as tax sources: $9½ billion from individual incomes; $7 billion from corporations; and $8½ billion from excises and miscellaneous. Recommends only slight reduction in corporate income tax rates.

By addressing you as taxpayers I forewarn you that I shall not offer you, today, any promise of your elimination from that privileged position.

Harry A. Bullis

However, I believe that a sound fiscal program is possible which will lighten the burdens of taxpayers and at the same time contribute to a better balanced dynamic national economy.

The opinions which I shall express and the recommendations which I shall make do not necessarily represent the views of the Chamber of Commerce of the United States or of my company. Let me add also that any resemblance between my program and other tax programs, living or dead, is *not* merely coincidental, because I have relied heavily upon the reports of others whom I consider reliable.

The Tax Burden After 1948

When we think of how much money it takes to run the Federal Government, and of where the money must come from, we have no difficulty in realizing that we are facing a most complex problem and a serious challenge to our national economy.

The Federal Budget for the coming year is very high. We hope that Congress will do some judicious pruning so that taxpayers may be afforded some immediate relief. After next year there should be substantial re-

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*An address by Mr. Bullis at 35th Annual Meeting of the Chamber of Commerce of the U. S., Washington, D. C., April 30, 1947.

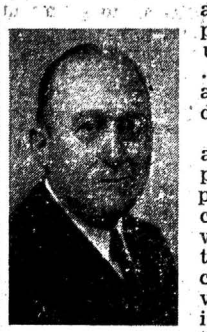
Let's Shrink Our Worries!

By FREDERICK W. GEHLE*

Vice-President, Chase National Bank

Commenting on gloomy forecasts regarding future, Mr. Gehle points out there always has been trouble and unrest in the world. Contends, although we face serious difficulties, we should not talk ourselves into a depression, and, in calling attention to our wartime accomplishments and greatly increased productive capacity, concludes we will bear our burdens and maintain our strength in the days and years to come.

You have but to read the daily newspapers to draw the conclusion that human affairs in general are badly tangled . . . that we are in a period of great uncertainty . . . that these are really difficult days.



Frederick W. Gehle

Not long ago an enterprising reporter asked certain people what they thought of the century that we are living in. If they had their choice, he asked, would they not prefer to live in another time? Cornelia Otis Skinner, the actress, said that she sometimes thought that any other century than this would have been a better one. Henry Wallace, who is doing his own peculiar part to make this century a memorable one, said that if he had to be born in another century he would prefer the 21st, 22nd, 23rd or the 24th.

From all accounts there is everywhere a feeling of unrest. We notice it in the way men and women talk that come to our banks . . . our homes . . . that we meet on the street. Only on Monday President Truman in his speech before the Associated Press at the Waldorf said—"I must say in all frankness that the economic skies are not entirely clear." He

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*A talk by Mr. Gehle at the Convention of the National Association of Bank Auditors and Comptrollers, New York City, April 23, 1947.

Mexico and Holland Seek World Bank Loans

WASHINGTON, — The International Bank for Reconstruction and Development announced April 29 that a formal loan application for $208,875,000 has been received from the Government of Mexico, and that the Government of the Netherlands, which had previously indicated its intention to apply for a loan, has now submitted a formal application for $535,000,000.

The purpose of the loan requested by the Government of Mexico is for the development of productive facilities which include irrigation and hydroelectric projects, highway construction, pipelines, railroads and harbor improvements.

The Government of the Netherlands has requested the loan to finance a portion of their more urgent projects in an over-all rehabilitation, reconstruction and industrialization program.

New York Bank Economist Says Business Trends Still Same as After World War I

Says slowing down of business activity after Easter has materialized just as business trends were reversed 20 months following Armistice after World War I. Stresses prices, too, have ceased their upward climb. Holds unsettled condition of the European markets due to inability of Big-Four to reach agreement on future of Europe will have a strong tendency to depress economic conditions in this country by discouraging the flow of American funds into potentially profitable investments abroad. Feels still too early to tell definitely whether much-publicized recession is really upon us.

For some months now, as we have pointed out in these columns before, the last time only six weeks ago, an economist for one of New York's largest banks has been spending much of his time comparing the business trends since the recent war with the business trends that followed World War I. Because of the interest which our readers have shown in his findings, we are again publishing here another article on the subject, bringing the data up to date and adding such explanations or comment as seem to us pertinent to the whole question under discussion.

Col. Leonard Ayres, economist for the Cleveland Trust Co., who died not so long ago, advanced a theory of the business cycle which postulated what he termed were "primary" and "secondary" depressions following every modern war. Businessmen, too, remembered from their own experiences what had happened in the business world in the early twenties and wondered whether history would repeat itself. The Ayres' theory, in a sense, is little more than a description of American economic development for the two decades following World War I. According to the Ayres' hypothesis, every war is followed by (1) a boom, (2) a "primary depression," (3) a relatively long period of city prosperity based on (continued) farm depression, and (4) a "secondary" or major economic collapse.

It was probably as much to test the validity of the claims being made by the theoreticians and others that a rather severe shakedown in prices and a general slowing up of activity in all fields of business were imminent—almost inevitably imminent, as it were—as the desire to capitalize on and otherwise to profit from the findings should they prove to be reasonably accurate that undoubtedly prompted the compilation by the instant economist of the necessary data and the comparison of the present figures with those for the years and months immediately following World War I.

The economist makes it clear that in his investigation he is giving careful attention to the cases underlying such trends as he believes he can detect. He is not, that is, consulting any crystal ball or slavishly following any theory even though, as stated above, he is entirely aware of what the late Col. Ayres has written on the subject. His approach to the problem is statistical and analytical. He believes psychology, as the word is sometimes loosely used, does influence the judgment and decisions of businessmen but he thinks that the psychological environment in which business operates is itself based on wholly objective considerations of the actual condition of the market. There is thus nothing mystical in what the economist is doing or saying though it may seem so.

The economist discovered early in his researches, as our readers know, that the correlation between current trends and the various patterns of business activity following World War I was very close, closer, in fact, than, in justice, as he figured it, he had any right to find it. This raised the question in his mind, as was pointed out in the last article (issue of March 20), whether there would be a repetition now of the two-year recession which got under way 20 months after the signing of the Armistice following World War I. If the timing were to be the same now as before, the much-publicized depression, it was figured, was to have gotten under way a week or so after Easter, that is, two or three weeks ago. The economist believes it is probably straining any theory too far to expect it to duplicate the same or similar conditions at exactly the same periodic intervals and he has stated that he is ready to continue considering present-day trends as being more or less identical to the trends after World War I even should the timing be delayed by as much as six months.

In certain significant fields of production and employment during the last three to four weeks, the economist has found notable declines, just as he had somewhat expected to find them. Perhaps it should be pointed out that this is not just a case of finding figures to illustrate a point or an instance of grasping at straws. The investigation has from all evidence been conducted on too high a level to suspect any such manipulation of convenient use of selected data. For instance, there has been a large decrease in the

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Grounds for Immediate Tax Relief

By HARRY E. HUMPHREYS, JR.*

Chairman, Government Finance Committee, National Association of Manufacturers
Vice-President, United States Rubber Co.

Mr. Humphreys, in presenting views of NAM, upholds House tax measure, and replies to criticisms against it. Says tax reductions should not be deferred, and debt reductions are possible along with tax reductions. Denies high taxes keep down inflation and refutes arguments House-passed bill is unfair tax measure. Stresses need for reduced taxes to expand savings and capital investment.

My remarks are divided into two sections. The first deals with some matters of general taxation doctrine and procedure, and the second deals with some of the specific criticisms that have been directed against H. R. 1, as amended.

Harry E. Humphreys

With respect to the more general aspects of the subject, I would like to point out that there is almost universal agreement on the proposition that the Federal tax rates are too high and must be reduced. The principal divergence of viewpoints has been on the time at which these reductions should be made. At least three different positions have been taken on this question by different individuals and groups. These positions are:

(1) Defer tax reduction until the present period of virtually full employment has ended; that is, when signs of a business recession are evident. Tax reduction made then, it is said, would stimulate business revival.

(2) Defer tax reduction until the entire field of Federal taxation can be reviewed and the most appropriate places can be discovered at which tax changes should be made. Advocates of this position say such a general review may prove that H.R. 1 as amended goes too far in the reduction of certain individual income taxes; a finding that would involve the trouble and embarrassment of later making some increases in individual income taxes.

(3) Proceed at once with the enactment of H.R. 1 as amended as a first step in the relief of taxpayers and then carry through with the more detailed study and revision of other features of the Federal tax system.

The National Association of Manufacturers supports the third of these positions, namely, that the Congress proceed now with the granting of such tax relief to individuals as is provided in H. R. 1. as amended.

Reductions Should not Be Deferred

Our analysis of the issues involved leads to a different conclusion as to the correct timing than that which has been expressed by Secretary of the Treasury John Snyder. The essence of the problem before the Congress and the country is the relation of

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*Statement by Mr. Humphreys, to the Senate Finance Committee, Washington, D. C., April 25, 1947.

Appraising the Stock Market

By COL. HERBERT G. KING

Member, New York Stock Exchange

Mr. King calls attention to economic, political and foreign situations and contends despite difficulties and disappointments, all have a bright star in their horizon.

The time has come for us to dispassionately take stock of the economic, political, and foreign situation and to appraise the stock market, while keeping an eye on impending events. During the last nine months the stock market has had a sizable drop and it has had to withstand some very severe shocks.

Col. Herbert G. King

Everywhere I go I am asked about the impending recession. Many businessmen have been frightened by the President's attempt to talk prices down and have been trying to protect themselves from his campaign to lower the prices of finished products while at the same time raising commodity prices and wages. When we add to this the effects of the strikes and shortages, it is no wonder that the poor average businessman is confused.

So many executives allowed themselves to be carried away by successful order taking during the war period, that they seem to have forgotten that business is always a struggle and that the basis of modern business is service. The aim must be to produce more and sell for less. The inexorable law of supply and demand will do more for prices than any campaign of the President's. Therefore, the companies run by the ablest businessmen are going to be the most successful and when appraising the probable course of the stock market, this must be constantly kept in mind. Without doubt we shall have a very selective market for some time and all companies will not benefit equally.

Era of Strikes Ended

Anyone, except a few very small time labor leaders, can see that the era of strikes has come to a close. Strikes are no longer profitable. The public is fed up with them and the strikers are beginning to realize that they are losing more than they gain. The telephone strike is a good example of the futility of unenthusiastic strikers ever hoping to get anywhere without the sympathy of the public. The wise leaders like Lewis, Green, and Murray know that Congress has at last been goaded into preparing a labor bill that will once and for all put an end to the abuses of labor. Their main fear, at the present time, is that President Truman, much against his will, may be jockied by the strikers, into a position where if he vetoes the Labor Bill, it would mean his political suicide.

The President has enjoyed seeing his political stock rise during the last three months. The three

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Reciprocal Trade—A Consistent Bi-Partisan Policy

By HON. W. AVERELL HARRIMAN*
Secretary of Commerce

Secretary Harriman quotes late President McKinley in support of Administration's Trade Agreements Program. Calls it a consistent policy, and asserts tariff reductions will be carefully watched to avoid adverse effect upon American industry. Points out importance of both larger exports and imports to nation's welfare.

I should like to preface my remarks by recalling the words of a far-sighted American:

"... A system which provides a mutual exchange of commodities is manifestly essential to the continued and healthful growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy little or nothing.... We should take from our customers such of their products as we can use without harm to our industries and labor. Reciprocity is the natural outgrowth of our wonderful industrial development under the domestic policy now firmly established. What we produce beyond our domestic consumption must have a vent abroad. . . .


W. Averell Harriman

"The period of exclusiveness is past. The expansion of our trade and commerce is the pressing problem. Commercial wars are unprofitable. A policy of good will and friendly trade relations will prevent reprisals. Reciprocity treaties are in harmony with the spirit of the times."

The far-sighted American from whom I have quoted was President McKinley in his last speech, made in Buffalo on Sept. 5, 1901, shortly before his assassination. I feel that his words have even greater meaning today, and they express my own views on the im-

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*Basic statement of Secretary of Commerce W. Averell Harriman before House Ways and Means Committee investigating trade agreements program, Washington, D. C., April 28, 1947.

Our Opportunities In World Commerce

By WILLIAM C. FOSTER*
Under Secretary of Commerce

Commerce Department spokesman stresses postwar growth in volume of foreign trade, but points out need for larger imports to balance dollar payments. Says only practical limit to our exports is supply of dollar exchange, which cannot indefinitely be supplied by government lending, gifts and investments abroad. Favors importing basic raw materials and search for new marketing and distribution methods for imports. Expresses confidence in success of Geneva Trade Conference.

You men in the business of importing are engaged in activities of vital importance to our national welfare and the welfare of the world. The business interest of importers is now hitched to world peace and prosperity as closely as that of any other group in the United States. How well your business expands in the years to come will be a critical index of the economic and political health of the entire world.


William C. Foster

The record of American importers' groups testifies that you are aware of the tremendous importance of an expansion of multilateral world trade. Through your organizations, you have supported all constructive efforts which have been made to reduce obstructions and uncertainties which serve to choke off trade. Your outspoken support of future and pending measures, such as the International Trade Organization, will be indispensable if they are to succeed.

The story of our international transactions for last year, and prospects for the current year reveal in powerful terms the importance of increasing our imports. In 1946, we exported a total of $15.3 billions worth of goods and services. On the other side of the ledger, we imported a total of $7.1 billions worth of goods and services. The difference, the gap, between our exports and our imports, amounted to $8.2 billions, which we closed by gifts, public and private, of more than $3 billions, by loans of three billion, and by drawing down foreign dollar balances and sales of foreign assets in this country.

The latest information of the Department of Commerce indicates the following prospects for 1947: we will export at least $16 billions of goods and services. We

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*An address by Under Secretary Foster before the National Council of American Importers, New York City, April 22, 1947.

Irving Fisher Dies at 80

Well known economist succumbs in New York on April 29. Had proposed reform of currency over long period of years and many of his articles were published in the "Chronicle."

Dr. Irving Fisher, internationally-known economist and statistical expert and for many years Professor of Political Economy at Yale University, died in New York on April 29 at Gotham Hospital. Dr. Fisher was 80 years old.


Prof. Irving Fisher

Irving Fisher, long a champion of the commodity dollar and other currency and banking reforms, was also an ardent advocate of world peace organization and public health improvement. He was a prolific writer, and his contributions have from time to time appeared in the "Chronicle." His last contribution, an address at the Yale Club, New York City, on the occasion of his 80th birthday, appeared in the issue of March 13.

John Broderick Made Doremus Co. Director

John P. Broderick has been elected a director of Doremus & Company, advertising agency, 120 Broadway, New York City, according to announcement by William H. Long, Jr., President. Mr. Broderick is Vice-President of the agency and is in charge of the public relations and news division. He was formerly a member of the news staff of Dow, Jones & Co. and was one of the editors of "The Wall Street Journal." Mr. Broderick, a graduate of the University of Minnesota, obtained his early training in the Middle West. He was publicity director for the Victory Fund Committee in the Second Federal Reserve District during the Second War Loan Drive.

In 1939-40 Mr. Broderick was President of the New York Financial Writers Association and was President of the New York professional chapter of the journalistic fraternity, Sigma Delta Chi, in the same year.

Rufus Waples & Co. Admits Crouse As Partner in Firm

PHILADELPHIA, PA.—Rufus Waples & Co., 20 South Fifteenth Street, have admitted Jacob H. Crouse to limited partnership in the firm. Mr. Crouse has been manager of the Frankford office of the firm since 1931.

U. F. E. Seeks Collective Bargaining Rights for Employees of Drysdale & Co.

By EDMOUR GERMAIN

Mayor's Committee, headed by Grover Whelan, seeking to resolve Wall Street's labor disputes, settles another argument between U. F. E. and New York Stock Exchange and New York Curb Exchange over what is to happen to employees of Exchanges who resigned from union after contracts with the Exchanges expired. Financial Employees' Guild, CIO, wants U. F. E. to join it in protesting to Congress against so-called anti-labor bills.

Another disagreement flared up this last week between the United Financial Employees, AFL, and the New York Stock Exchange and the New York Curb Exchange, but the Mayor's Committee, headed by Grover A. Whelan, which has been seeking to find ways and means of resolving Wall Street's labor disputes of the present time, put its collective heads together and found a basis for solution. The disagreement evolved around what was to happen to the employees of the two Exchanges who chose to drop their membership in the union following the expiration of the union's contract at midnight Sunday, April 20.

It will be recalled that the union canceled its contracts with the Exchanges as of that date because of another dispute it had with A. M. Kidder & Co. arising out of negotiations for a first contract. The union had intended to call a strike against the Exchanges as well as A. M. Kidder & Co. to force A. M. Kidder & Co. to sign a contract more or less on the union's terms. The Mayor's Committee found a basis of settlement in the A. M. Kidder & Co. dispute, as reported in these columns last Thursday. The firm, that is, agreed to limited arbitration of the wages issue. The arbitrator who was to have been named by last Thursday night has still to be named, but it is understood he will be picked by tonight. The firm said that the arbitrator could raise wages to the aggregate of not more than $25,000 a year for the whole firm, including those to whom raises have recently been granted by the firm. The arbitrator is to say who gets the money and how much, but across-the-board increases are barred.

Coleman Attends Meeting

Tuesday afternoon last (April 29), the Mayor's Committee met with Emil Schram, President of the New York Stock Exchange; John A. Coleman, Chairman of the Board of Governors of the same Exchange; Francis Adams Truslow, President of the New York Curb Exchange, and representatives of the union at the City Hall to try to iron out the new difficulty which had arisen. Representatives of A. M. Kidder & Co. were also present as the Committee had hoped to consult them on the selection of an arbitrator for their own wage issue, but they were dismissed when it became evident that the Committee would have all it could to settle the new disagreement connected with the Exchanges.

The Exchanges couldn't see why employees who had taken advantage of the expiration of the contracts to resign from the union should be compelled any longer to pay dues to the union. The Exchanges deduct dues from the pay of unionized employees, according to the contracts. At the time of the A. M. Kidder & Co. settlement Tuesday night, April 22, the

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Public Utility Securities

Public Service Co. of New Mexico

Federal Light & Traction, a sub-holding company in the Cities Service System, over a period of years has disposed of a large number of its properties. Finally the four principal remaining subsidiaries, all located in New Mexico—Albuquerque Gas & Electric Company, New Mexico Power Company, Las Vegas Light & Power Company and Deming Ice & Electric Company—were merged last fall into Public Service Company of New Mexico.

Federal Light & Traction last September filed a dissolution plan with the SEC under which it proposed (1) to retire its $6 preferred stock at $100 plus any dividend accruals; (2) to give preferred stockholders "stubs" for the $10 redemption premium (in case the SEC or the Courts should grant it) leaving cash in escrow to cover the liability; (3) organize the Federal Liquidating Corp. to take over miscellaneous assets and assume all remaining liabilities of Federal Light; and (4) distribute to the holders of each share of its own common stock one share of Public Service of New Mexico, one share of Federal Liquidating Corp., and $11 cash. As holder of 64.7% of Federal common stock, Cities Service Company would receive 339,639 shares of Public Service of New Mexico, and the same number of Federal Liquidating shares; the former stock would be disposed of at some later date.

It was reported that time that net income of Public Service of New Mexico for the 12 months ended July 31 was $1.20 a share. No report has been published for the calendar year 1946, but an analysis of the consolidated report of Federal Light & Traction seems to indicate earnings of $1.30 a share for the New Mexico company. At the recent stockholders' meeting of Federal Light & Traction, President Nichols estimated that the new company would earn at the rate of $1.47 in 1947, and might be expected to pay dividends of $1 per share.

Public Service of New Mexico assumed four issues of first mortgage 3½% bonds due 1968 which had all been issued in 1941 by the merged operating companies (all held by the John Hancock Mutual Life Insurance Company), the total amount approximating $5,500,000. These various divisional bonds would probably be converted into a single first mortgage issue presumably with a lower interest rate. Last November President Prager told the SEC that his company would need $4,000,000 for improvements in 1947-48. At that time he was uncertain whether they would merely issue more bonds or whether to refund the old bonds at the same time, with competitive bidding for the increased issue. On Dec. 30 the company asked permission to borrow $1,000,000 for construction requirements on a 2% nine-months promissory note and this was approved in February.

Last November the four principal communities served by the company asked the SEC to postpone liquidating proceedings for three to six months so that they could formulate a plan for acquiring the entire stock of the company. The SEC denied a request that the Nov. 18 hearing be adjourned for six months and gave the communities two weeks to present their views. No further news of this development appears available, though perhaps it may account for the delay in the granting of final approval by the SEC.

It is difficult, in the absence of an official report for the new company, to describe its exact set-up. The consolidated 1946 report of Federal Light & Traction may include some figures for small miscellaneous properties which will be taken over by the Liquidating Company. However, such amounts would probably not be very large. The consolidated plant account, including intangibles (at cost or at original cost as approved by the state regulatory commission) amounted to $14,562,000 and the depreciation reserve to $2,309,000. Operating revenues for 1946 included $2,878,000 electric, $1,230,000 natural gas, $292,000 water, and $28,000 ice—total, $4,428,000. Net income approximated $685,000, it is estimated.

Federal Light & Traction is currently quoted around 22 on the New York Stock Exchange. According to President Nichols the stock of the Liquidating Company would be worth about $1. Deducting $11 cash and the $1 for liquidating stock would leave $10, indicating $10 value for one share for the Public Service of New Mexico. Assuming that the estimated earnings of $1.47 and the $1 dividend rate should prove correct, this would indicate a price-earnings ratio of about 6.8 and a yield of 10%. There is, of course, no "when issued" market as yet for the stock.

COMING EVENTS
In Investment Field

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

May 15, 1947 (Washington, D. C.)
Dinner Meeting of Association of Stock Exchange Firms—to be addressed by Edward Hopkins, Jr., Drexel & Co., President of the IBA, and Emil Schram, President of the New York Stock Exchange.

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

June 6, 1947 (Baltimore, Md.)
Bond Club of Baltimore Annual Field Day and Outing at the Elkridge Club.

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

June 6, 1947 (Toledo, Ohio)
Bond Club of Toledo 13th Annual Golf Outing at Inverness Country Club.

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 16-17, 1947 (Cincinnati, Ohio)
Municipal Bond Dealers' Group of Cincinnati Spring Party.

June 20, 1947 (Milwaukee, Wis.)
Milwaukee Bond Club annual picnic at Merrill Hills Country Club, Waukesha County, Wis.

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

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.

Nov. 30-Dec. 6, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention.

Expect Agricultural Price Drop!

By H. S. CHERRY*

Vice-President, Lionel D. Edie and Co., Inc., New York City

Asserting agricultural prices no longer have expanding money supply to bolster them, and manufactured products are competing for larger share of consumer's dollar, Mr. Cherry predicts price decline in foods, farm lands that may be temporarily severe. Warns banks against agricultural loans for purpose of increasing farmers' land holdings but upholds loans to raise man-hour productivity. Sees possible drop in farm product prices of from 25% to 30%.

The prices of most agricultural products are too high and ought to come down. It is my theory and my faith that they will come down and soon. This broad statement is made in all due modesty and full realization of the hazards of prediction. But about all one can do in this life is to give careful study to what is right and go ahead without equivocation and hedging, which is designed to protect the speaker rather than to contribute to the thinking of the audience.

H. S. Cherry

Why are agricultural prices too high? They are too high because they take too much of the consumers' income. Before the war, in 1939, agricultural products took 8.5% of national income. Now they take 12.7%. They are consuming 50% more of the national income than they used to. National income, as you know, is all payments, wages, salaries, dividends, etc., received by individuals. The disparity would be still greater were we to use national income after taxes. $7.3 billions more money is going to the producers of farm commodities than they would receive as their prewar proportion even if total national income remained at today's high level. Since 1939, these products have enjoyed a price advance of an average of 178%. In other words, they are selling 2.75 times prewar. It happens that they have advanced about as much as the money supply has increased.

Price of products, other than farm and foods, have risen only 65%. Income on the farms is up 260%, but national income only 145%. National income includes swollen farm income. Again the disparity would be even greater if we took only non-farm income and compared it with farm income. We are trying to state the situation in an ultra-conservative manner. This is one of the most striking examples of favoritism of fate in the history of economics. One can only imagine what would if the shoe were on the other foot and the farmer were on the paying end instead of on the receiving end of such disproportions. The farmer would be screaming for

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*A paper presented by Mr. Cherry at the Pacific Northwest Conference of Banking, Pullman, Wash., April 20, 1947.

Bullish Factors Accumulating!

By LAWRENCE KLYBERT

With Josephthal & Co., Members New York Stock Exchange

Stock market analyst points out, on basis of earnings yields, and prospects, today's common stock prices are lower than at any time in last 20 years. Looks for discounting of good news all in a rush.

I look for a pronounced reversal of the market's downtrend to get under way very soon. True, the market has ignored numerous pieces of good news, and has shown little disposition to anticipate further constructive factors such as Congressional legislation now pending, to revise the Wagner Labor Act, and also to reduce taxes substantially. However, the large accumulation of good news now backing us up may be discounted all in a rush, as has frequently happened before. An example of that is 1938, when the thick gloom prevailing in the spring was dissipated with a rush upward in the Dow Jones Industrial, Rail and Utility Averages of 45% to 50% by mid-summer.

At this point, it may be worthwhile to **note the extraordinary contrast between current business conditions, profits, and prospects, and those of ten years ago,** as revealed by scanning a few **newspaper headlines of the spring-summer of 1938.** These follow:

March 1, 1938: New Deal must revise policies, says Baruch, if business is to rise. — **(Now being revised.)** Steel operations at 29.3% of capacity.—**(Now close to 100%).** Supreme Court upholds closed shop.—**(Labor legislation now in Congress to eliminate closed shop agreements.)** Domestic copper price 9 cents a pound.—**(Now 21c** price 9¢ a pound.—**(Now 21½¢ a pound.)**

March 2 to 9: General Motors lone auto firm in black in first quarter.—**(Now all in black.)** Pres. Avery of U. S. Gypsum sees little hope of building revival in 1938.—**(Building and construction industries now facing several years of exceptional activity.)** Oil firms' first quarter-1938 profits hit hard by low prices. — **(Oil firms now enjoying high profits, demand, prospects.)** Exchange suspends Whitney. (That sort of thing out for good.)

March 12 to 26: Facing deficits, railroads seek wage reductions.—Steel production rises to 32.1% of capacity.—John L. Lewis says Labor must recognize Capital's right to just profits — Selling wave breaks world markets as international tension increases. — Steel wage cuts weighed as basis for lower prices. — Labor sobered by lay-offs. — Cumulative effects of margin calls regarded as main impetus in stocks decline. — **(The contrast of current conditions with those indicated by these headlines, is obvious.)**

March 28, 1938: Anaconda Copper, as an example, reported 1937 net profit of $3.65 a share, — **had** $66.6 millions of funded debt — had net working capital of $79 million; paid $1.75 in dividends; (earned $1.17 in 1938 and paid 50¢ dividend); sold as high as 69½ in 1937; 42⅛ in 1938. — **(Currently, Anaconda** earned $3.11 in 1946, paid $2.50; and for 1947 is expected to earn over $7½, and pay about $4.00. **Funded Debt** has been entirely eliminated;—Net Working Capital is well over $170 million. Price range this year, 42 high,

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Abundant Farm Production with Surplus Food Allotments

By HON. CLINTON P. ANDERSON*
Secretary of Agriculture

Agriculture Department head urges floor be put under food consumption as well as under prices and advocates buying of surpluses, a surplus food allotment program, and special marketing programs at home and abroad. Wants scientific knowledge applied to agriculture and holds it should be adjusted to other segments of the economy.

As my contribution today I want to outline what I believe to be the one practical policy for American agriculture—a policy of organized, sustained, and realistic abundance. I want to show you the opportunity we have now, at long last, to establish and maintain a balance between consumption and the sound capacity output of our agricultural plant. This is an opportunity not only to serve the general welfare but also, and not incidentally, to serve the best interests of United States farm people.

Clinton P. Anderson

In order to show you this opportunity for a balanced program, it will be necessary for me to cover three points: (1) how much food and fiber we need or can reasonably expect to use, (2) what those needs mean in terms of farm acreage and types of farming, and (3) what programs may be needed to help maintain balance between commodity requirements and production.

How Much Food Is Needed?

Now, how much food and fiber do we need?

I have looked at that question from a number of different angles, and the answer I get each time is that we need more than we have ever had. Look at it from the nutritionist's standpoint, and it's clear that many people need greater farm production in order to have adequate diets. Look at it from the standpoint of economics, and you see both potential markets and productive power which would, if brought together, mean profitable exchange and an expanding economy. Look at the question from the standpoint of actual experience in wartime when consumer buying power was generally high, and it is clear that people are willing to buy, when they have the money, more agricultural goods than they have ever bought. For the sake of brevity and practicality, let us put aside the matter of what we *ought* to have—either for good diets or good business. Let us look at the

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*A statement by Secretary Anderson before the House Committee on Agriculture, April 21, 1947.

No Sharp Drop in Food Prices

By J. A. GUTHRIE*
Professor of Economics, State College of Washington

Prof. Guthrie, though stating agricultural prices are too high, contends they are not likely to decline substantially because of high consumer's purchasing power, heavy foreign demands, and use of parity price support. Foresees large 1947 crops.

It is generally agreed that agricultural prices are too high and that they are slated to come down. Farmers realize that the prices of their products are abnormally high compared with those of other commodities. Agricultural economists are warning the farmers to prepare for lower prices. This view, I believe, is sound.

J. A. Guthrie

How far are farm prices out of line? The year 1939 is frequently used as the basis for comparing the relative rise in prices and incomes in recent years. Although that date is reasonably satisfactory for most commodities, it is not a particularly good bench-mark for measuring the rise in agricultural prices. In that year farm prices were considerably lower than those of other commodities judging by the level of prices during the 1920's, a period in which we generally consider business as a whole was relatively good and in which the farmer was not particularly well off. Using 1926 as a base—probably a better year on which to base a comparison—the Bureau of Labor Statistics shows that in 1939 farm prices were 12% lower than general wholesale prices. However, compared with 1926—or even with 1910-14, a period still more favorable to the farmer—farm prices are still too high at present.

Granted this fact, the important questions are, when and how far will they fall. For some time now we have expected that prices must drop, but they have not. In fact, since the beginning of 1947 they have risen about 10%. What are the basic factors determining the level of farm prices? The principal ones would seem to be the following: (1) total purchasing power available to the consumer; (2) the percentage of that income the consumer chooses to spend on farm products rather than on other commodities; (3) the available supply of agricultural products in relation to consumer wants, and (4) the foreign taking of farm products.

As yet I see no clear evidence of an immediate decline in consumer purchasing power. Many economists and businessmen believe that by the second half of 1947 purchasing power in the hands of consumers will have diminished. But barring a widescale renewal of labor troubles or some unforeseen contingencies, I believe that consumer income will remain high during the present year. This will tend to prevent farm prices from sagging. A de-

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*Paper presented by Prof. Guthrie at Pacific Northwest Conference on Banking, Pullman, Wash., April 20, 1947.

Building in 1947

By GUY T. O. HOLLYDAY*
President, Mortgage Bankers of America

Prominent mortgage banker asserts in 1948 building industry should begin absorbing backlog and builders will be busy for several years thereafter. Says present bottleneck is lack of balance in available materials.

With regard to building, there seems to be a general belief that residential construction in 1947 should be sufficient to take care of the current demand, and that beginning in 1948 the building industry should start eating into the large backlog, which would keep builders busy for several years; that is, for builders who give full value for the price of their product. By full value I do not mean houses that are now standing empty all over this country because they were built under the handicap of OPA restrictions, and the builders, in order to complete them, went into the black market, with the result that the sales prices were entirely out of line with fair value.

Guy T. O. Hollyday

In contrast, let me refer, for example, to one hundred houses now being completed in the Baltimore area, the builder being the local outlet for American Houses, Inc. These houses are prefabricated at Allentown, Pennsylvania, about 75 miles distant. The truck unloads the houses in the morning, and by evening the sheathing has been placed on the rafters to afford protection from the weather. Plumbing, heating and electrical equipment is purchased locally. These are two-bedroom cottages, permitting a future bedroom on the second floor, two space heaters, composition roof, asbestos shingle exterior, that sell for $6,700 including a $700 lot, erected by Union labor. The builder figures that there is no particular saving in the purchase of materials, but that there is a great saving in time by having all of the materials necessary to complete the house on the job the day that it is started. As a result, the average house is ready for occupancy in 30 days from the date of beginning. My own company has financed some 500 of these houses, dating back to 1939, and the results in each case have been most satisfactory to all parties concerned.

*Extracted from an address by Mr. Hollyday before the Texas Mortgage Bankers Association, Galveston, Texas, April 10, 1947.

Future Real Estate Prices

By GEORGE GOLDSTEIN*

Appraiser analyzes factors in real estate valuation for long-term lending purposes and contends, although there will be a slight slide-off of value in 1948, with sound economic conditions the outlook through 1955 is good. Sees no immediate prospect of lower building costs and thinks rents of apartments will be increased with higher net income for this type of property. Says life insurance companies are expanding investments in real estate equities.

In order to intelligently place a mortgage on a real property, it is essential that the appraiser or loan officer be able to determine the fee value of the property. The fair market value of income properties can most accurately be portrayed by the capitalization of the net income produced by the property. Capitalization rates are merely the factor for translating a future flow of net income into fee value and so that we understand each other, suppose we check this factor before we apply it to specific problems. Capitalization rates consist of the sum total of four basic component items:

George Goldstein

(1) The Return on U. S. Government Bonds.

(2) A Charge for Non-Liquidity.

(3) A Charge for Management.

(4) A Charge for the Risk Hazard.

(1) **Long-term** government bonds are available at a return of approximately 2½%.

(2) **The Non-Liquidity element** represents the difficulty in disposing of real estate. As the demand for a particular type of real estate increases or decreases so does this item assume less or greater importance. In a rising market and with increased demand — non-liquidity may not represent a charge of more than ½%—and this would be true of 100% commercial locations at this time—but we can all remember a period not too long ago when real estate investments were not too attractive and the only way they could be sold were on unusual terms. So the careful and prudent appraiser gives full weight to this item.

(3) **Management**—This element may be a very small one where the property is in a 100% location and occupied by a single tenant—such as, a Woolworth, a Kresge, a Bamberger or a Gimbel net lease. On the other hand, if the property is occupied by more than one tenant or is located in an area undergoing change (and most areas are in a fluid condition) this management feature can represent a substantial amount of supervision and work. Even under the most advantageous situation, this item should add not less than ½% to the capitalization rate. We can still remember good sound tenants going to owners in 1932-1933 and asking to be relieved of their obligations under the terms of their leases—at the threat of going through bankruptcy proceedings and disavowing their obligations.

(4) **The Risk Hazard** — This item is the most difficult to determine for it may vary from 1% to 5% or 6% and may be equivalent to the total of the other three items enumerated. Fine locations with good tenants occupying the premises and guaranteeing the payment of the rent reflect small risk and may be set down as low as 1% for the risk item. On the other hand, a new inexperienced industry occupying a two or three story factory or waterfront industrial property might reflect a risk item of 6%.

The Capitalization Rate

The capitalization rate may, therefore, vary from 4½% as a minimum to a maximum of 15%. Property requiring capitalization rates in excess of 15% represent such hazards that they should be handled as a commercial banking risk rather than capitalized on a flow of income basis. One other explanation before we apply these rates—by net income, I mean aft-

(Continued on page 23)

*An address by Mr. Goldstein, an Appraiser and Realtor of Newark, N. J., before the Eastern Mortgage Clinic of the Mortgage Bankers Association of America, New York City, April 15, 1947.

Dealer-Broker Investment Recommendations and Literature

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

Bank and Insurance Stock Digest—Discussion of yields—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Also available is the **Insurance Stock Analyzer** as of Dec. 31, 1946.

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

Industrial America — Brochure listing securities in various industries, indicating trends and outlook—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Also available is a **Graphic History of Industrial America** since 1849.

Public Utility Common Stocks —Brief sketches of 10 stocks set up in "package" form—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Also available is a monthly statement of income for the 10 stocks.

Railroad Developments of the Week—Current developments affecting the rails—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a discussion of **Missouri Pacific System Bonds.**

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

Also available is a valuation and appraisal of **City of Philadelphia Bonds.**

When Is the Time to Stop Selling?—Current letter on securities market and business outlook—Hess, Blizzard & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

American Radiator & Standard Sanitary Corp. — Analysis — Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

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

Also available are memoranda on **W. L. Douglas Shoe Co.; Hartford Empire; Lanova Corp.; Mohawk Rubber; and Taylor Whartson Iron & Steel; Purolator Products; Upson Corp.; Alabama Mills; Pfaudler, Corp.; United Artists; Vacuum Concrete; Barcala Mfg.**

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

Central Public Utility Corp.—Memorandum—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Central and South West Corp.—Detailed memorandum and summary—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Also available are memoranda on **Mobile Gas Service Corp., National Fuel Gas Co., Northern Indiana Public Service Co.,** and Public Service Co. of Indiana.

Columbian Carbon Co.—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

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

Continental Casualty Co.—Detailed memorandum — William Blair & Co., 135 South La Salle Street, Chicago 3, Ill.

Also available is a comparative table of 10 largest stock casualty insurance companies.

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

Doehler-Jarvis Corp. — Memorandum—Bear, Stearns & Co., 1 Wall Street, New York 5, N. Y.

Finch Telecommunications, Inc. —Analysis and literature prepared by the company descriptive of the product—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Also available for dealers only are a list of active industrial stocks.

Fort Wayne Corrugated Paper Co. common stock — Descriptive brochure—David A. Noyes & Co., 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.**

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

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.

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

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

Philadelphia Transportation Co. —Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **H. H. Robertson Co.** and **Eastern Corp.**

Pittsburgh, Canonsburg & Washington Railway Co.—Discussion of speculative possibilities — H. M. Byllesby and Co., Stock Exchange Building, Philadelphia, Pa.

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.

Tennessee Products & Chemical Corp. (formerly Tennessee Products Corp.)—Memorandum — Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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

Tide Water Power Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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

L. H. Brown Optimistic On Wage-Price Outlook

Despite current changes in the buying power of the dollar, the great majority of Americans will find their position better than in the past, Lewis H. Brown, chairman of Johns-Manville Corporation, predicted at "an Informal Stockholders' Meeting" in the Hotel Roosevelt in New York City April 24.

Lewis H. Brown

"In World War II, factory hourly wages have risen 83% or just about the same amount as the cost of food, up 85%, and finished goods, up 77%," said Mr. Brown. "As we all know, wages are still rising and the current wave of increases may well push the figure up to 95 or 100% greater than 1939," he continued.

"The period of stabilization will bring some decline in prices. Since there has been less general inflation this time than in the last war, prices (including food) will not be deflated as they were then. Indications are that wages will be deflated very little if at all. Therefore, as prices come down, the buying power of the factory worker will increase although not as much as after World War I."

"We do not yet know just where prices will be stabilized," Mr. Brown concluded, "but we believe that in spite of the changing buying power of the dollar, 90% of the American people are now and will continue to be relatively better off than in the past."

John E. Wheeler Opens Own Investment Office

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF.—John E. Wheeler is engaging in the securities business from offices at 629 South Spring Street. Mr. Wheeler was formerly with Turner-Poindexter & Co. He is a member of the Los Angeles and Chicago Stock Exchanges.

Earle W. Tate With Detmer & Co., Chicago

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL.—Earle W. Tate has become associated with Detmer & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Tate was formerly an officer of the Commonwealth Investment Corp. In the past he conducted his own investment business in Chicago.

With Merrill Lynch Firm

Special to THE FINANCIAL CHRONICLE

OAKLAND, CALIF. — W. F. Smith has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 1319 Franklin Street.

Leadership—Obligation of Business Management

By HENRY FORD, II*

President, Ford Motor Company

Leading manufacturer contends rights in a democracy have obligations, and right to free enterprise entails responsibility of leadership. Says business must aim for higher living standards and better sense of partnership with the American people. Stresses human relations in industry and expresses confidence American industry will devote its traditional enterprise and energy in setting pattern of life under human freedom.

I am very happy to be here.

For several reasons I feel very much at home. Many of the members of the Chamber of Commerce of the United States are manufacturers who make parts and materials for Ford cars and trucks. More than 3,300 of our dealers belong to Chambers of Commerce in communities throughout the United States.

Henry Ford, 2nd

The extent to which all of us as businessmen depend on each other is not, I think, fully realized by the American people. The Ford Motor Co., for example, relies on nearly 6,000 other companies for the materials, supplies, parts, and services which keep us going, and on almost 8,000 other enterprises to distribute our products.

What I would like to discuss with you this evening are certain problems which I believe we all have in common.

There probably never was a moment in history when people everywhere wanted so very much to get along with one another as they do now. We all want peace —now and for all time. We are all very conscious of the new and terrible power of atomic energy, and of the horrible consequences of another world war.

We want better understanding and greater unity at home, too. We see the costs of domestic discord. We realize that we have scarcely scratched the surface of what united effort by and for a free people can do when we remember what we accomplished in our war effort.

I think, also, we all feel that peace at home and peace abroad are related. We know that if America is to be strong enough to carry its new responsibilities for peace throughout the world, we must be united and productive at home.

If progress is to be made toward the great future that can be achieved for all people, we know

(Continued on page 51)

*An address by Mr. Ford at Organization Night Dinner of 35th Annual Meeting of the U. S. Chamber of Commerce, Washington, D. C., April 29, 1947.

NSTA Notes

NSTA MUNICIPAL COMMITTEE & REPRESENTATIVES

The following is the complete list of Municipal Committee and local representatives of the National Security Traders Association for the current year:

Ludwell & Strader, Chairman, Scott, Horner & Mason, Inc., Lynchburg, Virginia; Stanley G. McKie, Vice-Chairman, Weil, Roth & Irving Co., Cincinnati, Ohio; H. Frank Burkholder, Equitable Securities Corp., Nashville, Tenn; Harold R. Chapel, McDonald-Moore & Co., Detroit, Mich.; Russell M. Ergood, Jr., Stroud & Company, Inc., Philadelphia, Pa.; J. Creighton Riepe, Alex. Brown & Sons, Baltimore, Md.

Local Municipal Representatives

James W. Means, Trust Co. of Georgia, Atlanta, Ga.; Gustave Klein, Mead Miller & Co., Baltimore Md.; F. Brittain Kennedy, F. Brittain Kennedy & Co., Boston, Mass. Edward B. Wulbern, R. S. Dickson & Co., Inc., Charlotte, N. C.; Don. G. Miehles, Wm. Blair & Co., Chicago, Ill.; Neil Ransick, Chas A. Hinsch & Co., Cincinnati, Ohio; Joe B. Warren, Dallas Rupe & Son, Dallas, Texas; Charles C. Bechtel, Watling, Lerchen & Co., Detroit, Mich.; Andrew L. Tackus, Putnam & Co., Hartford, Conn.; Lewis Pollock, Eddleman-Pollock Co., Houston, Texas; John F. Kelsey, Wm. R. Staats Co., Los Angeles, Calif.; P. M. Conway, Bankers Bond Co.; Louisville, Ky.; R. Wendell Spragins, R. W. Spragins & Co., Memphis, Tenn.; Oscar M. Bergman, Allison-Williams Co., Minneapolis, Minn.; Q. R. Ledyard, J. C. Bradford & Co., Nashville, Tenn.; J. William Roos, MacBride, Miller & Co., Newark, N. J.; J. Wallace Kingsbury, Kingsbury & Alvis, New Orleans, La.; J. Monroe Alleman, Leedy, Wheeler & Alleman, Orlando, Fla.; Ellwood S. Robinson, Phillips, Schmertz & Robinson, Philadelphia, Pa.; Silas J. Titus, Phillips, Schmertz & Robinson, Pittsburgh, Pa.; Charles N. Tripp, Jr., Chas. N. Tripp Co., Portland, Ore.; Mark A. Smith, F. W. Craigie & Co., Richmond, Va.; E. Kenneth Hagemann, G. H. Walker & Co., St. Louis, Mo.; Harvey J. Franklin, American Trust Co., San Francisco, Calif.; Donald A. Meyers, Foster & Marshall, Seattle, Wash.; Carl F. Bargmann, Braun, Bosworth & Co., Toledo, Ohio; Harry J. Peiser, Ira Haupt & Co., New York, N. Y.

SECURITY TRADERS ASSOCIATION OF NEW YORK

The Security Traders Association of New York, Inc., held their 11th Annual Dinner last Friday evening, April 25, at the Waldorf-Astoria.

A gala show was presented and more than 1,500 members and guests attended coming from all points of the United States and Canada. Many distinguished gentlemen attended as honored guests of the Association.

Michael J. Heaney of Joseph McManus & Co., President of the Traders Organization presided, and Leslie Barbier of G. A. Saxton & Co., Inc. was Chairman of the Arrangements Committee.

Pennsylvania Brevities

Philadelphia Electric to Spend $200,000,000

Horace P. Liversidge, President of Philadelphia Electric Co., told stockholders at the annual meeting that the company's expansion program had been revised upward to cost an estimated $200,000,000 over a five-year period. Latest plans call for a new 165,000 kilowatt unit for the northeast Philadelphia plant.

In commenting on the method of financing the expansion program, Mr. Liversidge stated that approximately $40,000,000 is available from the 1946 financing, that about $75,000,000 will be available from reserves, earnings and general cash and the remaining $85,000,000 will be obtained from new permanent financing. "We anticipate that none of the new money will be needed this year or the next, but in all likelihood will be required during the three years 1949 to 1951," he said.

Mr. Liversidge reported that earnings are holding at about the levels of the corresponding 1946 period. The company reports each quarter on a 12 months' basis. After dividends on the preferred and preference stocks, earnings for the period ending March 31, 1947, were reported as $1.68 per common share.

* * *

Huge Mortgage Loan Potential

Samuel A. Green, President of First Federal Savings & Loan Association and Chairman of Federal Savings & Loan Group of Philadelphia and vicinity, foresees a GI home loan market of possibly $12 billion in the Philadelphia area.

There are approximately 300,000 veterans of World War II in the area, he points out. Of these he considers 200,000 as potential home buyers. "Even if the estimated $12 billion mortgage market were to be stretched over a period of 10 years," he said, "it would mean a yearly increase in mortgage lending of $1,200,000,000, a sum far greater than the mortgage financing industry of Philadelphia has ever experienced."

"The paramount task of our Federals in the coming year will be to promote the thrift and saving habits of the general public," he said, "and to acquaint financial institutions, fiduciaries and other enterprises with the feasibility of investing funds in Federals."

* * *

Lehigh Coal & Navigation Co.

Although first quarter earnings were sharply reduced by a strike, Robert V. White, President of Lehigh Coal & Navigation Co., told stockholders at the annual meeting that operations in March, after the strike ended, were sufficient to bring three months consolidated net to $294,960. This compares with $652,000 in the similar 1946 period. Mr. White estimated that 1947 results would probably be about the same as 1946, when consolidated net was $2,701,535. It was announced last week that the company has arranged to borrow $3,500,000 from a banking group headed by Philadelphia National Bank. The loan is at the rate of 2½% up to Dec. 31, 1949, and at 2¾% thereafter until 1951.

* * *

Customers' Brokers Club of Phila.

William H. Arnold, Eastman, Dillon & Co., has been elected President of Customers' Brokers Club of Philadelphia. Henry H. Hallowell, Sulzberger & Co., was elected Vice-President and R. G. Sinclair, Secretary and Treasurer.

Those elected to the Executive Committee were: J. Shipley Dixon, Brown Bros. Harriman & Co.; H. H. McKiernan, Reynolds & Co.; Loring Dam, Eastman, Dillon & Co.; Hibberd W. Roberts, Merrill Lynch, Pierce, Fenner & Beane; Theodore Eckfeldt, Brown Bros. Harriman & Co.; Edwin Michaels, DeHaven & Townsend, Crouter & Bodine, and George W. Martyn, W. E. Hutton & Co.

* * *

Birdshore Steel Foundry & Mach.

Company's annual report for 1946 reports a loss of $397,069 from operations. It is expected, however, that carry-back provisions of the Internal Revenue Code will result in a recovery by the company of about $375,000. Net sales for 1946 are reported at $4,176,124, compared with $6,678,795 for 1945.

* * *

Pennsylvania Municipals

According to municipal bond market index prepared by E. H. Rollins & Sons, Philadelphia, the average yield from Pennsylvania obligations has stabilized in the last three weeks. Five authority bonds and 10 general obligations, all with 20-year maturities, indicate yields of 2% and 1.81%, respectively.

* * *

Strawbridge & Clothier

At the annual meeting April 23, Dwight G. Perkins, President of Philadelphia's Strawbridge & Clothier, told stockholders that sales thus far in the fiscal year which began Feb. 1 have shown improvement but that expenses had increased, acting as "restraining influence on profits."

Net profits for the 12 months ended Jan. 31, 1947, amounted to $4,615,861, equal to $7.21 on the present common shares, compared with $2.28 for the previous fiscal year.

Last year 82.7% of company's 6% prior preference stock was exchanged on a share for share basis for $5 cumulative preferred stock. Unexchanged shares were called as of March 31.

Mr. Perkins stated that it has not been necessary to call on any portion of a reserve which amounted to $1,550,125 on Jan. 31 and which had been set up as a cushion against possible future downward price revisions. Company's working capital is approximately $10,000,000.

* * *

P. T. C. Revenues Fall

In its report for the first quarter of 1947, Philadelphia Transportation Co. reflects gross income of $1,201,273, compared with $2,025,156 for the same period in 1946. The company attributed the decline to increased wage scales paid to employes, higher payments to the city for Broad Street subway rental and to heavy snowfalls involving an estimated $450,000 in removal costs and loss in revenue.

* * *

Warner Company Expands

Shortly after V-J Day, Warner Company started an improvement plan to cost an estimated $1,800,000, of which $1,500,000 had been expended by Dec. 31, 1946. This program has now been revised upward to embrace expenditures of about $5,000,000. It is anticipated that additions and improvements will be completed by the spring of 1948.

Charles Warner, President, in his message to stockholders, states "for some years to come, the full capacity of our present plants and transportation services will be inadequate in view of the increase in construction contemplated in this area. The active plans for both public and private construction are now larger than at any time in our history. It is the belief of your management that this five to seven-year wave of construction will start to roll within the coming year and we must be more fully prepared. To this end, in our building materials operations, we contemplate an increase in productive capacity of approximately 30%."

No additional stock issue of the company will be necessary so far as present plans are concerned.

* * *

Scott Paper Co.

Thomas B. McCabe, President of Scott Paper Co., Chester, Pa., announced a first quarter increase in earnings from 51 cents to 65 cents per share. Mr. McCabe stated that the company had been successful in absorbing a very substantial portion of higher payroll and increased material costs. Prices for Scott products, he said, now average 26% above levels prevailing at the end of 1941, while the average price of wood pulp has risen over 100% in the same period.

* * *

Westinghouse Electric Co.

PITTSBURGH.—G. A. Price, President, told annual meeting that Westinghouse Electric Co.'s first quarter production set a new peacetime record of $140,121,973, compared with $128,772,896 for the last 1946 quarter. As of March 31, unfilled orders of $642,090,960 constituted the largest peacetime backlog in company's history.

* * *

Budd Co. First Quarter

Based on results for the first two months, indications are that Budd Co.'s first quarter net will be about $1,700,000, equivalent to 47 cents per common share after charges, Federal taxes and preferred dividend. Present company was formed last year through merger of Edward G. Budd Manufacturing Co. and Budd Wheel Co., hence no comparable figures are available. Current backlog of around $180,000,000 is largest in history of the combined companies.

* * *

James Lees Co.

James Lees and Sons Co., Bridgeport, Pa., manufacturers of carpets and yarns, announces net profits of $1,011,524 for the first quarter of 1947 after allowance for estimated taxes. This is equivalent to $1.20 per common share after preferred dividends. Net sales for the quarter were reported as $9,861,588.

Halsey Stuart V-Pres.

David T. Miralia, who is in charge of the Municipal Bond De-


David T. Miralia

partment of the New York office of Halsey, Stuart & Co. Inc., 35 Wall Street, has been elected a vice president of the company.

Cincinnati Municipal Bond Dealers Party

CINCINNATI, OHIO—The Municipal Bond Dealers' Group of Cincinnati announced that they will hold their spring party June 16-17.

Chapin & Co. Admits Beyer As Partner

DETROIT, MICH. — John F. Beyer has been admitted to partnership in Chapin and Company, Penobscot Building, members of the Detroit Stock Exchange.

Report Business Mixed—With Declines Predominating

Business Survey Committee of National Association of Purchasing Agents, headed by Robert C. Swanton, sees lack of confidence in present prices stemming from government pressure. Reports buying policy further tightened.

The April report of the Business Survey Committee of the National Association of Purchasing Agents under the Chairmanship of Robert C. Swanton, Director of Purchases of the Winchester Repeating Arms Corporation, announces that for the first time since decontrol, the number of purchasing agents reporting declines in business have exceeded those reporting increases, and ascribes the situation in part to a lack of confidence in present prices. Says the report:


Robert C. Swanton

"For the first time since decontrol, more Purchasing Agents report a decline than report an increase in business. The number reporting continued high, production and sales remains about the same as in the past few months—70%. Trimming and balancing production to the available materials and labor is one cause for the slight decline indicated. Another, and perhaps more far-reaching element, is the lack of confidence in present prices stemming from government pressure to reduce them and the increasing consumers' resistance being registered. The reports do not forecast an immediate general recession but, rather, a period of scattered readjustments as industry marks time awaiting the price effects of current wage negotiations.

"Prices are reported almost static, with a slight downward trend—the first real indication of price reductions in months. Considering the present cost of inventories and wages, it is believed most industrial price reductions in the next few months will come out of profits and will not reflect a lowering of basic commodity prices.

"In the background, getting ready for production, are many new items, the results of months of engineering and research work in designing away from scarce and unreasonably overpriced materials. Purchasing Agents must watch these developments closely.

"Industrial inventories are definitely lower in April. One-third of our reports show this condition. Continued efforts are being made to reduce and maintain at lowest workable levels. Improved and regularly scheduled deliveries are making this possible, and also permit better balancing. Those reporting increased inventories say 'due to needed goods coming in after delayed production.' Inventories of finished goods are tending higher in several industries.

"Buying policy is being tightened further. 90% fall into a 1 to 3 months' commitment bracket, with one-half of these reporting limits of 'hand-to-mouth' up to 60 days. The effect of the generally shorter-term commitment policy over the past three months is reflected in the Inventory and Business Condition sections of this report. The policy of making forward commitments which protect only current production schedules continues.

"Outstanding is the reduction in price of steel scrap with dealers reporting heavy shipments to mills in the face of a much publicized scarcity. Other price reductions: anthracite coal, turpentine, leather, some farm commodities and lumber.

"Hardwoods in better supply; plumbing and electrical supplies becoming competitive. Textiles, particularly woolens, are off; also, vegetable oils, glycerine, acetate and butyrate molding compounds. Brass sheet and strip are on better delivery, with steel drums and nails reported easier.

"Price increases were few and not general in the reports. Alcohols up and in short supply. Copper, lead, tin and antimony still very tight. Dry colors up in price; formaldehyde short. Polystyrene may temporarily be short because of Texas City disaster. Malleable and gray iron castings critical. Specialty papers and newsprint up; refractories up. Building materials expected to increase with better quality.

"The April reports indicate that the uptrend in employment of the past few months has ended. Those reporting lower a little more than balance off those showing greater employment. Some areas report the peak has been reached, with more applications than can be filled. Others report more jobs if men were available. Indications are for shorter hours instead of layoffs if business declines.

"Business remains at a high level with slight indication of any decline. Prices are higher following decontrol of many more items. Inventories and buying policy following the same pattern as in the United States.

"Employment continues high."

A Plea for Broader Export Credits

By A. M. STRONG*
Vice-President, American National Bank of Chicago

Bank executive, asserting extension of credits in foreign markets is no more hazardous than domestic credits, calls for wider foreign credit financing on reasonable terms and consistent with safety. Points out our foreign trade is on competitive basis, and more liberal credit terms by foreign exporters has handicapped our sales in Latin America.

The financial terms of an export sale and the credit policy of the exporter are the governing factors in the development of foreign trade. Stringent credit terms or a demand for payment in advance will as a rule prove to be a serious obstacle. On the other hand, liberal terms when not warranted may result in a loss no matter how profitable the transaction may appear at its inception.


A. M. Strong

The extension of credit in foreign markets differs only in one respect from the extension of credit in domestic trade. In a domestic transaction the seller is concerned only with the credit standing and responsibility of the buyer while in a foreign transaction he must also be concerned with economic conditions in the buyer's country. In foreign trade there are two risks. The credit risk; that is, non-payment by the foreign buyer, and the transfer risk—non-payment because of exchange blocking or other government regulations restricting the purchase of dollars for transfer to the American seller. It is expected that the transfer risk will be minimized through the operations of the International Monetary Fund.

Many manufacturers and exporters in our area are under the impression that the extension of credit in foreign markets is a hazardous business. They feel that the safest way to sell abroad is for cash. Many are paying a high rate of interest for this arrangement. When a discount of 2 or 3% is allowed on a shipment collectable within 30 days, it equals an interest rate of between 24 to 36% per annum. This expense is added to the selling price, thereby increasing the cost of the goods.

Selling on a cash basis had a minor effect on our foreign trade during the period of scarcity when we were in a seller's market; however, we are now witnessing the gradual return to a buyer's market, and buyers abroad are beginning to look for more liberal terms.

The European credit policy in Latin America and elsewhere has always been more liberal than ours. This policy is supported by many governments through credit insurance and other aids to ex-

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*Opening remarks of Mr. Strong at the World Trade Forum sponsored by the Illinois Manufacturers' Association, Chicago, Ill., April 24, 1947.

The Outlook for Interest Rates

By G. RIPLEY CUTLER
Investment Supervision Department, Estabrook & Co.

Investment analyst holds present interest rate levels are due more to natural forces than to rigid government controls, and ascribes low rates to heavy increase in money supply. Says Federal Reserve Banks cannot do much to raise present long-term rates, and concludes, unless there is profound change in public psychology and state of public confidence, only gradual rise in rates may be expected for several years.

There seems to be a widespread belief among certain groups of investors that existing low rates of interest are artificial. Those who hold this view think that interest rates have been maintained at present levels only through the exercise of rigid government controls, and that if "natural forces" were allowed to function freely, interest rates would rise. This opinion generally carries with it the implication, whether spoken or unspoken, that such a rise would be beneficial to business.

We sometimes wonder whether financial commentators have any clear idea what they mean when they speak of the natural forces that govern interest rates. It is not easy to say just what these forces are. As a matter of fact, the problem of how interest rates are determined is one of the most hotly debated in the entire field of economics.

What Is Interest?

Interest has been variously defined as the price paid for the use of capital—the price of waiting—the preference for present over future goods—the reward for parting with liquidity. As far as we can judge, the commonly accepted theory of interest is that which states that the rate is determined by inter-action between the demand for investment funds and the supply of savings. Or to put the same idea in different words, the interest rate is the price which brings the supply and demand for investment funds into balance. This doctrine has had a long history. Its formulation by Professor Schlicter of Harvard, in 1931, when he wrote that "the rate of interest tends to be fixed at the point where the quantity of money which lenders are willing to lend and the amount which borrowers are willing to borrow are equal" is practically identical with the words of John Stuart Mill written 80 years before.

More recently, the validity of this theory has been contested by John M. Keynes. According to Keynes' teaching, interest rates are determined by what he calls the "liquidity-preference" of individuals and by the quantity of money (cash plus bank deposits) available at any given time.

It would be hazardous for the layman to enter into the merits of this controversy between Lord Keynes and his predecessors. What must be apparent to every student of the subject is the importance attached by most econ-

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$300,000,000

State of Illinois

Service Recognition Bonds Series A

Dated May 1, 1947. Principal and annual interest, May 1, payable at the office of the State Treasurer in Springfield, Illinois. Under existing arrangements with the Treasurer of the State, both principal and interest on these bonds may, at the option of the holder, be collected at the Continental Illinois National Bank and Trust Company in Chicago or The Chase National Bank in New York. Owing to the lack of express legal authority the continuance of the holders' option of collection in New York or Chicago cannot be guaranteed but the discontinuance thereof is not anticipated. Coupon bonds in denomination of $1,000 registerable as to principal if desired. Temporary bonds will be delivered pending issuance of definitive bonds.

Interest exempt, in the opinion of counsel, from all present Federal Income Taxes

Legal Investment, in the opinion of counsel, for Savings Banks and Trust Funds in New York, Illinois, Massachusetts, Connecticut and certain other States

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THESE SERVICE RECOGNITION BONDS, the first part of an authorized isue of $385,000,000 ratified at an election held November 5, 1946, will, in the opinion of counsel, constitute full faith and credit obligations of the State of Illinois. Certain special taxes are specifically pledged and general property taxes may be levied without limit as to rate or amount on all the taxable property within the State to provide funds for the payment of principal and interest on these bonds.

MATURITIES—COUPON RATES—YIELDS OR PRICES

$12,500,000 bonds maturing annually May 1, 1949 to May 1, 1972, inclusive, without option of prior payment

Due	Coupon Rate	Price or Yield	Due	Coupon Rate	Price or Yield	Due	Coupon Rate	Price or Yield	Due	Coupon Rate	Price or Yield	Due	Coupon Rate	Price or Yield
1949	1½%	.75%	1954	1½%	1.15%	1959	1½%	1.40%	1964	1¾%	1.65%	1969	1¾%	99¾
1950	1½	.85%	1955	1½	1.20%	1960	1½	1.45%	1965	1¾	1.70%	1970	1¾	99½
1951	1½	.95%	1956	1½	1.25%	1961	1¾	1.55%	1966	1¾	1.70%	1971	1¾	99¼
1952	1½	1.05%	1957	1½	1.30%	1962	1¾	1.60%	1967	1¾	100	1972	1¾	99
1953	1½	1.10%	1958	1½	1.35%	1963	1¾	1.65%	1968	1¾	100			

Offered for delivery when, as, and if issued and received by us and subject to approval of legality by Messrs. Chapman and Cutler, Attorneys, Chicago, Illinois.

The offering circular may be obtained in any state from only such of the underwriters, including the undersigned, as may legally offer these bonds in such State.

The First National Bank of Chicago — Harris Trust & Savings Bank — The Northern Trust Company — Continental Illinois National Bank and Trust Company OF CHICAGO

The National City Bank of New York — The Chase National Bank — Bankers Trust Company — First National Bank New York — Bank of America N. T. & S. A. — Guaranty Trust Company of New York — Halsey, Stuart & Co. Inc.

Chemical Bank & Trust Company — The First Boston Corporation — Smith, Barney & Co. — Blyth & Co., Inc. — Harriman Ripley & Co. Incorporated — Lehman Brothers

Glore, Forgan & Co. — Drexel & Co. — C. J. Devine & Co. Inc. — Kidder, Peabody & Co. — Phelps, Fenn & Co. — Blair & Co. Inc. — Union Securities Corporation

Salomon Bros. & Hutzler — Harris, Hall & Company (Incorporated) — A. G. Becker & Co. Incorporated — Central Republic Company (Incorporated) — A. C. Allyn and Company Incorporated — Mercantile-Commerce Bank and Trust Company

John Nuveen & Co. — The Illinois Company — Paine, Webber, Jackson & Curtis — Merrill Lynch, Pierce, Fenner & Beane — R. W. Pressprich & Co.

Barr Brothers & Co. Inc. — Equitable Securities Corporation — Estabrook & Co. — F. S. Moseley & Co. — R. H. Moulton & Company — Lee Higginson Corporation

Braun, Bosworth & Co. Incorporated — First of Michigan Corporation — The First National Bank OF PORTLAND, OREGON — American Trust Company San Francisco — Seattle-First National Bank — Security First National Bank OF LOS ANGELES

Stranahan, Harris & Co. Incorporated — B. J. Van Ingen & Co., Inc. — Weeden & Co., Inc. — William Blair & Company — Alex. Brown & Sons — C. F. Childs and Company Incorporated

Eastman, Dillon & Co. — Hallgarten & Co. — Hemphill, Noyes & Co. — Hornblower & Weeks — The Milwaukee Company — Otis & Co. — White, Weld & Co. — The Wisconsin Company

Adams, McEntee & Co. Incorporated — American National Bank and Trust Company OF CHICAGO — Bacon, Whipple & Co. — California Bank Los Angeles — City National Bank & Trust Co. Kansas City — Coffin & Burr Incorporated — Julien Collins & Company

R. S. Dickson & Company Incorporated — Francis I. DuPont & Co. — Heller, Bruce & Co. — Kean, Taylor & Co. — Kebbon, McCormick & Co. — Martin, Burns & Corbett, Inc.

L. F. Rothschild & Co. — Schoellkopf, Hutton & Pomeroy, Inc. — Trust Company of Georgia — Whiting, Weeks & Stubbs

April 30, 1947

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

A good deal of interest is being evidenced in the problem of rising bank costs. Cost of bank operation has increased rather rapidly, especially during the past year, with a consequent narrowing of the profit margin, and some lowering in certain instances of net operating earnings. It presents a knotty problem, for costs have risen faster than has gross income, and no simple way out is visible. The obvious answer is—increase gross income and improve efficiency. But this is too easily said.

An interesting discussion of the problem is presented in the April, 1947, issue of "The Burroughs Clearing House," by Arthur Van Vlissengen, in which he presents a survey of some authoritative ideas on the subject. The author cites among other references, a study published by the Economics Department of Bankers Trust Co., New York, in September, 1946, entitled "Outlook for Bank Earnings: 1946-1948," (reviewed in this column, Nov. 14, 1946), which predicted that operating expenses in 1946 would exceed those of 1945 by 15%, that 1947 expenses would be 8% higher than in 1946, and 1948 expenses would be 3.5% over 1947. However, the report also estimated higher net operating earnings for 1947 and 1948. In view of the importance of the subject, the above two contributions to the topic are called to the attention of the readers of this column.

It may be of interest to present the record of Guaranty Trust and of Manufacturers Trust, as revealed in the figures presented in their annual reports to stockholders.

In the case of Guaranty Trust, operating figures on a comparable year by year basis are presented for the years 1941 to 1946, inclusive, in the following table:

GUARANTY TRUST

Year—	Gross Oper. Income (000)	Total Oper. Expenses (000)	Ratio Expenses to Income %	Deposits (000)	Ratio Expenses to Deposits %	Capital Funds (000)	Ratio Expenses to Cap. Funds %
1941	$29,198	$16,082	55.0	$2,447,972	.66	$277,001	5.8
1942	30,361	15,477	51.0	2,289,225	.67	279,471	5.5
1943	36,085	19,467	53.9	2,758,837	.71	285,453	6.8
1944	41,083	22,764	55.4	3,190,800	.71	296,054	7.7
1945	46,714	29,557	63.3	3,469,405	.85	307,374	9.6
1946	46,593	28,520	61.2	3,100,758	.92	317,477	9.0
MANUFACTURERS TRUST							
1941	23,613	13,516	57.2	949,477	1.42	82,578	16.4
1942	24,791	14,578	58.8	1,041,291	1.40	84,685	17.2
1943	25,362	15,829	62.4	1,416,802	1.12	87,562	18.1
1944	29,440	18,178	61.7	1,694,392	1.07	91,056	20.0
1945	34,551	23,123	66.9	2,145,421	1.08	95,813	24.1
1946	38,191	26,991	70.7	2,343,557	1.15	116.105	23.2

NOTE—Operating income excludes security profits; expenses include taxes. Deposits and capital funds as of June 30 each year.

Guaranty Trust

It will be observed that over this six-year period, gross operating income increased 59.6%, but that operating expenses increased 77.4%, with the result that the ratio of operating expenses to operating income increased from 55.0% to 61.2%. Over the same period deposits increased 26.7% and the ratio of expenses to deposits increased from 0.66% to 0.92%. Total capital funds increased 14.6%, and the expense ratio from 5.8% to 9.0%.

Further analysis of operating expenses, so far as detailed in the annual reports, shows salaries and wages over the period to have increased from $7,939,000 to $11,574,000, an increase of $3,635,000, or 45.8%; other current operating expenses, including taxes, increased from $8,064,000 to $16,834,000, a rise of $8,770,000, or 108.8%. However, the latter figure includes taxes on investment security profits which were lower in 1946 than in 1945, and presumably accounts for the decline in 1946 total operating expenses from 1945.

Similar figures for Manufacturers Trust over the same period are also presented.

Manufacturers Trust

Gross operating income increased 61.7% between 1941 and 1946, but operating expenses increased 99.7%, with the result that their ratio to income moved up from 57.2% to 70.7%. Deposits rose 146.8%, thus the expense ratio to deposits declined from 1.42% to 1.15%. Capital funds increased 40.6%, and the expense ratio rose from 16.4% to 23.2%. It is of interest to compare this record with that of Guaranty, for in many respects the two are dissimilar.

Further analyses of the figures given in the annual reports shows salaries and wages over the six years to have risen from $6,623,000 to $12,398,000, an increase of $5,775,000, or 87%. Other current operating expenses increased by $6,894,000, or 102.5%, from $6,699,000 to $13,593,000. Much of this increase appears to have been in interest paid and taxes.

It is unfortunate for bank stock analysts, and by the same token for the banks' shareholders and for bank stock investors in general, that the banks do not publish operating statements that are more revealing of the details of their operations and operating results, and on a uniform basis. It is impossible for example, to compare accurately and fairly, the operations of Guaranty Trust and Manufacturers Trust.

If insurance companies, railroads, public utilities, and airlines can report with reasonable uniformity and completeness in their fields, surely commercial banks, which are equally as indispensable to the economy as are the former, should be able to do likewise. There has been some improvement in recent years but not enough. There is still too much ambiguity, diversity and lack of detail; and too many lumped figures.

Glassmeyer Appointed Blyth Syndicate Mgr.

Blyth & Co., Inc., 14 Wall Street, New York City, announces that Edward Glassmeyer, Jr., has been appointed syndicate manager with headquarters in New York. Mr. Glassmeyer graduated from Princeton University in 1936 and has since been associated with Blyth & Co., Inc., in New York as a member of the buying department. He served overseas in the OSS with the Army of Occupation and rejoined the corporation in May, 1946. Jo M. French, Vice-President, has been placed in charge of the firm's Southern California organization with headquarters in Los Angeles, 215 West Sixth Street.

F. S. Smithers & Co. Celebrates 90 Years

F. S. Smithers & Co., 115 Broadway, New York City, members of the New York Stock and Curb Exchanges, today is celebrating the completion of 90 years of continuous service. The firm acts as underwriter and distributor of railroad, industrial, municipal and public revenue and public utility bonds.

Present partners are Arthur B. Lawrence, Charles F. Smithers, Peter J. Murphy, Charles F. Zeltner, Hamilton D. Schwarz and Walter W. Cooper.

Snyder Cancels Press Conference

WASHINGTON, April 30 (Special to the "Chronicle")—Treasury Secretary Snyder's usual Thursday news conference was today cancelled to permit the Secretary to be with the visiting Mexican officials. President Miguel Aleman's party includes Mexican Secretary of Finance Ramon Beteta.

Freedom and Labor Monopoly

By DONALD R. RICHBERG*

Pointing out majority of people and Congressmen have come to understand that we cannot preserve our economic and political institutions and individual freedom by substituting labor leaders for captains of industry as autocratic rulers, Mr. Richberg attacks inconsistencies in use of injunctions by labor unions when such use is denied employers. Lays blame for labor policy to minority of labor leaders and denounces both irreconcilable employers on the right and trouble-making communists on the left.

My heart bleeds for this audience. You have ahead of you several hours of talk about Labor-Management problems.

Donald R. Richberg

Of course these problems are vital and interesting. They excite bitter debate. You would have a good time if you could understand what the speakers are trying to say.

They will all talk English. But they will use the same words to express entirely different ideas. That is very confusing to an audience. That is confusing to the speakers themselves!

It seems to me that it would help to dissolve this confusion and to dispel some of the fog that is about to engulf you, if I were to provide you with a pocket dictionary of labor lingo.

Then you may know what the speakers are talking about and be able to make sense out of the statements that otherwise may sound like nonsense.

Since my dictionary has not been printed, I cannot distribute it, and time will permit me only to quote a few sample definitions.

"Liberty"—Employer definition: Freedom from restraint by labor unions or government. Labor definition: Freedom from restraint by employers or government. Anarchist definition—Freedom from all restraint. Communist definition: A license to destroy self-government. Man-in-the-street definition: The power to do as one pleases.

For relief from these emotional, confusing uses of the same word, I submit a brief, accurate definition that anyone can use safely and honestly: Liberty is my freedom which the government protects by restraints upon your freedom.

This definition will warn you that when you hear a man demanding the protection of individual liberty and human freedom you should realize at once that the speaker is talking about his freedom, not about yours. A man's freedom to do what he wants to do always depends on preventing other people from doing what they may want to do.

My freedom to live in my house, to wear my own clothes, to walk the streets unmolested, de-

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*An address by Mr. Richberg at Harvard Business School Conference on Industrial Productivity and Labor Relations, Washington, D. C., April 19, 1947. Mr. Richberg is a partner of the law firm of Davies, Richberg, Beebe, Busick & Richardson, Washington, D. C.

Banish Pomp From Financial Advertising

By BERNICE FITZ-GIBBON*

Advertising Director, Gimbel Brothers, Inc.

Advertising director scores "cold marble rhetoric" in financial advertising, and calls it "malarky." Lays blame on bank executives who eschew "the what-the-hell abandon" good writing requires.

Talking to retail or advertising groups (retail or agency) has become wearisome. Same old faces . . . same old chit-chat. BUT —talking to such elegant gents as you bank people was something else again. Besides, I had always heard that no female was permitted in the sanctified cloisters of the Lawyers Club. I demurred daintily for a day or two (just to egg Mr. McNeil into a better selling job) and then accepted with alacrity. The likes of *me*—farmer, country school teacher and copywriter—(in that order) talking to the likes of *you*—bankers or perhaps, more accurately, copywriters that work for banks—those elegant edifices with the cold marble pillars, run by icy executives who always age exquisitely and always seem to look a little like Lewis Stone—with distinguished iron grey at the temples. Like thousands of others, I've tiptoed into these marble fastnesses handing bits of paper and bits of money to dour faced men in cages, and tiptoed out again. That's all I know about banks and bankers—except for the cold marble rhetoric and the pious pronouncements that I have dug out and made myself read—in short, your financial advertisements.

Reading them, I admit, was pretty hard going. In fact—finding them was pretty hard going. I read every kind of ad—national, retail, political, do-gooder, I have even read ads run by the National Association of Manufacturers. And was *that* tough going!

Well, as I was saying, I dug around in the columns of the New York "Times" until I unearthed some honeys. They were sober, pompous, and polysyllabic. They talked about a "challenge to leadership," about paying "rich dividends in economic stability and future security," they talked about the "challenge of a new era that demands the ultimate in achievement." One bank described itself as "a great institution founded on the cornerstone of service and courtesy." Most were "dedicated" (what a deadly word) to something or other.

One big commercial bank says, "You are invited to use the name (of this particular bank) on your checks. It is a symbol of strength and security." What a lot of malarky. If a check's good, it's good. Everybody will honor a check if the depositor has it covered. Imagine Gimbels saying this in an advertisement:

"You are invited to place this Gimbel waffle iron in your kit-

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*A talk by Mrs. Fitz-Gibbon before the Financial Advertisers Association of New York, New York City, April 23, 1947.

Inventories and Price Trends

Chapin Hoskins tells Management Association every business should have two policies, one for defense and another for offense. Urges study of basic conditions affecting price trends to be ready for action when new phase of circumstances arises.

Speaking at the Production Conference of the American Management Association in New York City on April 24, Chapin Hoskins, a lifetime student of commodity price trends and forecasting methods, analyzed the various phases of price cycles and laid down policies for the "near" future and the "long" future. He urged records of prices be kept and studied by business firms, and definite policies be at hand at all times to meet changing conditions.

Chapin Hoskins

In the course of his remarks, Mr. Hoskins stated:

"In the last 50 years there have been four cycles, and part of a fifth cycle, in which wholesale prices in the United States have risen and fallen more than 10%. In the most recent of these cycles, prices rose from 1933 to 1937, then fell back into 1939. The rises and declines in any such cycle are sufficient to cause serious problems in the operation of a manufacturing business.

"On a longer and larger scale, prices rose 270% from 1897 to 1920, fell back 65% from 1920 to 1933; and have since risen 150% . . . Obviously, the rises and declines in these longer cycles have profound effects upon the conduct of business. If you were to study the behavior of prices in either long or short cycles as you have already studied the behavior of materials in your factory processes, you would learn many things. With such differences in mind, you can effectively divide each price cycle into four parts:

"In the first part, which we may call phase A, practically all prices are rising. This was true from March 1933 until 1936.

"Next there comes a period in which, although the average is still rising, individual prices one by one turn downward. This we may call phase B.

"In phase C, which lasted from May 1937 into 1938, practically all prices are declining.

"In phase D, which ended in August 1939, the average is still declining, but individual prices turn upward one by one.

"Definitely, we have been in phase B, and it is even possible, now, that when the Bureau of Labor Statistics' weekly index declined in the week of April 5, we entered phase C, the phase in which the trend toward declining prices tends to become widespread.

Policies for the Near Future

"Probably the most critical decisions of the current phase of price change have to do with inventory. Since the rising phase has ended for some prices, but not

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The War's Legacy for Banking

By ELLIOTT V. BELL*

Superintendent of Banks, New York State

Supt. Bell traces effects of wars on our banking development. Points out trend toward bank nationalization abroad, but says here at home no aggressive sentiment for it exists. Contends, however, there is now more government participation in banking and credit operations and closer link of banks to government's fiscal policy, leading to less independence of banks in their portfolio management. Sees continued control of interest rates by Treasury.

In considering what I might talk to you about it seemed to me that it might be interesting and perhaps profitable to examine some of the principal effects upon private banking of the recent world war.

Elliott V. Bell

Wars have always had a profound effect upon social and economic institutions, including the institution of banking. It was the Civil War in the United States that brought about the creation of our national bank system, a system designed primarily to provide a market for the government's securities. It was that event, incidentally, which for the first time tied the nation's currency directly to the government debt and brought the banks into a close relationship with the Treasury.

World War I lifted the new and untried Federal Reserve System in one bound to a dominant position as this nation's central bank. Once again the need of the government to sell its obligations was a decisive factor. The original eligibility rules of the Federal Reserve System were modified so as to permit the use of government securities as collateral for discounts and the banks greatly expanded their investments in and loans against government issues. By those events the day was hastened when the banks would be "married to the Treasury."

Effects in Foreign Countries

Now we have just emerged or, rather, are still struggling to emerge from the greatest of all wars thus far. What have been the effects of that war upon banking here and abroad? Looking first abroad, the most obvious and striking effect has been an accelerated trend toward the nationalization of banking. Since the end of the war some 15 countries have nationalized all or part of their banking systems. These developments have ranged all the way from complete nationalization in Czechoslovakia and in the Balkan satellites of Soviet Russia to the largely nominal nationalization of the Bank of England. In addition to these 15 countries, at least 10 other countries are studying the desirability of na-

(Continued on page 21)

*An address by Mr. Bell before 50th Annual Meeting of Group VII, New York State Bankers Association, Garden City, N. Y., April 24, 1947.

Railroad Securities

The March and first quarter railroad earnings reports started coming in late last week and for the most part they met the most optimistic expectations. More accurate comparisons with the performance of a year ago are now possible. Last year practically all of the carriers charged to March operations the full retroactive 16 cents an hour wage increases for the first quarter. The additional 2½ cents an hour increase finally granted in May was not retroactive. As earnings comparisons for the first two months this year were with a period of 1946, in which no wage increases were being accrued, many speculators and investors had been inclined to view the 1947 results pessimistically.

The distortions resulting from the wage factor are obvious from a comparison of some of the earlier reports coming in for the first quarter. Union Pacific for the first two months reported a year-to-year decline of 23.2% in net operating income. For the full first quarter this had been changed to an increase of 36.6%. When it is considered that oil and gas operations are also showing larger net, that for the full year 1946 the company earned $11.90 a share on its common, and that fixed charges this year will be materially lower, it is difficult to justify the present low price for the shares on any investment basis.

For the first two months of the year Pere Marquette reported a gain of $160,000 in net as compared with the like 1946 interim. For the quarter this improvement expanded to $1,033,000. Southern Railway had a drop of more than 50% in common share earnings for the first two months but for the quarter there was a modest year-to-year increase in earnings. Baltimore & Ohio reported net operating income of $7,556,833 for the first quarter this year contrasted with a net operating deficit of $1,557.659 a year ago, a net gain of $9,114,992. Most of this gain was in March—for the first two months of the year net operating income had been up only $1,200,000. Atlantic Coast Line had sustained a drop of about 10% in net operating income during the first two months of the year but for the first quarter reported a year-to-year gain of $2,364,000 to $2,726,332.

One of the outstanding performances was turned in by New York, Chicago & St. Louis. The Nickel Plate was one of the roads that even in the two opening months of the year was reporting a fairly substantial improvement over a year ago despite the difference in accrued wage rates. This rate of improvement was accelerated sharply in March with net operating income of $1,069,782 contrasted with a net operating deficit of $81,710 in March, 1946. As a result, earnings for the full first quarter were in excess of the full year's dividend requirement on the 6% preferred stock. Last year earnings on the stock for the first quarter amounted to only $0.64 on the preferred.

Some of the western roads have not kept pace with this wide year-to-year improvement in the first quarter. They are the roads that normally have a very pronounced seasonal factor in their traffic and earnings. This seasonal factor is occasioned by the strong dependence on grain and other agricultural products and in some cases, notably Great Northern, by the heavy iron ore movement. Iron ore shipments do not start until the Lakes open, generally some time in middle or late April. Also, weather conditions, particularly in mountainous territories, generally hamper operations in the winter months. For the past five years or so the seasonal curves have been pretty well ironed out by war traffic (a year ago redeployment of troops sustained revenues in the first quarter) but they are now beginning to reappear.

On top of the sharp change for the better in the year-to-year earnings picture now that March results are being reported there is a definite prospect of further wide gains during the next two months. A year ago at this time traffic was being very seriously affected by major strikes. Many analysts look for at least considerable moderation of the generally pessimistic public attitude towards rail stocks in the light of the present and prospective more favorable earnings comparisons.

Chas. E. Klein Joins Stanley Heller & Co.

Stanley Heller & Co., 30 Pine Street, New York City, members of the New York Stock and Curb Exchanges, announce that Charles E. Klein and Peter E. Molloy have become associated with them. Mr. Klein, who for many years was with Holsapple & Co., will be manager of the firm's trading activities. Mr. Molloy, who was also with Holsapple & Co., will be in the trading department.

Charles E. Klein

Announcement is also made of the installation of a direct private wire from Stanley Heller & Co. to Hickey & Co. in Chicago. In keeping with their current expansion program, Stanley Heller & Co. are taking much enlarged quarters at the same address.

Cudahy Packing Invites Bids

Cudahy Packing Co. has issued invitations for bids to be considered May 5 for $15,000,000 of new first mortgage sinking fund bonds, maturing May 1, 1967. These new obligations are designed to replace an issue of 3% sinking fund debentures, series B, due May 1, 1964. The outstanding bonds were brought to market in 1944 by a group led by Halsey, Stuart & Co. Inc. Since the new offering is being thrown open to public bidding, the possibility is foreseen that it may go to a rival investment banking syndicate or to an institutional investor bidding for its own account. Bids will be received up to 11 a.m. (CDT) at 221 North La Salle Street, Chicago.

Northwest Airlines Preferred Stock Oversubscribed

Quick oversubscription of the issue of 390,000 shares of Northwest Airlines, Inc., 4.6%, $25 par value cumulative convertible preference stock was announced yesterday by Auchincloss, Parker & Redpath, The First Boston Corporation and Hornblower & Weeks. The stock was offered at $25 per share, after the registration statement became effective at 10:30 a.m. April 30.

Proceeds of the financing eventually will be used by the airline for expansion purposes. Initially, the company intends to make the funds available for general corporate purposes, and it is anticipated that a substantial portion will be invested in U. S. Government securities.

The expansion program involves expenditures of approximately $39,552,000, of which $5,177,000 had been expended as of Jan. 1, 1947. The remainder is expected to be spent before Jan. 1, 1949.

In addition to the proceeds of the present financing operation, funds will be available for the expansion from provisions for depreciation accruing during the years 1947 and 1948 on flight equipment and other assets, from $18,000,000 bank loans to be made available to the company, and from the proceeds of the disposition of ten Martin 202 airplanes after substitute airplanes have been acquired.

Stein Bros. & Boyce Opens New Branch

WASHINGTON, D. C. — Stein Bros. & Boyce, members of the New York Stock Exchange and other leading Exchanges, have opened a branch office in the Union Trust Building under the management of Robert T. Norman. Mr. Norman became associated with Alex. Brown & Sons in their Washington office in 1927, remaining with them until 1941, when he entered the Army Chemical Warfare Service. Edwin D. Flather, who has been with Stein Bros. & Boyce since 1933 as Washington representative, will remain with the firm.

Morgan Stanley Wins Consolidated Edison Bonds—Issue Publicly Offered at 101.05

Morgan Stanley & Co. heads a nationwide group of investment bankers which is publicly offering today (Thursday) a new issue of $100,000,000 principal amount of Consolidated Edison Co. of New York, Inc., first and refunding mortgage bonds, 2⅝% series B, due April 1, 1977. The bonds, which were awarded to the group yesterday at competitive bidding, are being offered at 101.05 and accrued interest, to yield 2.575% to maturity.

The offering, representing one of the largest issues of new corporate securities placed on the market so far this year, is the second step in a proposed plan for one of the largest corporate debt refunding operations ever undertaken. An issue of $100,000,000 first & refunding mtge. bonds, 2¾%, series A, due March 1, 1982, was sold publicly in March through an underwriting group also headed by Morgan Stanley & Co.

Proceeds from the sale of the series B bonds will be applied to the cost of redeeming, at par, $60,000,000 of 10-year 3½% debentures due April 1, 1948, and the balance will be applied to payments on account of short-term bank loans now aggregating $65,000,000.

The new series B bonds are redeemable at optional redemption prices which start at 104.05 for the period on or before March 31, 1948, and thereafter at prices declining to 100 if redeemed in the last year commencing April 1, 1976, in each case with interest accrued to the redemption date.

Consolidated Edison and its utility subsidiaries have been operated for many years on a unified basis. They supply electric service in the Boroughs of Manhattan, the Bronx and Brooklyn and in most of the Borough of Queens and in Westchester County except the northeastern portion. Gas service is supplied in Manhattan and the Bronx, in sections of Queens and in the more populous parts of Westchester County. Steam service is supplied in a part of Manhattan.

Does a Sterling Crisis Impend?

(Continued from first page)

organization of production during the early phases of nationalization.

The main reason for the gloomy view taken of the prospects lies not so much in the anticipation of a large import surplus—which could, to some extent, be kept under control through import restrictions—as in the fears of the effects of the restoration of the convertibility of sterling on July 15th. It is widely taken for granted that all overseas holders of sterling—with the possible exception of the members of the British Commonwealth—will take the first opportunity to convert into dollars the whole amount of sterling they are entitled to convert. Nobody has the least idea of the amount that is likely to be so converted, not even the authorities. The restoration of convertibility is regarded, therefore, in many quarters, as an irresponsible leap in the dark.

The Anglo-Italian Payments Agreement alone will lead to the loss of at least $120,000,000 as under it the Italian Government will be entitled to convert £30,000,000, plus whatever sterling surplus it may accumulate in the future in excess of the £10,000,000 which it has undertaken to keep in London. The Egyptian Government has just declared that after July 15 Egypt will possess an adequate amount of strong currencies, since she will be able to convert the proceeds of her visible and invisible exports to Britain, plus such part of her blocked sterling balance as may be released for the purpose. Other countries, too, are rubbing their hands, metaphorically speaking, at the thought of the dollars they are going to secure out of the proceeds of the loan to Britain.

It is no wonder many people in Britain are viewing the prospects with growing concern. It seems that from July 15 Britain's dwindling dollar resources are to serve not only to meet Britain's own dollar deficit—which itself is substantial enough—but also that of a number of other countries. Nor is it certain by any means that sterling will be converted into dollars by overseas countries for the sole purpose of meeting current requirements as and when they arise. Many governments will build up dollar reserves at Britain's expense.

It is impossible to foresee how long Britain's dollar resources will stand this drain. Without being unduly pessimistic, one appears to be justified in suggesting that the proceeds of the loan will be exhausted in a matter of months, possibly before the end of this year. Nor is the dollar amount representing Britain's own reserve (as distinct from the proceeds of the loan) likely to suffice to meet the pressure for very long, especially if under agreements for the funding of sterling balances a large part of it is allocated to holders of such balances.

In such circumstances it appears that the only way in which it will be possible to maintain the convertibility of sterling would be through additional financial assistance by the United States. Whether such assistance will assume another inter-government loan or whether the dollars will be raised through unofficial channels is a matter of detail. What is essential is to bear in mind that without some form of assistance Britain will be unable to fulfill its obligation under the Loan Agreement. It will be for the Washington Administration to decide whether to grant or authorize such assistance or whether to release Britain of this obligation when its excessive burden becomes obvious.

With Herrick, Waddell

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF. — Morton Harvey is connected with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

With King Merritt & Co

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF.—Paul M. Darwin has become affiliated with King Merritt & Co., Inc., Chamber of Commerce Building.

With Buckley Brothers

Special to THE FINANCIAL CHRONICLE

SAN FRANCISCO, CALIF. — Windsor D. Gigelow is now connected with Buckley Brothers, members of the New York Stock Exchange and other exchanges, whose Pacific Coast headquarters are in Los Angeles, 530 West Sixth Street.

Yates With First Trust Co.

Special to THE FINANCIAL CHRONICLE

LINCOLN, NEB. — George V. Yates has been added to the staff of the First Trust Co. of Lincoln, 10th & O Streets.

ABA Opposes Federal Reserve Guarantee of Small Business Loans

In statement filed with Senate Banking and Currency Committee, holds such legislation is unwise and unnecessary. Says private banks give ample loan service to small business and points to ABA organization of nationwide network of 51 regional credit groups with $750 millions to handle extraordinary loan requirements

The American Bankers Association on April 24 submitted to the Senate Banking and Currency Committee a brief statement in opposition to the part of the Tobey Bill (S. 408) which would provide for a system of guarantee by the Federal Reserve Banks of chartered private bank loans, such loans to extend for periods as long as 10 years. The principal purpose of the bill, according to its sponsor, is to aid in providing small businesses with necessary capital that they could not obtain from banks through the usual lending channels. Marriner S. Eccles, Chairman of the Federal Reserve Board has already testified before the Committee in favor of the measure. (See "The Chronicle" April 24, 1947, p. 18.)

The text of the ABA statement follows:

"The Association has no objection to Section 1 of S. 408 which has to do with the repeal of Section 13b of the Federal Reserve Act. However, the Association is opposed to that section of the bill having to do with the guaranty of commercial loans on the grounds that it is not only unwise but that there has been no demonstrated need for such legislation.

Small Business Credit and the Banks

"Before the end of the war the ABA knew that there would be a tremendous demand for credit on the part of small businessmen and returning GI's who would wish to undertake some type of business enterprise. In 1944 we organized the Small Business Credit Commission of the ABA and undertook an educational campaign across the country with our member banks to advise them of ways and means by which they could be of service to small business in the postwar period. We urged larger banks to set up small business credit departments to counsel with small businessmen. This was done. We demonstrated how small and large banks could work together in extending loans to large and small borrowers. A number of surveys made within the past year indicate that thousands of such loans are being made and that this practice is normal banking procedure. In addition we set up credit groups in 51 areas in the nation to take care of loans which could not otherwise be handled. These credit groups were not designed to initiate loans themselves but were to extend additional credits wherever needed. These credit groups were banking's new postwar credit vehicle, and in some areas considerable use has been made of this vehicle. The aggregate amount of credit made available by these 51 credit groups is well over $750,000,000.

American Bankers Association and Loan Guaranties

"In 1943 the convention of the American Bankers Association went on record against the guaranty of loans in peacetime in the commercial and industrial fields by governmental agencies. This statement was reiterated in 1945 and again in 1947 (less than ten days ago). It was the feeling of the Association then as it is now that government funds should not be used to underwrite the commercial and industrial risks which banks must take in the business field. The Association believes that the government's obligations are now so great that it should not undertake, especially in a period of prosperity, obligations which should be assumed by individuals and private institutions.

Commercial Bank Loans and Small Business Development

"Commercial bank loans in the small business field have expanded greatly. More new businesses were financed in 1946 than at any similar time in our history. We therefore feel that there is no need for this type of legislation at the present time. The banks are in good condition. They are anxious to make loans at reasonable rates and on fair terms to competent people to help them start new business enterprises or to develop older ones. Some people say that there is a gap in our credit structure at the point of small business. That has not been demonstrated. Small business has ample sources of credit. On the other hand, its needs are goods to sell, competent management, and tax laws which will give the little fellow or the partnership an opportunity to retain a fair share of earnings in building up capital funds for future growth.

Surplus Funds of the Federal Reserve Banks

"The A.B.A. believes that the Federal Reserve banks' surplus accounts should be kept unimpaired and without contingent liabilities in order to enable them to underwrite any losses which such banks might experience in the normal operation of their affairs. We have now a federal agency willing to underwrite or participate in the credit risks of the commercial banks. We contend that it would be unwise for the Government at this time to designate another quasi-governmental agency to offer to guarantee 90% of the loans of the banks, using funds that belong to the Government of the United States.

Commercial Banks and Private Credit Needs

"The most important segment of the private credit system we have in the country are the 14,000 commercial banks. Of this number 12,000 are classified as small banks with loaning limits to one borrower of less than $40,000. Based on a survey made by the Federal Reserve System of all loans outstanding as of Nov. 20, 1946 of Federal Reserve member banks, the A.B.A. projected this study to all of the banks of the country. This projection indicated that on that day there were some 853,000 commercial loans in the portfolios of banks. Over 90% of these loans were for $25,000 or less. Fewer than 10% were over $25,000, indicating that the great majority of credit applications from business are in a bracket which every commercial bank is prepared to meet. The primary source of income of the smaller banks through the years has been loans to small business and to individuals.

"We feel that the banks should be encouraged to carry on their risk-taking without a crutch from any governmental or quasi-governmental agency and not be placed in the position of receiving preferential treatment as against any other private enterprise.

"For these reasons we respectfully file these objections to the guaranty section of S. 408."

Walter Dembski With Wm. E. Pollock & Co.

Walter Dembski, formerly of the New York Hanseatic Corporation, has become associated with Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City.

Stern & Co. Adds Henry Lehman to Staff

Stern & Co., 25 Broad Street, New York City, members New York Stock Exchange, announce that Henry Lehman formerly of Herzfeld & Stern has become associated with them.

John F. Hallett App't'd By Chemical Bank

Frank K. Houston, Chairman of the Chemical Bank & Trust Co., announces the appointment of John F. Hallett as Assistant Vice-President of the bank. He will be associated with I. B. Grainger, Vice-President, in the handling of the bank's business in the States of Missouri, Kansas, and Colorado.

John F. Hallett

Mr. Hallett is a grauate of Yale University and was formerly an Assistant Treasurer of the New York Trust Co. He is a veteran of four years service in the U. S. Navy, achieving the rank of Lieutenant Commander assigned to Air Combat Intelligence. In the closing months of the war he was Naval Liaison and Air Sea Rescue Officer with the 58th Bombardment Wing of Army B-29s participating in raids on Japan both as pilot and observer and helped to organize the Air Sea Rescue facilities to rescue survivor personnel from disabled planes en route to and from Japan.

Mutual Funds

By HENRY HUNT

One Way to Throw Money Away

If investors attended a financial school from the time that they were small children, the first thing that they might learn to chant in kindergarten would be: "We like dividends."

In the first grade, they might be taught to say: "We buy only dividend paying stock," while in the second grade they might consider themselves sophisticated and say: "We only buy stocks just before they sell ex-dividend in order to receive those nice dividend checks."

Unfortunately many investors have not advanced beyond the second grade in their financial schooling, particularly those who buy mutual fund shares just before they go "ex." Reasonably intelligent investors must realize that the offering price of a mutual fund share is based on the market value of the underlying securities and cash on hand, plus accumulated income and security profits, plus the distribution charge. They must also realize that when they buy a mutual fund share just before it goes ex-dividend, they are paying for the dividend and a "load" charge on the dividend as well. Moreover, when they receive the dividend—even though it constitutes return of capital—they must treat it as income and pay income taxes on their so-called dividend. If the investor spends the dividend, he is merely spending capital and throwing away a few dollars for taxes and the additional "load" to boot.

Yet it is common knowledge that sales of mutual fund shares frequently hit their peak just before an "ex" date, and slump sharply the day after. Despite its obvious disadvantages, dividend "scalping," like flagpole sitting, seems to be a popular pastime.

Mutual fund salesmen can undoubtedly play on the investor's fondness for dividends and close a sale by reminding the investor, "If you buy it today, you'll get a dividend in a couple of weeks but it is a question if they don't lose more thereby than they gain because their customers get in a frame of mind where they can't be sold fund shares between dividend dates and consequently put money for investment during such periods into some other class of securities.

Incorporated Investors Explain Position

In its quarterly report to shareholders **Incorporated Investors** of Boston justifies its fully invested position by saying in part: "We believe that much of the current pessimism is based on the belief that the postwar business and financial pattern must duplicate that of the years immediately following World War I. Then, following a short boom, business, prices, employment, and stock market levels suffered a decline that did not terminate until 33 months after the Armistice. As a matter of fact the conditions were so different during the two wars, and the curve of so many of the economic indices has been so different after this war compared with the period after the first World War that **different** rather than **similar** results ought to be the logical expectation."

During the first quarter of 1947, net assets of Incorporated Investors declined from $70.255 million to $67.398 million.

Industry Ratings

In its "New York Letter" **Hugh W. Long & Co.** gives a "good profit possibility" rating to the following industries: automobile, building, machinery, metals, railroad, railroad equipment, and steel.

Atom Bomb Outlook

In "These Things Seemed Important" **Selected Investments Co.** of Chicago comments on the atom bomb outlook as follows: "Army" (semi-official): ". . . to the best of our knowledge only U. S. has developed and manufactured atomic bombs . . . it will take any other nation several years successfully to complete one bomb . . . additional period of several years will be required (to) produce a significant number of bombs . . . These calculations lead us to two conclusions: (a) For a number of years, perhaps as many as 8 to 15 only the U. S. will possess atomic bombs in significant quantities (b) After the period mentioned other nations will possess atomic bombs in significant quantities." Navy: "Rockets with atomic warheads capable of thousands of miles of range are not to be expected for another 25 years."

Notes

The **George Putnam Fund** of Boston has issued an interesting bulletin called "Investing Beyond the Horizon."

Broad Street Investing Corporation reports net assets as of March 31, 1947 of $8,114,000 including unrealized appreciation on investments amounting to $2,057,000. Selected Industries Incorporated, under the same management, reports net assets at market of $41,959,000, including $9,218,000 of unrealized appreciation.

A special bulletin on **National Stock Series** has been issued by **National Securities & Research Corporation.** It points out that although the prices of underlying issues are approximately the same on the average as ten years ago 1946 dividends exceeded 1936 payments by 100%, while earnings last year were 81% higher than ten years ago.

As of March 31, 1947, the assets of the Wellington Fund were divided as follows: Cash and U. S Governments 29%; Investment Bonds and Preferreds 21%; Appreciation Bonds and Preferreds 8%; Common Stocks 42%.

"Keynotes" published by the **Keystone Company of Boston** estimates that earnings on the Dow Jones Industrial Average for the first quarter of 1947 will be $4-$4.25 as compared with $1.86 earned during the first quarter of 1946. If this estimate is correct, earnings on the 30 Dow Jones industrials for the 12 months ended March 31, would be $15.74-$15.99, equal to more than 9% on its present market level.

Bache & Co. Sponsors Television Broadcasts

Bache & Co., 36 Wall Street, New York City, has announced the signing of a contract with DuMont's television station WABD for the use of their facilities in the daily presentation of a financial news program. The current schedule calls for a review of developments in the nation's securities and commodities markets to be presented at 1 p. m.

It may be timely to revert back almost half a century when back in 1892 Bache & Co. became the first member firm of the New York Stock Exchange to install a private wire between its New York and Albany offices. Then, as today, it pioneered in the financial industry into a new field of communications. Today it is utilizing the family of communication's youngest member—television.

Commenting upon the use of television, Bache & Co. states that in doing so it hopes to contribute to the current effort on the part of the financial industry to familiarize the largest possible audience with the aims and effort of the Stock Exchange and its members and their place in the nation's economic pattern.

Task is to Reduce Prices: Truman

Tells Chamber of Commerce of U. S., assembled at Washington, business has responsibility, by careful planning and elimination of wasteful methods, to reduce prices wherever possible while increasing production. Chamber responds by resolution making price reductions conditional on costs.

In a letter from President Truman to William K. Jackson, President of the Chamber of Commerce of the United States, which was read at the opening session of the 35th Annual Meeting of the Chamber of Commerce of the United States by Dr. John R. Steelman, assistant to the President, business is again urged to reduce prices.


President Truman

The text of the President's letter follows:

"To the United States Chamber of Commerce, and to the delegates to its 35th annual meeting, I extend my most cordial greetings It is heartening to know that this nationwide federation of American businessmen is gathering in the Nation's capital not merely to discuss questions relating to the welfare of individual businessmen, but to consider the general welfare of our people as a whole and the ways in which businessmen can further America's continued prosperity and freedom.

"It is indeed fitting that you have chosen, at this particular moment in our Nation's history, the convention theme of 'Paths to Freedom and Plenty.' Our free democratic way of life runs no risk of successful challenge so long as all of us pull together—labor, agriculture, business and finance, and the government.

"No community leaders have a graver responsibility at this moment, or a greater opportunity for service to their country, than our businessmen. A pressing task of all businessmen today is to reduce prices wherever possible at all levels while steadily increasing production. By careful planning, by elimination of wasteful methods and practices, by expanding facilities where needed, and by increasing productivity, businessmen can greatly help in dispelling the inflationary cloud now hanging over us. The United States has long been known for its success in the mass production of goods at low prices by well-paid workingmen and women who themselves make up the greater portion of the market for the goods they produce. On this firm foundation we must and will move forward to an ever freer and ever expanding system of private enterprise."

In response to the President's message, the Chamber adopted a resolution favoring lower prices, but making such reductions conditional on costs.

Prices Widely Reduced Already

Fifth of members answering NAM questionnaire have reduced prices on some items in 1947. Leather and shoe trade lead in number of cuts, with food and beverage, textile, rubber, automobile, lumber, pulp, and chemical industries following. Uncertainty over material supplies, wages, and labor inefficiency listed as reasons for withholding price reduction.

Price reductions in 1947 on certain items or lines of products were reported on one out of every five of the 5,742 returns received from a questionnaire sent to the 16,000 members of the National Association of Manufacturers in mid-April. Literally hundreds of prices have been cut. This situation is in sharp contrast with the general impression created by recent reports which have indicated that only a few price reductions have been made in the industrial field.

This strong response represents more than a third (36%) of the total membership of the Association and reveals a keen interest in the current price situation throughout the industrial field.

In addition to making specific reductions in prices, many manufacturers have resisted price rises in a manner which some believe is equivalent to price reductions. The questionnaires and scores of letters which were received indicate that industrialists are trying earnestly to hold the line.

The most important factors now standing in the way of price reductions in individual companies and lines of products were specified on each questionnaire. The uncertainty of material supplies and costs led all other reasons given by the manufacturers in a statistically tally of the replies.

All Association members were asked: "Have you made any reductions in our prices, effective this year?" Out of the 5,742 returns there were 1,194 companies that answered "yes," or 20.8%. The remainder said "no" except for 98 concerns that gave no answer. Those who answered "yes" were referring to one or more items or lines, and not to all of the products of the company.

Affirmative replies on price cuts were especially prevalent in the leather and shoe field where 44% said that they had made some reductions. Also high on the list of affirmative answers were the food and beverage industry, the textile products field and the rubber industry. In these groups almost a third of the companies specified items on which prices had been cut.

Only a small proportion of the returns indicated any lowering of prices in the cement, glass and clay products field. The same situaton prevailed in iron and steel, machinery and heavy equipment, and oil and coal products. The results were approximately "average" in the automobile industry, lumber, furniture, pulp and paper, and chemical products. The exact over-all average for all industries showed 20.8% of the companies had made some price cuts.

A large number of letters came in with the returns, bringing out most emphatically the important observation that those manufacturers who have held prices in line and who have vigorously resisted unwarranted price increases should be given all due credit for the significant part they have played in preventing runaway inflation in the industrial field. Many manufacturers reported that prices had been maintained at low and moderate levels in the belief that high volume and small profit margins would bring sounder results than high selling prices. A substantial number of concerns said that they have not raised their prices for many years because of

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Reports Levelling Off in Some Business Units

Commerce Department, in summary of current business, sees better balance in raw materials supplies and more progress in building up manufacturers' and distributors' stocks.

The nation's economy is continuing to expand but there are increasing evidences of levelling tendencies in important segments, the Department of Commerce announces in a summary of the current business situation.

In general, according to the Commerce Department, production is up and output of final products continues to move towards a better balance as a result of increasing raw materials supplies and organizational gains along the assembly lines. Both manufacturers and distributors have made substantial progress in rebuilding their stocks. Although the backlog of manufacturers' orders continues heavy, the early reconversion rush to place business has given way to more orderly purchasing. Since mid-1946 the dollar value of deliveries has tended to rise more rapidly than that of new orders.

The Department further reports that income payments to individuals during February continued at about the January rate of $177 billion on a seasonally adjusted annual basis. Changes in the components were of a minor nature, with the exception of farm income which declined about 5% as a result of the decline in marketings. This decline was almost entirely offset by scattered gains in wages and salaries in the production, distribution and service industries, where money incomes have advanced with increased hourly earnings of wage and salary workers.

At the retail level, steadily increasing quantities of preferred commodities, types, or price lines are available to consumers and merchants are encountering more difficulties in disposing of goods which had heretofore found ready sales either as substitutes or because other goods were not competing for the consumer's dollar. The over-all dollar total of retail sales was maintained at a high level during January and February. The seasonally adjusted annual rate for these two months was $107 billion as compared with a full-year total of $97 billion in 1946.

Some sharply divergent trends are reported in sales among the different types of retail outlets which have appeared in recent months. The year-to-year gains in January and February were largest at these stores: building materials and hardware, up 19%; food, up 22%; home furnishings, up 33%; and motor vehicles, up 148%. At the other extreme, jewelry stores and women's apparel outlets show sales lower than a year ago—down 7 and 3%, respectively. By February, the dollar volume of sales at eating and drinking establishments was also slightly lower than last year's amount.

The over-all measure of wholesale prices is stated as having moved within narrow limits during March at a level about 5% above the end of 1946. Prices of both farm products and foods have edged downward from the highs prevailing early in the month. Wholesale prices of industrial products have continued to rise, although at a somewhat slower rate.

The value of construction work put in place during the first quarter of 1947 was said to be about 50% larger than in the comparable quarter of last year—$2.3 billion as compared with $1.5 billion. However, the value of total construction activity in March was lower than in January and was only 30% higher than in March 1946. January and February showed year-to-year gains of 67% and 44%, respectively.

National City Bank Financing Cotton Shipments to China

Special to THE FINANCIAL CHRONICLE

WASHINGTON, April 30—Recent reports in China have tended to give the impression that the $40,000,000 transaction arranged by the Central Bank of China with the Shanghai branch of the National City Bank of New York was a credit transaction. Full details are not available here, but it is thought that any credit involved is completely secured, inasmuch as the Chinese first offered the business to another institution, which turned down the opportunity.

Under the arrangement concluded about mid-April, the National City Bank will negotiate shippers' bills under authorities to purchase to be opened in accordance with licenses approved with the Board for Temporary Regulation of Imports. Thus, shippers will get their money at once. The $40,000,000 will cover 230,000 bales of cotton, of which American cotton is to comprise 150,000 bales. The rest will come from India and elsewhere. The American cotton, because of subsidy considerations, must be shipped by June 30, 1947.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made April 23 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $19,870,000 1.10% consolidated debentures dated May 1, 1947, and due Feb. 2, 1948. The issue was placed at par. The proceeds, together with other funds, were used to retire $32,730,000 of debentures, maturing May 1, 1947. As of May 1, 1947, the total amount of debentures outstanding was $340,580,000.

Seeking Latin-American Market

Gordon Rust (left), Vice President of Peruvian International Airways; Arthur S. Kleeman (center), President of Colonial Trust Company, and Senor Pedro Bentin, Chairman of the Board of the Corporacion Nacional de Turismo of Peru, at a reception in the Rainbow Room, 30 Rockefeller Plaza, in honor of Senor Bentin. Mr. Kleeman made known at the reception, April 29, that a series of informal talks will be held in Latin American countries between local exporters, financiers and manufacturers, on the one hand, and editors and writers from the U. S., on the other, to aid in stimulating the anticipated three billion dollar export market in Latin America.

New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of Arthur Gwynne to Robert LeBrecht will be considered by the Exchange on May 8th. Mr. LeBrecht will do business as an individual, it is understood.

Thomas E. King retired from partnership in Hicks & Price, Chicago, on April 30th.

J. Lloyd Bailey and John R. Ward withdrew from partnership in Holsapple & Co., New York City, on April 30th.

Interest of the late Frank L. Newburger, Sr. in Newburger & Hano ceased on April 15, on which date Helen L. Newburger, Frank L. Newburger, Jr., and Richard L. Newburger were admitted as limited partners as trustees under the will of Frank L. Newburger, Sr.

Lester Solomon, partner in Sutro Bros. & Co., died on April 21.

Arthur C. Weil died on April 21.

Richard B. Wilson, partner in Robert Winthrop & Co., died on April 21.

Says Unbalance Within Price Level Is Real Cancer in Price Structure

Industrial Conference Board survey reveals inequalities in prices of various commodities and blames government's disorderly food purchase program for excessive farm prices. Predicts lower governmental revenues should there be a general price decline.

The real cancer in our postwar price structure is the extreme imbalance within the price level rather than the general level of prices, according to an analysis of the economics of declining prices which has just been completed by the National Industrial Conference Board.

"A pair of shoes was equivalent to 18 pounds of butter in 1939 and 16 pounds in 1941," the analysis states. "Today it purchases only 10 pounds. A factory worker receives in exchange for his dollar only 39% as much farm product as he did in 1939-1941, or only 54% as much as in 1926."

The analysis sums of current consumer-labor-industry reactions by stating: "Consumers, rightly or wrongly, believe that many commodities are priced too high and refrain from purchases in the conviction or hope that very shortly their dollars will buy more. The labor press pursues the joint course of demanding lower prices at the same time that it pleads for higher prices for services its membership sells. Industry, too, has grown highly price conscious and is intensively exploring the mechanics of price determination."

Price Reduction and Supply-Demand Relationships

A disorganized or forced reduction of price as compared with price reduction arising from better balanced supply-demand relationships "will not necessarily correct these areas of imbalance," the study points out.

"Should the government continue its support of high farm prices or aid speculative movements through a repetition of its disorderly purchase program in the first quarter of 1947, the spread between farm and factory prices would widen rather than narrow."

The Index of Consumer Prices—Past and Present

The index of consumer prices, at its prevailing level, is "not so much above" its prewar comparative as was the stabilized price level of the prosperous 20's above the pre-World War I average, the analysis notes. The cost of living during 1923-1929 averaged 72% higher than in 1914. The wholesale price index at the stabilized level of the 20's was 69% above 1914, while the wholesale index for all commodities other than farm products and foodstuffs was 68% greater. "Within these years," the analysis continues, "the war debt was reduced nearly $10 billion, or fully a third; profits, in turn, were sufficiently high to induce a high rate of investment. Our national wealth under this stabilized price structure rose 20% within the decade. Employment rose by 5,000,000 from 1923 to

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Canadian Securities

By WILLIAM J. McKAY

At the close of 1945 Canada's foreign exchange position was generally acclaimed for its outstanding strength. Despite wartime gifts and loans to the Allied nations and a remarkable performance of external debt reduction the Dominion still remained in the enviable possession of a $1½ billion exchange surplus in the form of gold and United States dollars.

Progressively thereafter especially following the revaluation of the Canadian dollar to its original parity the financial situation of Canada has been subjected to commentary ranging from the vaguely pessimistic to the direst catastrophic. Previous grounds for felicitation, such as Canada's bold efforts, paralleling those of this country, to rehabilitate international commerce by generous foreign lending, became a principal cause of criticism. Also according the casual analysts, the Dominion had been too hasty in raising the value of its currency although every enlightened observer had previously confidently predicted such an event. Furthermore in extending foreign credits on a relatively unrivalled scale, Canada was adjudged to be recklessly shortsighted.

The British crisis certainly interposed an unexpected unfavorable factor and the Dominion's single-minded confidence in the implementation of the principles of Bretton Woods at one time appeared to be badly misplaced. It now appears, however, that by grace of the unwavering U. S.-Canadian international financial policies, the multilateral convertibility of the world's currencies is rapidly approaching the practical stage.

Consequently the only weak link in Canada's exchange position should shortly be immeasurably strengthened. Moreover the faith of the Dominion in such a favorable outcome will be amply rewarded. During the difficult interim period Canada by means of foreign loans out of existing resources has been able to maintain a full flow of exports. New foreign outlets for her goods have been established and Canadian prestige abroad has never been on a higher plane.

Despite this extraordinary strain on the Dominion resources the recent report of the Chairman of the Foreign Exchange Control Board contradicts in a somewhat surprising fashion the dire estimates of the many prophets of gloom. Notwithstanding a record, although non-recurrent deficit in trade with this country during 1946, at the end of the year Canada still had the substantial reserve of $1¼ billion dollars in gold and U. S. dollars. This figure thus makes quite favorable comparison with the much lauded 1945 total of $1½ billions. In the light of this report it is also difficult to reconcile the previous forebodings of disaster with the fact, that has been previously emphasized, that last year Canada had an overall net favorable trade balance of $458 millions.

Perhaps the most significant feature of the report, however, is the implication that Canadian financial policy will be directed toward the maintenance of the existing foreign exchange reserves. Steps will consequently be taken "either to reduce the exchange deficit with the United States by selling more, or spending less, or to increase U. S. dollar income from other countries." It is thus clear that with the implementation of such a policy and with the successful outcome of Canada's constructive gamble on the multilateral convertibility of the world's leading currencies, Canada's future foreign exchange position should become practically unassailable.

During the week the feature in the market for externals was the placing of a new issue of 2¼% five-year New Brunswicks which were fairly well received but which were handicapped by the inability of the province to meet the new eligibility requirements for purchase by the New York savings' banks. Following the recovery in free funds as a result of the Foreign Exchange Control Board's annual report, internal bonds registered a sharp improvement. As the tourist season is approached and with the cessation of liquidation in connection with the Montreal Light, Heat & Power offer and the May 1 maturity of a 1¾% Dominion of Canada issue, the markets for free funds and internal bonds should continue their upward reaction.

Cummings Appointed by First of Michigan Corp.

DETROIT, MICH.—The Board of Directors of the First of Michigan Corporation, Buhl Building, members of the Detroit Stock Exchange, have appointed Cecil R. Cummings manager of the Municipal Buying Department in Detroit. Mr. Cummings has been associated with the First of Michigan Corporation as a sales representative since 1934.

The Price Problem

First National Bank of Boston flays Administration's wage and fiscal policy.

Under the caption "The Battle of Prices," the First National Bank of Boston, in its "Monthly New England Letter," says in part as follows:

"While a large part of the price advance was unavoidable, because of the war and its aftermath, several groups, including the Government, must share in the responsibility for the distorted and top-heavy price structure. Too small a proportion of war funds were financed by taxes and too large a proportion by borrowings from banks, which is definitely inflationary. In order to stimulate production on a large scale during the war, a farm price-supporting program was instituted which does not expire until the end of next year. Under the provisions of this measure the major groups of farm products are supported at around 90% of parity with non-agricultural prices. While strong arguments can undoubtedly be advanced for the necessity of adopting such a program in wartime, it is nevertheless unsound from an economic point of view, as is clearly evident from recent developments.

"While exhorting industry to lower its prices, the Administration remains adamant against the reduction of Federal expenditures, which it holds are down to bedrock. A careful analysis would indicate that with good management billions of dollars could be lopped off the budget without impairing essential services. Lavish expenditures of Federal funds generate higher prices and impose onerous taxes. As in the case of farm prices, therefore, the consumer is hit in a two-fold way.

"In the labor segment, the Government has also contributed to the strain on consumers. Shortly after VJ-Day, it was the Administration that led the parade for higher wages, which in turn generated the inflationary spiral.

"In view of the part it has played in boosting prices through championing the cause of labor and of agriculture, it is unfair for the Administration to single out industry as the scapegoat and hold it responsible for breaking the inflationary spiral by reducing prices. Furthermore, the Administration intimates that if this is not done, its influence will be thrown behind a wage boost."

Guaranty Trust Co. of New York calls attention to price and wage distortions.

The "Guaranty Survey," published by the Guaranty Trust Co. of New York, contains a leading article titled "The Problem of Prices," from which we quote as follows:

"Since broad price changes seldom take place without some disturbance to production, employment and national income, the price outlook is a matter of concern to everyone. If the readjustment comes without undue delay, and if in the meantime the upward pressure on prices in general is held to a minimum, the effects may be moderate and of short duration. The likelihood of such a favorable outcome depends to no small extent on whether considerations of immediate gain are subordinated to those of long-term welfare in the formulation of current wage and price policies."

Where Are the Price Distortions?

"The principal distortions in the existing price structure are indicated by the changes in price categories since the beginning of the war. Prices of raw materials in general, as measured by the index of the Bureau of Labor Statistics, have risen 147% since August, 1939, while prices of finished goods have increased only 80%. Prices of farm products have advanced 197%, and prices of lumber 193%, while prices of iron and steel have moved up only 31% and prices of nonferrous metals only 76%. Retail prices of food have risen 95% and clothing 80%, while rents have increased only 4% and fuels and lighting only 20%.

"The increase in the cost of living since the beginning of the war has been due primarily to higher prices of food and clothing, which together are estimated to account for 55% of the total expenditures of families of moderate incomes. Underlying the rise of 95% in retail food prices are increases of 154% in wholesale prices of cattle, 426% in hogs and 322% in wheat, with advances of similar magnitude in many other raw foodstuffs. Underlying the increase of 80% in clothing are advances of 267% in raw cotton and 148% in hides and skins.

Broad Cooperation Essential

"The principal distortions in the price structure will probably not be corrected primarily by direct and purposeful action but by the lapse of time and the operation of natural forces. In so far as direct action can be helpful in the present situation, it will require the cooperation of several groups. One of these is industry, which should of course follow the President's recommendations by holding the prices of its products at the lowest possible level. Distributors should cooperate by marking up the prices of their goods as little as is consistent with sound long-term operation. Bankers should adhere closely to conservative credit policies with a view to preventing over-expansion. Government should reduce expenditures, avoid further borrowing, conduct its food-buying programs in such a way as to preserve maximum stability in markets for farm products and foods, and drastically reduce its payments in support of agriculture. (Estimated Federal expenditures for agricultural programs total $1,117 million for the current fiscal year and $1,381 million for the year 1947-48.) Agriculture, in turn, which is enjoying the highest money returns in its history, should abandon its demands for financial aid from the Government. And labor should pursue wage policies based on the recognition that the principal upward pressures on the cost of living are essentially temporary and that continual increases in wage rates, unless matched by increases in productivity, can only lead to further advances in prices and living costs.

Crucial Importance of Wage Policy

"The cooperation of organized labor is indispensable to the success of any such program of concerted action in the interests of price stability. Wage rates, under present conditions, are among the most inflexible elements in the entire price structure; or it would perhaps be more accurate to say that they are unique in being flexible only in the upward direction. Resistance to wage reductions in the event of broad recessions in employment and the cost of living would certainly be very strong. A decade of almost unbroken depression and mass unemployment before the war was insufficient to bring about a substantial readjustment in labor costs, and the obstacles to such a readjustment would probably be even stronger in the foreseeable future than they were in the prewar decade. A considerable share of the reluctance of industry to meet the wage demands of labor since the end of the war has in all probability been due to the belief that any increase in money wage rates would tend to become 'frozen' into the price structure, regardless of what might happen to other parts of that structure.

"This rigidity of wage rates is due in part to the strength of organized labor and in part to the 'full-employment' policy which the Government attempted to put into practice during the prewar depression and which has subsequently received more explicit recognition in Federal legislation. An integral part of the policy as it was practiced before the war, and as it would presumably be practiced in the event of a future recession, is the maintenance of prevailing wage rates, even in the face of a declining cost of living. As long as the Nation is disposed and able to put such a program into effective operation, there is little prospect of the restoration of the wage flexibility that formerly played such an important part in promoting business revival and maintaining price stability over the long term."

British Loan Drafts Greater Than Anticipated

$1,900,000,000 to be drawn down by July 1, and an additional $1,200,000,000 by July, 1948.

WASHINGTON (Special to the "Chronicle").—To date the UK has drawn $1,550,000,000 under the loan agreement, the latest drawdown being one of $250,000,000 reported as of April 23. By the end of June, Britain plans to have drawn down a total of $1,900,000,000, instead of the $1,500,000,000 planned originally, the UK Government has advised the United States. Present plans call for drawing down an additional $1,200,000,000 during the year ending June 30, 1948.

Arranged by quarters, drawdowns during our fiscal 1947 appear as follows:

First quarter	$400 millions
Second quarter	200 millions
Third quarter	500 millions
Fourth quarter	800 millions

What effect the new high tobacco taxes will have on the contemplated rate of withdrawal will be watched with interest.

In his press conference of April 25, Secretary of Commerce W. Averell Harriman was asked whether the increase in American prices since the granting of the loan to the UK will make it impossible to accomplish the purposes of that loan and therefore necessitate another U. S. loan to Britain. The Secretary replied that the British Government had not requested any additional loan and that he had not seen any figures showing the effects of the winter crisis on Britain's needs, but that undoubtedly that crisis would be reflected in added need for food imports.

According to the British Ambassador, Lord Inverchapel, last winter Britain lost 2,000,000 sheep and had its lambing season ruined, lost 30,000 cattle, and must resow some 200,000 acres of wheat. Moreover, the winter crisis must have had a serious effect on Britain's export capacity, an effect which will take some time to run its course.

The War's Legacy for Banking

(Continued from page 15)

tionalization and in at least another three countries greater government control of banks, amounting, in some cases, almost to de facto nationalization, has been put into effect.

So far as central banks alone are concerned, the trend has been all toward nationalization. No less than 33 central banks are now entirely government-owned. Of this number, nine have only recently been nationalized. The old tradition built upon the Bank of England's great record in the 19th century as a privately-owned bank of issue was so strong that we copied it in 1914 when we created the Federal Reserve System. Today that tradition is dead. The Federal Reserve System almost alone among important banks of issue is still privately-owned. All over the world nationalization of banks appears to be the order of the day. It may interest you to know that no less than four of the banking institutions which I supervise are owned by foreign governments.

Now, what has brought about this marked trend toward nationalization? Is it because bankers in some of these countries failed to serve the needs of the public? Or is it because they used their financial power as a means of exerting political power? Or did they collaborate with their nation's enemies? Is the movement toward the nationalization of banks, in short, a retribution visited upon the bankers of these various countries for their sins of omission or commission?

I cannot find any evidence to support such theories. The truth is that the reasons for the nationalization of banks have varied in the various countries. In Czechoslovakia, for example, there was not, as far as I can learn, any serious criticism of the bankers. Indeed here, and in most other countries where nationalization has taken place, the same men for the most part are running the banks in pretty much the same way as before nationalization. The movement in Czechoslovakia and in the Balkan countries seems to have been predominantly political. It reflects the influence of Soviet Russia within whose shadow these nations are compelled to live. The system of private banking in these countries was sacrificed as a burnt offering to appeasement.

At the other extreme is Paraguay. This country has recently instituted a comprehensive monetary and banking reform, including the establishment of a new government-owned Bank of Paraguay endowed with central banking functions and also empowered to deal directly with the public through a banking department and a savings and mortgage department. Here the motive seems to have been mainly economic. The previous monetary system had been chaotic. The existing credit facilities were inadequate. The new system was devised with the help and advice of our own Federal Reserve authorities.

In France the movement toward nationalization has had more than a tinge of social revolution about it. The nationalization of the Banque de France seems to have sprung from a deep-seated conviction on the part of the dominant French Left that ownership of a national institution should be vested in the State and not in the so-called 200 families. The nationalization of the four big commercial banks in France seems to have sprung from a similar philosophy. These four banks—Credit Lyonnais, Societe Generale, Comptoir Nationale d'Escompte de Paris, and Banque Nationale—held more than half of all French deposits. They had, in French opinion, by reason of their size and nation-wide activities, become appropriate subjects for public ownership.

No Aggressive Sentiment Here for Nationalization

Here at home there has been no very aggressive sentiment in favor of actual nationalization of our banks. If anything, sentiment in that direction has, I should say, diminished. This at any rate appears to be indicated by the results of a Gallup poll last January which showed that only 26% of the public favors nationalization of banking in this country, contrasted with 36% 10 years earlier.

The war did, however, bring a number of significant developments which are likely to leave a permanent impression upon the pattern of banking in this country.

One of these developments was the financing of war production by means of guaranteed V-loans. Out of this experience have grown several suggestions for peacetime use of the guaranteed loan idea. In this same general direction there is of course the GI loan program which has brought not only commercial banks but savings banks and other thrift institutions within the seductive orbit of government guaranties. It may turn out that one of the most significant of the war's legacies for banking is this idea of having bankers carry out the mechanics of making loans while government bears most or all of the risk. I leave you to surmise what are the implications of such a course for the continuation of independent private banking enterprise.

Another wartime development of interest to bankers was the control on a national scale of consumer credit. Like the regulation of Stock Exchange margins, this is a type of qualitative credit control. In view of the importance of consumer credit in our economy, it is possible that control in this field, developed in wartime, will be used again if needed.

Still another wartime legacy, the full effects of which are not yet clear, has been the large accumulation of liquid assets on the part of individuals and businesses, which has given them a considerable degree of independence from the banks. By the middle of last year these accumulations were estimated to be no less than $222 billion, or almost four times the comparable figure for 1929.

Vastly Increased Holdings of Government Bonds

But overshadowing all of these developments and dominating the postwar banking scene is the influence of our unprecedented government debt and the changes it has brought to our banks. For American banks the most obvious and inescapable impact of the war was the expansion of their portfolios of government securities to a point where they equalled three-quarters of total assets. This fact alone is sufficient to give the Treasury and the Federal Reserve authorities a deep and continuing interest in their responsibility for this group of bank assets.

The safety and soundness of the banking system, which in past periods had been linked primarily with the prosperity of the business community, became linked primarily with the credit of the government and the market value of its obligations. The Treasury for the first time in its history made an official avowal that it felt responsible for maintaining the liquidity of the banking system. To that end there arose the entirely new concept of "bank-eligible" Treasury issues. In other words, so intimate has become the connection between government debt and the banks that the Treasury realizes that it must fashion its security offerings not merely to fit the needs of the government but also to fit the needs of the banks.

The large debt management problem that lies ahead makes it appear likely that the Treasury will retain the bank-eligible concept and perhaps develop it further. For bankers this obviously means reduced freedom to handle their portfolios.

The large expansion of the government debt and the purchase by the banks on book credit of substantial portions of that debt have, of course, greatly expanded bank earning assets. Although rates of return have been relatively low, losses on these assets have been non-existent. On the contrary, the long rising trend of government security prices up to a year ago brought a steady flow of security profits to the banks. The result was record earnings and, since expansion of capital did not keep pace with expansion of liabilities, these large earnings accrued to relatively small capital accounts. At the end of last year interest payments to commercial banks on public debt held by them were running at an annual rate of about $1,400,000,000. In other words, about one-fourth of the interest charge on the public debt was going to the commercial banks. This represented about half the gross operating earnings of these banks and was more than equivalent to their net operating earnings.

Interest Earnings of Banks

Here, obviously, is an attractive target for individuals and groups intent on budgetary economy, financial reform or mere demagoguery. It is argued that credit is supplied by the banks to the government at a price that far exceeds its cost and that the usual concept of interest does not apply because of the special nature of the transaction.

A question is also raised in some quarters concerning the whole idea of interest payments as the means of compensating banks for their function in providing the major part of the nation's money supply. Various proposals have been advanced for radically new forms of government debt to be held by banks on which interest payments would be adjusted to the cost of service.

Still another implication of our huge public debt and of the preponderant part it plays in the makeup of bank assets concerns the general pattern of interest rates. I take it to be self-evident that as long as we have a debt of anything like the present magnitude, government fiscal policy will seek to maintain low interest rates. I take it also to be fairly evident that we are bound to have a large public debt for a long time. Finally, I believe that the Treasury and the Federal Reserve System working together can maintain easy money rates indefinitely. All of this adds up to a continuing easy money policy.

That does not mean, of course, that we may not have minor adjustments in money rates from time to time. It should not, in my judgment, require the hard and fast pegging of rates at immutable levels; but it does preclude any likelihood of a free market in money and it does mean that there is bound to be a constant bias on the side of easy money on the part of the fiscal authorities who do the controlling.

Conclusion

As we look at the legacy of banking developments left by the war, there is apparent a dismaying tendency among the nations of the world to retain the authoritarian devices that war brought with it and to incorporate these devices in their permanent way of doing things. In many countries this tendency has taken the extreme form of outright nationalization of the banking system.

In our own country there has not been and there is not likely to be any public demand for nationalization of banking and yet the trend here has not been wholly inconsistent with the predominant pattery abroad. The war years have brought a deeper and deeper involvement of banking with government. There has developed an increased dependence of banking upon government. For better or for worse our banks have been tied more closely to the Treasury by the strong bond of common interest in the public debt. If nationalization should ever come to the American banking system it will come, in all probability, not by government taking over the ownership of the banks. The danger for is that we may slip by almost in perceptible stages into a conditi of government domination of o banking functions, leaving notl ing but the ownership to rema in private control.

Fortunately there is a crownir difference between our approac to postwar economics and that many of our foreign neighbo whose experiments in the natior alization of banks I have been re viewing. That difference is th as a nation we have chosen to p aside as rapidly as possible th authoritarian economics whic we imposed upon ourselves in or der to fight the war. We have de cided instead to attack our grea and difficult problems with th imagination and vigor of fre men. This national resolve pro vides to our bankers a favorabl climate of opinion that was de nied to bankers in many nation abroad.

In the years of the war it wa not given to banking to play spectacular part, yet the part tha was given them our banks playe faithfully and well. Beyond that very wisely, our bankers by an large utilized the war years o flush earnings and expanding re sources to repair the ravage which still remained from th Great Depression. The war year were for the banking system o this country a period of strength ening and of preparing for a vita role in time of peace. Today stronger than ever before in ou history, our banks are in a po sition to prove that a free and in dependent banking system ca best serve a people who are de termined also to remain inde pendent and free.

Chace, Whiteside, Warren & Sears Formed in Boston

BOSTON, MASS. — Winslow Sears, formerly head of Sears Corporation, has become associated with Chace, Whiteside & Warren, Inc., members of the Boston Stock Exchange, and the firm name has been changed to Chace, Whiteside, Warren & Sears. Offices are at 24 Federal Street.

Securities Salesman's Corner

By JOHN DUTTON

Timely Message From Comstock & Co. of Chicago

Last week a card entitled "Let's Go To Work!" was mailed to investment dealers throughout the country by the above investment firm. It starts off by saying that in their office they have a quotation displayed which states that "Lazy men are just as useless as Dead Ones and take up More Room." The point is made that many of us follow the line of least resistance in this business. When the going gets a bit rugged many salesmen take it for granted that they should sit back and loaf, instead of going out and "beating the bushes for business." Naturally when this happens business is bound to be less active than when an effort is made to push things along.

In this respect we might add to Comstock's very correct analysis of what is now going on in securities firms by bringing to your attention that a habit of resting on your oars becomes contagious to all those around you. As they put it, "We believe that a combination of concentrated leg and brain work could easily change the lackadaisical attitude of the investment public. Meanwhile bargains in securities are going begging because the salesman is following the line of least resistance." If you are infecting those around you with pessimism and a "what's the use" attitude, the chances are that you are doing the same thing to your customers. Optimism and pessimism have their genesis in the emotions, one is a powerful force for success and progress the other is as potent a force for failure. As the card aptly put it, "the richest and most powerful nation the world has ever known is constantly beset by Fears most of which will never materialize. And . . . "We all know that even in a declining market, every seller must have a buyer to complete a trade, AND THERE ARE BUYERS."

We should have more of this type of advertising in the investment business. After all is said and done the main purpose of advertising is to create an atmosphere of good will and confidence in the advertiser so that the way is cleared for business to be developed in the natural course of events. Surely investment dealers who receive such a message as this from another firm will think highly of those who sent it. This sort of advertising can also be applied at the point of local interest in your own community with just as constructive an effect. If you have something to say that will be of interest to ALL the people in your town, not just the investors alone, say it. But say it well. Don't overtalk or let it get sloppy. If you do this consistently, whenever the opportunity arises, you will find it the most effective type of advertising that you could use. If you wish to create an atmosphere of good will, be human, be part of your community, avoid the controversial, and tell others about it. There are Red Cross drives, Cancer Fund Committees, or activities that help the boys and girls in your town, civic undertakings, and occasions when an expression of faith in your country and community will do more to bring you and your firm favorably before your public than can be accomplished by any other kind of advertising.

"Let's Go To Work! !" Thanks Comstock! You are backed up by years of historical precedent which prove to us that markets go down then up, and down again and up again, but those who consistently go ahead are sure of one thing, the U. S. A. will still be doing business at the same old stand next year, and the year after and for many years after that. If that isn't true then "The lazy among us are right, and the rest of us might just as well be dead."

Form Oppenheimer, Vanden Broeck & Co.

Oppenheimer, Vanden Broeck & Co., members of New York Stock Exchange and associate members New York Curb Exchange, will open offices on May 1 at 40 Exchange Place, New York City, to transact a domestic and international brokerage business including foreign currency securities. The new firm has correspondents in major financial centers of the world.

Winfried H. Oppenheimer, Alfred L. Vanden Broeck, Frank Neu and Robert Ranger Lansburgh, member New York Stock Exchange, are general partners of the firm. Robert J. Ullman and George W. Ullman are limited partners.

Members of the new firm have been prominent in the foreign banking and securities fields.

Formation of the new firm was previously reported in the "Financial Chronicle" of April 3rd.

Pennsylvania Bankers To Convene in May

PHILADELPHIA, PA.—Edmund W. Thomas, President Pennsylvania Bankers Association, has announced the following three speakers for the Association's annual convention to be held at the Hotel Traymore, Atlantic City, May 21-23: C. W. Bailey, President American Bankers Association; D. Emmert Brumbaugh, Secretary of Banking, and Theodore R. McKeldin, Mayor of Baltimore.

Hopkinson, Schram to Address Exch. Firms

Edward Hopkinson, Jr., Drexel & Co., Philadelphia, President Investment Bankers Association, and Emil Schram, President of the New York Stock Exchange, will address a dinner meeting of Association of Stock Exchange firms in Washington on May 15.

Let's Shrink Our Worries!

(Continued from page 5)

was echoing mildly what other people say in more detail.

Yet was there ever a time when skies were "clear," when times were not "trying," "difficult" and "dangerous," and when problems confronted people that apparently could not be solved?

I was going through some old notes the other day and ran across a speech that General Hugh Johnson made here in New York exactly 10 years ago this month. Here is a sentence from that April, 1937, speech:

"Where is the solution for the problems that belabor and frighten us today? . . . Hatred, greed, misunderstanding and prejudice are driving nations inevitably toward murderous wars."

And going further back, it was Shakespeare who had Hamlet say:

"The time is out of joint, O cursed spite, that ever I was born to set it right!"

Some of Our Problems

True enough, we have our problems. Here are some of them:

(1) High prices which threaten our prosperity.

(2) Strikes and strike threats.

(3) Demands for legislation to control organized labor.

(4) Unbalanced trade. Exports that are taking $16 billion of goods out of the country this year, as against imports of $9 billions.

(5) Enormous tax burdens, and the need for income tax relief.

(6) The need for economic assistance to prostrate nations throughout the world.

(7) The need for relief and food for helpless, starving millions.

(8) The contest of private enterprise against the philosophy of state control.

(9) The deadlock in arriving at an adequate, just and workable peace.

There, then, is a list of things that we worry about today. . . . I don't know whether this list is the basis of the worry of our women as well as our men, but as it is, the women are worrying too. In this morning's New York "Times" there appeared a report of a forum that was held here yesterday. Dr. Marynia F. Farnham, psychiatrist and author, contributed to the discussion by asserting that American women, the richest in material privileges, are the most unhappy women in the world. "They have no grasp of the real privilege of being happy," said Dr. Farnham. Margaret Culkin Banning, the author, said that women's unhappiness is contributing in great measure to the world's nervousness and unrest. "The basic unhappiness in the world" said Miss Banning "is curable only if we can do something about women, because they have such tremendous influence on men."

Of course, we are not a nation of neurotics. Life being what it is we cannot help but be conscious of the things that are designed to worry us. Still, by contrast, we only a little while ago had other and even more serious matters to worry about. I recall vividly the month of April of only two years ago, 1945, when all of us who were not in uniform were preparing for the Seventh War Loan. True, we were witnessing the defeat of Germany, and we were seeing the beginning of the defeat of Japan. But for all of us then, and especially for our 10,000,000 boys in the armed forces, life was pretty grim. And only three years ago this month things were even more grim. The Germans were then in France, Belgium and Italy; Hitler was in control of the Continent of Europe; General MacArthur was a thousand miles from the Philippines.

A Wider Perspective

Now, then, in what light should we properly look at our current problems? I would say, if you ask me, that we should stand off a little way, and look at them in the light of a wide perspective. If we did that, what would we see? First off, we would see that our American people have emerged from the war not only victorious but unequaled in economic might. During the war we built our resources enormously, so that today our productive capacity is prodigally large. Having 6% of the world's population we are turning out 25% of the world's goods, a current annual income—to use the figure President Truman used on Monday—of $176,000,000,000 an amount enormously greater than any peacetime year prior to the war.

I never cease being amazed at the magnificent measures of our strength. Think of what we did during the war. In the five years ending Dec. 31, 1945, the United States Treasury raised the colossal sum of $378,000,000,000 to finance the war, 40% of it being obtained from taxes. And the goods produced, which that amount represented, came virtually from within our own borders. We not only financed our own war expenses but we helped finance our allies, advancing to them under lendlease and otherwise the sum of $47 billions and we do not count on the ultimate return of more than a fraction of that huge amount.

In a material sense we are far-and-away the strongest, richest and most prosperous people on earth. We have emerged from the war more productive, industrially, than ever, while other great nations and people have collapsed. With a few notable exceptions the industries of other people are prostrate, or at best terribly crippled. It would almost seem that the destiny that has formed the pattern of our existence has determined to send us ever onward. Ours is a heritage that every nation on earth envies and that, given a choice, half the people on earth would migrate to share with us. Without trying to be poetic, we have numerous blessings that should make us great — a healthy people, an abundance of food, unlimited opportunity for work, and large hopes for tomorrow. We have made long and steady and genuine progress in living conditions, in culture, in education, in social and race relations, in the recognition of human rights.

We should be consciously aware, every hour that we live, of possessing what so many other people prized and lost — liberties that enable us as individuals to walk as free men, without feters. We have the right of free press, free speech and free assemblage. We are a people who are growing less and less class and caste conscious, and whatever the trend may be in divorce statistics, juvenile delinquency and the like, tens of millions of Americans have a continuing and deep and happy feeling for the sacredness of family ties, and a wide sense of kinship and responsibility for those who count on them in their lives. Ours are still the most neighborly people imaginable; we still have our native sense of fun and our unconquerable American sense of humor.

Realistic Optimism

Now, in the light of all this shouldn't we shrink our worries to a proper proportion? Of course, any optimism that ignores our present real problems would be as irrational as any pessimism that builds its whole case on those problems. We want no irrational optimism today. What we want is an optimism that will come to grips with whatever spirit of despair is abroad, and that will match and master it. The challenge of today is to find out the realities of our current position. It is to find the place where we can help ourselves and our fellow-men adequately, and where we can breathe, in a post-war world, freely and naturally.

This type of optimism is not unrealistic; it is opposed to any attitude of worrying ourselves sick and into a depression over the weaknesses in our social and economic structure. To quote President Truman once more he spoke truly on Monday when he said—"We can talk ourselves into a depression."

It is clear to me that if we are to permit ourselves any overwhelming worry now, it should be over our attitude toward ourselves. We need to be impressed with the importance of emotional as well as logical remedies for our ills. Of course, we have to see to it that our industrial, commercial and financial routines continue uninterruptedly. But a great responsibility is to see that the same holds true of those routines which affect our individual and group morale. We must be alert to keep intact the constructive forces which affect the thinking of our people, and which must continue to do so if we are to maintain our tried and tasted routines — our democratic routines, if you will.

Looking ahead, then, there are burdens for us to bear. But we can bear them. Nothing worth while was ever achieved without understanding and enthusiasm, and we as a people are capable of these. We have observed in other parts of the world the breakdown of old routines, and by right thinking and sound enthusiasms we shall avoid the precedents that have brought despair to those other parts of the world. For our own welfare then, and for the welfare of much of the civilized world, we need to stand by the tried and tested routines that in the past have meant so much to America, and that if properly supported and maintained will be vital to her in the days and years to come.

Shelby Cullom Davis Opens Investment Firm

Shelby Cullom Davis, who recently resigned as Deputy Superintendent of Insurance of the State of New York, has formed his own stock exchange firm, Shelby Cullom Davis & Co. The company will conduct a general investment business specializing in securities of American insurance companies and in their markets.

Shelby Cullom Davis

Associated with the firm as manager of the insurance stock department will be Frank L. Brokaw who has specialized in insurance stocks for over 20 years. The firm will be located at 110 William Street in offices previously occupied by F. L. Brokaw & Co.

Mr. Davis served as Deputy Superintendent of Insurance for three years. Prior to his appointment to the New York State Insurance Department, Mr. Davis had been on a special assignment with the War Production Board which he undertook at the outbreak of World War II. Before joining the War Production Board, Mr. Davis was in the securities business as a member of the New York Stock Exchange.

Formation of the firm was previously reported in the "Financial Chronicle" of April 17th.

Future Real Estate Prices

(Continued from page 9)

er all the charges have been deducted from gross income, including proper reserves for replacements and depreciation. Minimum capitalization rates of 4½% may be applied to unusual properties. These properties would have to be ideal in every respect—100% location, proper size for utility for the tenant's business, a good successful management record by the tenant, a financially responsible tenant on the lease, a lease calling for a warranted rent based on the ability of that particular location to earn such rent and lease payments comparable in the area paid by other competitive merchants. This situation offers the investor the ideal investment; if by any remote accident, the tenant decides to move, the owner should have little trouble in renting the premises to another tenant at the same rental. As we move from this property under ideal circumstances to others that lack these characteristics, there must be a corresponding addition to the capitalization rate for the loss of each quality. For example, a Woolworth or Kresge lease calling for a rental substantially in excess of the warranted rental would be reflected in a higher capitalization rate and might vary from 4¾% to 7% depending on the amount of excess rental. Many appraisers should use two rates—perhaps 4½% to that portion representing warranted rental and 7% to 10% to that part representing the excess rentals. It may be pertinent to point out that the Treasury Department allows such split rates in the valuation of properties for inheritance purposes where excess rentals are clearly shown.

Well-located business properties in suburban areas ought to be capitalized around 5%. They offer good possibilities of enhancement in value as purchasing power increases in the surrounding area. The risk is somewhat greater, however, than that on a property in a well-entrenched 100% location and the capitalization rate should properly reflect the additional hazards. As commercial properties move out of riveted areas, the non-liquidity, management and risk features increase and the capitalization rate reflects the difference. By the time we attempt to capitalize industrial waterfront or pier rentals, the capitalization rate is in the 12% to 15% bracket. The same basis of analysis applies to apartment houses. Those apartment houses that are well-located, are well-built and have apartments and rooms well laid-out and properly proportioned, can be properly capitalized at 5% after adequate reserves have been set-up for replacements and depreciation. As we move upward into the luxury class, the inherent hazards increase and the capitalization rate correspondingly increases. The potentially lower number of available clients able to pay premium rents, the possibility of necessary retrenchment in a slight recession and present high income taxes make this type of net income much more volatile.

Let me emphasize at this point that there seems to be less possibility of erring on the low side than on the high side in the capitalization of apartment houses. There is no immediate prospect of lower building costs—as materials become more available and hourly productivity of labor more efficient, higher wages and labor bickering will more than offset the savings. So new competition to present apartments is not too important a factor—and eventually rents are going to be increased. Operating expenses will also increase but the averall picture should reflect increased net income for this type of property in the future.

One-story modern industrial properties properly located as to transportation, labor and local taxes should reflect market value on capitalization rates as low as 6%. Old multi-story buildings or those carrying onerous tax loads should obviously be capitalized at higher rates.

Special purposes properties such as gasoline stations should reflect capitalization rates of 10% even under nationally known oil company sponsorship. Here let me bring to you a tendency which has blossomed out in recent years to become a most important factor. The payment of rent is often guaranteed by some large oil company, such as Gulf, Texas or Sinclair. The value of the property is then determined by a recapture of the fee value during the term of guaranteed rental and the owner (and often the mortgagee) are satisfied with a very small return, feeling that the security on the lease is the important thing and that the value of the real estate (per se) is secondary. These oil companies often point to the low rate of interest paid on their bonds and maintain that rates on their real estate leases should be approximately the same. But the two types of security are different and the rate of return should reflect this difference—one is more or less short-term financing offering liquidity; the other is long-term financing without liquidity. Eleemosynary institutions having huge endowment funds have purchased good commercial properties, such as department stores at unusually low rates of return. Some of these institutions have sizable funds for such investment. For example, Harvard has an endowment fund of $156,000,000, Yale of $123,000,000, Columbia of $87,000,000 and University of Chicago of $70,000,000.

Life Insurance Investment

Even more important than this source of funds for investment in real estate is recent legislation allowing life insurance companies to purchase real estate equities. Up to Feb. 1, 1947, over $87,000,000 has already been invested by insurance companies in real estate investments. These sums are, of course, in addition to the funds invested in housing projects throughout the country. The past investment of these funds and the future potential investment or more funds from these sources have had a definite tendency to lower the return on real estate equities and consequently increase the price such properties may command in this market.

The good appraiser of real estate uses the same judgment and discernment as the good economist. He attempts to forecast the future as a general trend and his values predict a fairly even flow of income.

Applied capitalization rates, of course, reflect long-term earning capacities and business conditions. A careful analysis of these factors, seem to me, to lead to the following conclusions:

1947-1948-1949 and 50 ought to continue to be good years. There will probably be a slight slide-off during 1948 and I think it will be of minor consequence; 1949-1950 will be probably at a fairly even level.

From 1950 through 1955 economic conditions ought to continue to be good, unless additional governmental burdens are placed on business or the foreign situation badly upsets our export possibilities. Analysis and careful study of heavy industry and construction prospects confirm these conclusions.

Barring unforeseeable possibilities, therefore, business conditions should be fairly level for the next seven or eight years and capitalization rates should not include any additional hazards beyond those which we have already given consideration.

Salomon Bros. Offers New Haven Equip. Issue

Salomon Bros. & Hutzler, and Stroud & Co., Inc., won the award of $5,265,000 equipment trust certificates, maturing May 1, 1948-62, put up for sale by trustees of New York, New Haven & Hartford RR. April 29. Their bid named a price of 98.67 for a 2% coupon, a net interest cost of 2.1682%. Salomon Bros. & Hutzler, and Stroud & Co., Inc., are reoffering certificates, subject to Interstate Commerce Commission approval, at prices to yield from 1.15% to 2.40%.

The certificates are designed by the New Haven to finance not more than 80% of the purchase price of new equipment with an estimated cost of $6,581,250.

Frank Bliss & Co. to Admit Stanley to Firm

On May 8th Stanley T. Stanley will become a partner in Frank E. Bliss & Co., 11 Wall Street, New York City, members of the New York Stock Exchange, and the firm name will be changed to Bliss & Stanley. Mr. Stanley was formerly with Merrill Lynch, Pierce, Fenner & Beane.

Baltimore Bond Club Announces Outing

BALTIMORE, MD.—The Bond Club of Baltimore announces that it will hold its annual Field Day and Outing on Friday, June 6th at the Elkridge Club.

ADVERTISEMENT ADVERTISEMENT ADVERTISEMENT

UNION PACIFIC RAILROAD COMPANY

FIFTIETH ANNUAL REPORT—YEAR ENDED DEC. 31, 1946

To the Stockholders of Union Pacific Railroad Company:

The Board of Directors submits the following report for the year ended Dec. 31, 1946, for the Union Pacific Railroad Company, including Oregon Short Line Railroad Company, Oregon-Washington Railroad & Navigation Company, Los Angeles & Salt Lake Railroad Company and The St. Joseph and Grand Island Railway Company, whose properties are leased to the Union Pacific Railroad Company. The lessor companies have certain income and charges, and the figures in the Income Account, other than those relating to transportation operations, and in the Surplus Account and General Balance Sheet and tabulations and tables relating thereto are stated on a consolidated basis, *excluding offsetting accounts between the companies.*

INCOME

The operated mileage at close of year and income for the year 1946, compared with 1945, were as follows:

Operated Mileage at Close of Year	1946	1945	Increase	Decrease
Miles of road	9,774.91	9,777.38	--------	2.47
Miles of additional main track	1,531.45	1,531.29	.16	
Miles of yard tracks and sidings	4,490.59	4,480.41	10.18	
Total Mileage Operated	15,796.95	15,789.08	7.87	
Transportation Operations				
Operating revenues	$361,395,534.29	$491,877,872.15	--------	$130,482,337.86
Operating expenses	286,809,739.61	362,286,584.09	--------	75,476,844.48
Revenues over expenses	$74,585,794.68	$129,591,288.06	--------	$55,005,493.38
Taxes	35,403,648.23	84,536,069.79	--------	49,132,421.56
Railway Operating Income	$39,182,146.45	$45.055,218.27	--------	$5,873,071.82
Rents from use of joint tracks, yards and terminal facilities	1,816,712.47	1,942,090.21	--------	125,377.74
	$40,998,858.92	$46,997,308.48	--------	$5,998,449.56
Hire of equipment—debit balance	$10,999,214.01	$12,609,545.29	--------	$1,610,331.28
Rents for use of joint tracks, yards, and terminal facilities	3,046,293.10	3,280,210.54	--------	233,917.44
	$14,045,507.11	$15,889,775.83	--------	$1,844,248.72
Net Income from Transportation Operations	$26,953,351.81	$31,107,552.65	--------	$1,154,200.84
Income from Investments and Sources other than Transportation Operations				
Income from oil and gas operations—net	$6,621,631.34	$6,172,237.69	$449,393.65	
Dividends on stocks owned	2,913,483.50	4,233,693.50	--------	$1,320,210.00
Interest on bonds and notes owned	1,029,556.89	1,190,718.22	--------	161,161.33
*Income from unfunded securities and accounts	2,501,987.80	2,190,710.75	311,277.05	
Rents from lease of road and equipment	315,029.74	151,883.87	163,145.87	
Miscellaneous rents	510,356.02	469,359.93	40,996.09	
Miscellaneous income	1,906,345.09	2,187,289.95	--------	280,944.86
Total	$15,798,390.38	$16,595,893.91	--------	$797,503.53
Total Income	$42,751,742.19	$47,703,446.56	--------	$4,951,704.37
Fixed and Other Charges				
Interest on funded debt	$11,384,595.08	$13,505,867.01	--------	$2,121,271.93
Interest on unfunded debt	365,187.93	391,769.61	--------	26,581.68
Miscellaneous rents	32,053.33	51,969.38	--------	19,916.05
Miscellaneous charges	538,302.57	722,260.68	--------	183,958.11
Total	$12,320,138.91	$14,671,866.68	--------	$2,351,727.77
Net Income from All Sources	$30,431,603.28	$33,031,579.88	--------	$2,599,976.60
Released from "Reserve against possible refunds on U. S. Government shipments"	3,780,134.95	1,618,699.29	2,161,435.66	--------
Total for Disposition	$34,211,738.23	$34,650,279.17	--------	$438,540.94

DISPOSITION

		1946	1945	Increase	Decrease
Dividends on Stock of Union Pacific Railroad Co.:					
Preferred stock:					
2 per cent paid April 1, 1946	$1,990,862.00				
2 per cent paid October 1, 1946	1,990,862.00	$3,981,724.00	$3,981,724.00		
Common stock:					
1½ per cent paid April 1, 1946	$3,334,365.00				
1½ per cent paid July 1, 1946	3,334,365.00				
1½ per cent paid October 1, 1946	3,334,365.00				
1½ per cent payable January 2, 1947	3,334,365.00	13,337,460.00	13,337,460.00		
Total Dividends		$17,319,184.00	$17,319,184.00		
Transferred to Earned Surplus—Unappropriated		$16,892,554.23	$17,331,095.17	--------	$438,540.94

* Includes interest on short-term U. S. Government obligations carried in balance sheet account, "Temporary cash investments."

Operating results for year 1946 compared with year 1945:

	1946	1945	Increase	Decrease	Per Cent
Average miles of road operated	9,775.33	9,779.41	--------	4.08	—
OPERATED REVENUES					
Freight	$263,825,662.84	$355,546,157.57	--------	$91,720,494.73	25.8
Passenger	64,767,862.71	96,370,042.20	--------	31,602,179.49	32.8
Mail	7,928,255.67	8,800,411.65	--------	872,155.98	9.9
Express	6,420,630.93	8,642,899.91	--------	2,222,268.98	25.7
Other passenger-train	8,321,134.77	10,455,930.00	--------	2,134,795.23	20.4
Switching	2,732,891.12	2,768,377.50	--------	35,486.38	1.3
Other	7,399,096.25	9,294,053.32	--------	1,894,957.07	20.4
Total operating revenues	$361,395,534.29	$491,877,872.15	--------	$130,482,337.86	26.5
OPERATING EXPENSES					
*Maintenance of way and structures	$46,576,730.42	$69,794,445.10	--------	$23,217,714.68	33.3
*Maintenance of equipment	69,235,048.90	117,834,077.49	--------	48,599,028.59	41.2
Total maintenance	$115,811,779.32	$187,628,522.59	--------	$71,816,743.27	38.3
Traffic	7,880,227.66	7,538,714.08	$341,513.58	--------	4.5
Transportation	140,262,539.14	144,300,151.75	--------	4,037,612.61	2.8
Miscellaneous operations	13,633,024.46	14,203,419.92	--------	570,395.46	4.0
General	9,222,169.03	8,615,775.75	606,393.28	--------	7.0
Total operating expenses	$286,809,739.61	$362,286,584.09	--------	$75,476,844.48	20.8
Revenues over expenses	$74,585,794.68	$129,591,288.06	--------	$55,005,493.38	42.4

TAXES	1946	1945	Increase	Decrease	Per Cent
State and county	$12,480,000.00	$11,852,758.47	$627,241.53	--------	5.3
Federal income and excess-profits	$12,269,366.11	$60,600,000.00	--------	$48,330,633.89	79.8
Federal capital stock	--------	722,557.50	--------	722,557.50	100.0
Federal unemployment insurance	4,791,085.07	5,344,508.50	--------	553,423.43	10.4
Federal retirement	5,573,650.58	5,769,785.08	--------	196,134.50	3.4
Other Federal	289,546.47	246,460.24	$43,086.23	--------	17.5
Total Federal	$22,923,648.23	$72,683,311.32	--------	$49,759,663.09	68.5
Total taxes	$35,403,648.23	$84,536,069.79	--------	$49,132,421.56	58.1
Railway operating income	$39,182,146.45	$45,055,218.27	--------	$5,873,071.82	13.0
Equipment rents (debit)	10,999,214.01	12,609,545.29	--------	1,610,331.28	12.8
Joint facility rents (debit)	1,229,580.63	1,338,120.33	--------	108,539.70	8.1
Net railway operating income	$26,953,351.81	$31,107,552.65	--------	$4,154,200.84	13.4
Per cent—Operating expenses of operating revenues	79.36	73.65	5.71	--------	7.8
FREIGHT TRAFFIC (*Commercial Freight only*)					
Tons of revenue freight carried	48,002,636	56,505,272	--------	8,502,636	15.0
Ton-miles, revenue freight	27,474,365,447	35,546,845,368	--------	8,072,479,921	22.7
Average distance hauled per ton (*miles*)	572.35	629.09	--------	56.74	9.0
Average revenue per ton-mile (*cents*)	.960	1.000	--------	.040	4.0
Average revenue per freight-train mile	$8.66	$9.65	--------	$.99	10.3
PASSENGER TRAFFIC (*Excludes Motor-Car Trains*)					
Revenue passengers carried	4,730,542	7,596,011	--------	2,865,469	37.7
Revenue passengers carried one mile	3,645,281,435	5,740,885,433	--------	2,095,603,998	36.5
Average distance hauled per passenger (*miles*)	770.58	755.78	14.80	--------	2.0
Average passengers per passenger-train mile	191.84	282.92	--------	91.08	32.2
Average revenue per passenger-mile (*cents*)	1.772	1.674	.098	--------	5.9
Average revenue per passenger-train mile, passengers only	$3.40	$4.74	--------	$1.34	28.3
Average total revenue per passenger-train mile	$4.30	$5.62	--------	$1.32	23.5

*Includes depreciation, amortization and retirement charges:

	1946	1945	Increase	Decrease
Maintenance of way and structures	$4,795,776.02	$13,373,932.00	--------	$8,578,155.98
Maintenance of equipment	9,431,380.55	42,752,830.18	--------	33,321,449.63

GENERAL BALANCE SHEET—ASSETS

	December 31, 1946	December 31, 1945	Increase	Decrease
Investments:				
Road and Equipment	$1,080,102,580.09	$1,063,759,817.56	$16,342,762.53	
Less:				
Receipts from improvement and equipment fund	$23,823,091.13	$23,823,091.13		
Appropriations from income and surplus prior to July 1, 1907, credited to this account	13,310,236.52	13,310,236.52		
Total	$37,133,327.65	$37,133,327.65		
Road and equipment property	$1,042,969,252.44	$1,026,626,489.91	$16,342,762.53	
Donations and grants (Credit)	*$11,795,048.39*	*$11,688,023.60*	*$107,025.79*	
Reserve for depreciation—road and equipment (Credit)	*$173,435,083.69*	*$166,091,411.72*	*$7,343,671.97*	
Reserve for amortization of national defense projects (Credit)	*$59,437,104.76*	*$59,333,693.90*	*$103,410.86*	
Sinking funds	$2,507.50	$50.00	$2,457.50	
Capital and other reserve funds	$539,935.64	$345,689.97	$194,245.67	
Miscellaneous physical property	$26,192,714.72	$25,115,858.79	$1,076,855.93	
Reserve for depreciation—miscellaneous physical property (Credit)	*$12,922,357.52*	*$11,818,789.57*	*$1,103,567.95*	
Investments in affiliated companies:				
Stocks	$18,679,195.24	$18,679,187.24	$8.00	
Notes	348,344.43	360,720.66	--------	$32,376.23
Advances	8,771,547.76	9,472,413.04	--------	700,865.28
Total	$27,799,087.43	$28,532,320.94	--------	$733,233.51
Investments in other companies:				
Stocks	$64,052,376.08	$64,148,974.03	--------	$96,597.95
Bonds and notes	22,725,409.57	22,859,731.36	--------	134,321.79
Total	$86,777,785.65	$87,008,705.39	--------	$230,919.74
Reserve for adjustment of investments in securities (Credit)	*$33,845,942.13*	*$33,905,324.96*	--------	**$59,382.83*
Total Investments	$892,845,745.89	$884,791,871.25	$8,053,874.64	
Current Assets:				
Cash	$43,001,365.39	$70,830,773.85	--------	$27,829,408.46
Temporary cash investments (U. S. Government securities)	162,446,022.76	210,000,000.00	--------	47,553,977.24
Special deposits	1,772,703.93	3,552,243.11	--------	1,779,539.18
Loans and bills receivable	28,940.00	2,541.60	$26,398.40	
Traffic and car-service balances—net	9,017,861.12	--------	9,017,861.12	
Net balance receivable from agents and conductors	4,167,836.28	4,355,537.53	--------	187,701.25
Miscellaneous accounts receivable	12,216,168.34	24,228,879.37	--------	12,012,711.03
Material and supplies	34,845,661.75	34,733,652.93	112,008.82	
Interest and dividends receivable	2,353,992.07	2,543,269.22	--------	189,277.15
Accrued accounts receivable	9,071,675.75	16,338,189.73	--------	7,266,513.98
Other current assets:				
Baltimore and Ohio Railroad Co. capital stock applicable to payment of extra dividend of 1914	110,133.30	110,315.10	--------	181.80
Miscellaneous items	189,843.90	8,365,048.55	--------	8,175,204.65
Total Current Assets	$279,222,204.59	$375,060,450.99	--------	$95,838,246.40
Deferred Assets:				
Working fund advances	$107,753.46	$103,923.98	$3,829.48	
Other deferred assets	33,020,922.56	25,792,765.44	7,228,157.12	
Total Deferred Assets	$33,128,676.02	$25,896,689.42	$7,231,986.60	
Unadjusted Debits:				
Prepayments	$3,807.81	$17,854.02	--------	$14,046.21
Other unadjusted debits	1,482,300.03	1,351,031.80	$131,268.23	
Total Unadjusted Debits	$1,486,107.84	$1,368,885.82	$117,222.02	
Grand Total	$1,206,682,734.34	$1,287,117,897.48	--------	$80,435,163.14

*Loss from sale of Baltimore & Ohio R. R. Co. common stock, charged to this account.

Taxes in the Years Ahead

(Continued from page 5)

ductions in the Federal Budget, but even when our economy has attained some semblance of stability, government expenditures will still be high. The budget will be huge, primarily because we must pay the price of war to the extent that it can be measured in dollars. Payments must be made toward reducing the 260 billion dollar Federal debt. For the purposes of this discussion I shall assume that our Federal revenue requirements will be not less than 25 billion dollars annually for the normal long-run future. This is five times as much as was ever collected in peace time before the second world war.

State and national governments will collect another 10 billion dollars, making our total tax bill about 35 billion dollars. This is an amount equal to about half of our entire national income in many good prewar years.

Can our national economy stand this load? Can the free enterprise system, as we know it—or any other system—be expected to contribute this huge sum without forcible confiscation? We face a situation requiring courage, determination, and a will to produce.

Taxes Must Be Supported by Production

In order to bear this great burden we need a strong, vigorous economy. People must be working, and earning, and spending. Above all there must be incentives to encourage people to work hard, to expand their business, and to increase production.

High Production due to Incentives and Rewards

We all know that our American standard of living is the highest the word has ever seen, that we have more telephones, more automobiles, more bathtubs, more radios, and more to eat in proportion to our population, than any other country in the world. This is partly because of our great national resources, but it is mainly because of high production per capita of our industrial and agricultural workers. Such productivity is possible only under a competitive system where there is an incentive to furnish more and better tools to the workers so that the combination of workers and tools increases production and distribution at prices which the people are willing and able to pay.

Earnings are the reward that come to those who serve the public by furnishing it with what it wants in the most efficient manner. The hope of money reward is the best all-round incentive for doing a beter job, and it is equally effective with the men in the factory or office, the salesman in the field, the executives who do the planning, and the owners who furnish the plants and tools.

Preserve Rewards and Incentives

We must recognize the importance of safeguarding our economy and the principles under which it thrives, so that it can produce the huge income required as a source for this great tax load. It is far more important for us to concern ourselves with the production of income, which in turn will yield taxes, than to be concerned with the enactment of more and more tax legislation. I believe that whatever may be the pattern or method for distributing the tax burden of our government, it must give full recognition to the importance of preserving the rewards and incentives which are the cornerstone of our economic system.

Taxing Ability to Pay

Our income tax rates upon individuals are graduated in theory, at least, in accordance with ability to pay. This, in my opinion, is both right and just. I believe that those who receive richer rewards for their efforts than others, and those who receive a greater share of worldly goods than others, can rightly be called upon to pay a greater proportion of the tax burden than others who are less fortunate. I have no quarrel with the policy that our tax system shall recognize ability to pay. This does not mean, however, that this principle should apply to every tax which is levied, but rather that the tax system as a whole should be so organized as to put a proportionately heavier burden on those most able to pay.

Nor should we attempt to invoke this policy to the extreme, or to the extent that it destroys incentive toward greater production and efficiency, or prevents adequate reward for leadership. The underlying motives of our economic system must be allowed to prevail. We know that the power to tax is the power to destroy. If we place tax burdens unwisely so as to eliminate the hope of incentives and rewards, we may gain high revenues quickly, but the future will find a lower national income to tax, a comparative dearth of high incomes, and a greater burden upon the small taxpayer.

Taxing Purchasing Power

In emphasizing the importance of preserving incentives and rewards as the motivating forces of our economy I am not losing sight of the effects of taxation upon purchasing power. I recognize the dangers of reducing purchasing power through taxation. I believe it is necessary to weigh the effects of taxation at different devels and on different elements in our economy. If taxes stifle expansion which would create jobs or provide more product, might it not be better to suffer a temporary shrinkage in purchasing power and permit business expansion which will bring ultimate good of the whole economy?

Let us take the case of John Doe as an example. John has a little factory that makes household utensils. One of his patented gadgets is very popular. If John would modernize his plant by putting in some automatic machinery, he could cut his price, increase his sales, and make more money. But John hesitates to do this. Why? Well, John is now out of debt and has some savings. If he buys modern machinery, he will have to go in debt again. He says it took so long to save a little after paying high taxes, that he doesn't want to risk his savings and his credit for the small additional income that he can net after paying Uncle Sam. As a result, there will be no order for new machinery, no reduction in the price of his gadget, and no additional jobs for men to build the machines or to operate them.

If John Doe has no incentive to expand his business, neither will thousands of others like him, and the entire economy suffers from the lack of normal business expansion.

I believe that it is of prime importance for businessmen and industrialists to concern themselves with the important subject of maintaining purchasing power at a high level. We need to display and encourage a high type of business statesmanship directed toward raising the living standards of the average person and particularly those whose standards are now below average. It is our duty to stimulate and encourage vigorously the ideas and resources of business so that we will have better products at lower prices. Through improved management and enlightened leadership, the American businessman can make his contribution to the progress of our people toward higher standards and better living.

Sources of Tax Revenue

We may classify taxes roughly into three main groups: first, income taxes upon individuals; second, income taxes upon corporations; and third, excises, customs, estate and gift taxes, and miscellaneous receipts.

The first and second groups—namely, individual and corporate income taxes—will vary in amount depending upon our national income. For example, if the gross national product should decline 18% from an assumed normal, the personal income tax yield may be expected to decline 40%; and conversely, if the gross national product should increase 18%, personal income tax yields may be expected to increase 40%. The situation with respect to corporate income tax varies still more widely. If the gross national product should vary upward or downward 18%, corporate income taxes might be expected to vary 60%.

Any variation in industrial activity, as reflected in the national income, does not affect the yield of excise taxes as much as it affects the yield of income taxes. An 18% increase or decrease in gross national product would probably result in only a 10% change in excise tax yields. In other words, excise taxes are a more stable source of revenue than are either personal or corporate income taxes. We might look upon excise taxes as our bread-and-butter taxes because of the dependability of their yield.

Any decrease in the national income means an even greater increase in the difficulty of raising the necessary revenue. That is why I keep emphasizing the need for full production.

National Income

It can readily be seen that any attempt to be specific as to income tax rates for the future requires an assumption as to what the national income will be. We have the capacity to produce and to consume at a national income level of at least 165 billion dollars.

I am confident that with wise tax policies, with freedom from unnecessary governmental restrictions and expense, with intelligent business management, and with sound labor relations, we can attain this income. Accordingly, I have assumed a national income of 165 billion dollars in estimating the revenue yields.

Distribution of Tax Burden

How are we going to distribute a Federal tax burden of 25 billion dollars among our people with a national income of 165 billion dollars? I have enumer-

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Taxes in the Years Ahead

(Continued from page 25)

ated a few of the principles which I believe should guide us in drawing that pattern. However, principles themselves are not enough. A program should be specific. With a sum so huge we will do well to remember the old maxim that "We may shear the sheep many times, but we can skin him only once."

I believe that the 25 billion dollar budget should be raised in the following manner: from individual income taxes, approximately 9½ billion dollars; from corporate income taxes, about 7 billion dollars; and from excises, customs, estate and gift taxes, and miscellaneous receipts, in the neighborhood of 8½ billion dollars.

Individual Income Taxes

How are we going to raise 9½ billion dollars from individual income taxpayers? First of all, it is important to keep the base broad so that a high proportion of the people will be taxpayers. If we were to attempt to raise personal exemptions from $500 per exemption to $600, the cost of that small increase would be 1.6 billion dollars. You can see the tremendous effect that only a slight change in the personal exemptions would have upon total revenue.

Furthermore, I question the use of personal exemptions as a measure in determining ability to pay. For instance, a taxpayer living in a rural community in southern California, growing most of the food for his table, having little or no expense for transportation to work, requiring little or no heat for his home, and wearing work clothing most of the time, is far more able to pay a tax on a $2,000 income than is a clerk working in New York City and earning the same income but having to spend substantial amounts for food, clothing, shelter, and transportation.

In years past we have assumed that income reflected ability to pay. Before the war we had much higher personal exemptions and much lower rates, and the discrepancies were not so keenly felt. Now we are facing a period where we cannot afford such high personal exemptions nor such low rates, and we must realize that "income" is not necessarily synonomous with "ability to pay." In other words, $500 personal exemption applied to income as we define it in the law is inequitable as aplied to persons living under different circumstances across the length and breadth of this country.

Accordingly, I believe that it would be more equitable to all taxpayers if we look upon personal exemptions not only as an attempt to recognize in part the cost of living, but also as an administrative necessity to eliminate taxes in amounts so small as not to justify the expense of collecting.

I think our individual tax rates upon the little fellow can be cut by approximately one-half. In other words, I would suggest a combined normal and surtax rate of 10% on the first $2,000 of taxable income, and rates graduated upward so that at approximately the $50,000 bracket the rate would be 50%. The highest bracket would carry a rate of 66%. Such a plan would offer an incentive for every taxpayer, large or small, to increase his income. In fact, a man would be in the ranks of top management before the government would take more than half of his "top dollar."

There is a difference between the first dollar and the last dollar you make during a year, as you know. The "bottom dollar" is worth considerably more to you than the "top dollar," because of the graduated surtax rates. The higher the income, the less the top dollar is worth to the taxpayer, and when much more than half of it goes to the government for taxes, the incentive to earn more is reduced, if not destroyed.

When any of us lose our desire to produce, the nation suffers proportionately, because production is reduced, and it is on production that national income depends.

There is another distinction between bottom dollars and top dollars in that those top dollars quite often have another job to do. The bottom dollars take care of your living expenses, but the top dollars, if your living expenses are not too high, are your savings which you may invest. When you consider an investment, you of course consider the risk and the return. The return is subject to more top dollar taxes, and if there is not sufficient return remaining after the top dollar taxes are paid, you of course refuse to take the risk. In other words, your top dollars do not become venture capital unless there is a possibility of retaining a good share of the additional income which may result. An excessively high tax rate thus prevents investments in new businesses, acts as a curb on industrial expansion, and thus prevents increases in the national income.

When considering the tax load, we must not overlook the problems of small businesses—businesses which need to accumulate savings if they are to grow. Any business which is not incorporated, being owned by an individual or a partnership, is subject of course to individual income tax rates. If these small businesses are to plow back a part of their earnings and so accumulate capital for normal expansion, surtaxes must not be too high.

There are a few other items which I believe we should consider in our tax program for the future. Some recognition should be given to earned income as against income from other sources so as to stimulate the productivity of individual effort. I am not sure how this should be accomplished. I do not believe that the earned income credit which formerly was a part of the revenue law was adequate. We need something more than a token recognition of earned income.

Also there is the matter of deduction from income for contributions. Fortunately this country has many citizens who have sufficient vision, public interest, and financial means to contribute considerable sums to the advancement of science. We have made great progress in fundamental research, but the unknown still far surpasses the known, and it would be only fitting and proper to encourage those individuals who are inclined to contribute to scientific foundations an amount greater than the 15% of income now allowed as a deduction for charitable, educational, scientific, and similar institutions. Accordingly, I suggest that an additional 5% be allowed as a deduction in computing taxable income for contributions toward research work in the field of science. Some people may challenge this proposal on the ground that, after all, the taxpayer would be giving away the government's money, but I should like to make two observations. In the first place, taxpayers cannot well afford to pay out contributions in excess of the 15% limitation and also pay to the government a high rate of taxation upon the income used for such contributions. In the second place, I believe there is little question that scientific research, which we all concede is a necessity, can be far more effectively conducted by privately endowed foundations than by Federal Bureaus financed through taxation.

With regard to the tax which individuals pay on dividends received from corporations, I do not believe that it has been possible to determine how much of the income tax on corporations has been absorbed and reflected in lower dividends to stockholders and how much has been passed on to customers in the form of higher prices. Unless it can be clearly shown that shareholders actually absorb the corporate income tax as well as their individual tax upon dividends, I am not ready to concede that the individual should receive full credit for corporate taxes applicable to his dividends. However, it is quite possible that a portion of corporate taxes is paid by shareholders, and I do not oppose recognition through some form of limited credit to the individual.

Corporation Income Taxes

If corporate income taxes were abolished, as has been proposed by some economists, it would mean that income tax rates for individuals would be very much higher—so high as largely to destroy incentive for production of income.

However, we must guard against the corporate rate becoming so excessive that it will be detrimental to business efficiency or to the exercise of good business judgment. I believe that the present rate of 38% on corporate income too closely approximates this point, and accordingly I suggest a rate of 33⅓% for the long pull. Assuming approximately 21 billion dollars in corporate taxable income, this rate would yield 7 billion dollars. Such a tax upon corporations is admittedly heavy, and without fair treatment of the corporate form of business, may well be destructive. It is quite important, therefore, that we continue certain existing favorable provisions and eliminate other provisions which unduly penalize corporations having widely fluctuating earnings and those operating through subsidiary companies. Accordingly, I would suggest continuing and extending to five years the provisions for the carry-over of operating losses in order to enable the corporations with loss years to recoup their losses in profit years before being required to pay income taxes. Similarly, corporations operating through subsidiaries should be permitted to receive dividends from other corporations on a taxfree basis. The present penalty of 2% for consolidated returns should be removed.

Miscellaneous Taxes and Receipts

It is estimated that excises, customs, estate and gift taxes, and miscellaneous receipts will produce 8½ billion dollars under an assumed national income of 165 billion.

As I have already pointed out, excises do not vary in yield so much as do income taxes as a result of changes in economic conditions. Therefore, in the interest of stability of revenue, it would seem not only desirable but necessary to continue excises somewhere near their present level. Minor readjustments within our excise program will doubtless be in order from time to time. I believe that relying upon this form of revenue for one-third of our revenue is wholesome and beneficial to our economy.

Need for a Strong and Vigorous National Economy

Let me emphasize once again that this program presupposes a strong and vigorous national economy, with incentives to encourage increased productivity. Unless national production and national income can be maintained at a high level, the tax burden will be wellnigh intolerable.

Bureau of Internal Revenue Entitled to Support

The revenue collecting problems in the future are going to be one of the major concerns of our government, and we as citizens and business leaders owe a duty of wholehearted support to the Bureau of Internal Revenue in its attempt towards uniform assessment and collection of taxes. Its problems are our problems. With our support I believe we can be assured that the Bureau will continue to do commendable work.

Simplification of Tax Laws

Much has been said about the simplification of our tax laws; many complaints have been made about the complexity of the laws and the difficulty of understanding them. Any possible clarification of verbiage or rearrangement of sections of the law of course should be made. However, I do not have high hopes of a simplified, easy-to-read tax system. High taxes must of necessity provide for exceptions in order to alleviate undue hardship, or they must provide for different treatments because of the peculiar circumstances of some taxpayers. The exceptions and qualifications are what make laws complicated. In other words, high tax rates and complex tax laws go hand in hand.

Conclusion

In this great nation of ours, there is no shortage of intelligence or courage. We have proved our mettle many times in the past, and we will do so again. It is my opinion that we, as a nation and as individuals, have sufficient ability, and through the application on the part of all of us of intelligent hard work, we will use that ability towards attaining still greater heights.

In our journey through history we are approaching only a crossroad—not the end of progress—and it is our responsibility as businessmen and industrialists of this nation to offer leadership and guidance towards the greater possibilities that lie ahead.

Results of Treasury Bill Offering

The Secretary of the Treasury announced on April 28 that the tenders for $1,100,000,000 or thereabout of 91-day Treasury bills to be dated May 1 and to mature July 31, which were offered on April 25 were opened at the Federal Reserve banks on April 28.

Total applied for $1,960,002,000.

Total accepted $1,100,016,000 (includes $20,380,000 entered on a fixed price bass at 99.905 and accepted in full).

Average price, 99.095+; equivalent rate of discount approximately 0.376% per annum.

Range of accepted competitive bids:

High, 99.907, equivalent rate of discount approximately 0.368% per annum.

Low, 99.905, equivalent rate of discount approximately 0.376% per annum.

(55% of the amount bid for at the low price was accepted.)

There was a maturity of similar issue of bills on April 24 in the amount of $1,311,650,000.

Payment by U. S. for Swiss War Damages

The United States has paid $4,070,183 to Swiss citizens on wartime bomb damage claims, but the final total bill may run to $10,000,000 said Associated Press advices from Washington, April 21, appearing in the New York "Herald Trbiune" which further reported:

The State Department reminded Congress of this obligation today, recommending passage of a law to permit final settlements for damage accidentally done by American flyers to Swiss property.

The first acknowledged damage, the State Department said in a statement filed with the House Clerk, occurred in April, 1944, when United States planes bombed the Rhine River town of Schaffhausen by mistake. An attack on the town of Samaden was acknowledged soon after.

The United States already has paid $4,013,668 in damages for the Schaffhausen raid in which thirty-seven persons were killed and about fifty injured. The other $56,515 paid so far went for claims arising from the Samaden incident.

Abundant Farm Production with Surplus Food Allotments

(Continued from page 9)

measurable wants of the people in this country—what people really want to buy.

We can judge this from the actual buying habits of people who have comparatively good incomes. What would you call the lower limit of a reasonably good family income? Under 1941 prices, would $2,000 per family be too much? That's less than $40 a week per family. But back in 1941, the families that had incomes of that much or more were approximately the top 40%. At least, most of the families with prewar incomes of $2,000 or more could afford a generally adequate diet. So let's assume their buying represents what the people of the United States want, and apply their buying habits to the whole population. This indicates that people want about 40 pounds more meat per capita than they were getting between 1937 and 1941; they want over 200 pounds apiece more milk, about 9 pounds more chicken, 23 or 24 pounds more fresh vegetables, around 17 pounds more processed vegetables, an additional 50 pounds of citrus fruit, and over 80 pounds more of other fruits. They apparently want a little less of beans and would continue the gradual, long-time trend toward lower per capita use of potatoes. I believe it is safe to assume that they would buy more products made from cotton, tobacco and wool, although we do not have the precise measure for these products that compare with those I have just given for food.

Now let's see what these wants mean in terms of farm acreages and types of farming—what kind of agricultural pattern we need.

Total up the wants of our own people, add in conservative amounts for exports, imports, and industrial uses, allow for good yields, and here's the picture: We would need more than 420 million acres for crops, orchards, rotation pasture and fallow land. That is almost exactly what our production goals call for this year. It's around ten million acres higher than the comparable figure for last year or for the 1937-41 average. It's the continuing acreage we would need if people of reasonable income could buy what they have shown they want.

Our estimate of needed acreage of course allows for average weather and a continuing trend toward more efficient production. The 420 million acres we would need to meet our own personal wants, plus peacetime exports and industrial uses, would be divided up quite a bit differently from prewar and even from last year's use of the land. Emphasis would be on livestock farming. This would mean more land in pasture and hay, less in small grains and potatoes and beans, not much change in feed grain acreage. There would be less land in soybeans than we had last year but more in truck crops, more in cotton, and more in orchards.

Forest products are crops too, and a third of our land is in forests. The Forest Service estimates that in an economy of full employment we will need to cut 65 to 72 billion board feet of saw timber per year. We are now growing it at only about half that rate.

Neither the field crop nor the forest crop acreage estimates that I have given you assume any greater exports than we have a right to expect in the short run. In fact, the export assumptions may be too conservative. A good international trade program over a period of years should remove unnecessary trade barriers and improve the outlook. The current estimates do not take into account any change in the export picture that might result from our decision to give material assistance to weak democracies.

Our calculations on crop needs and acreages are supported in general by our actual experience. Judging what the whole population wants by the actual food buying habits of persons in the upper 40% of our prewar income groups, our people would like to be able to buy a third more food than they had on the average in the five prewar years 1935-39. Last year our food consumption level was already 16% above prewar. So, as a result of increased consumer income and increased farm production we have gone about half way toward supplying people's wants that were not being satisfied in the prewar years. We are doing it during a world food emergency which has necessitated great exports of grain and some other commodities.

We are getting some surprises as we go along. For example, as consumers earned more money and as dairymen stepped up milk production, people began drinking much more milk than ever before—from a fourth to a third more. They also showed they wanted more and more meat—I think even the livestock industry has been surprised at the size of the demand. In 1944 we ate about 23 pounds more meat per capita than in prewar years, and this year we may make the difference 25 to 30 pounds—at least a fifth more than prewar. As for eggs, many people assumed that wartime production was far beyond any conceivable peacetime demand. When we compared our per capita consumption of 392 eggs in 1945 with the prewar average of 298, much of the difference was ascribed to the meat shortage. But last year, we ate about 380 eggs per capita, even though we had 15% more meat than before the war. And although estimates at the beginning of this year indicated a drop to 360, we ate eggs at a record rate in the first quarter of the year. We ate more than 100 eggs apiece, on the average, during that quarter.

When people who haven't had the food they wanted get better incomes, they buy more food and they also buy the more expensive foods.

What we are witnessing today is a demonstration not only of agriculture's ability to meet the people's wants but also of the economic importance of doing so. No one who studies our economy today can doubt that agriculture is not merely benefiting from national prosperity but is greatly contributing to this prosperity. This is a case study in the interdependence of our various economic groups.

What our studies and experience boil down to is one simple fact: By supplying only the reasonable needs of our own people and reasonably expected export and industrial markets, we can not only market as much agricultural production as we have now but can actually expand. We can do it profitably and with progressive improvement of our natural resources.

If that isn't a practical objective toward which we ought to build our programs, I'd like to be shown something more business-like. Neither farmers nor city people can afford to accept a less practical course.

Not only is the practical course clear—I believe there is no other. Let me tell you why I believe that.

There are three reasons. The first is found in the wartime revolution in agricultural production—a revolution from which there is no turning back. The second is found in the requirements of our land and water resources. The third is found in the world situation. Let us take up these reasons briefly one by one.

The revolution in agriculture production is still progressing. I'm sure you know the story well—a one-third increase in production for market—enough more food to give 50 million additional people a prewar diet every year— new records year after year in spite of a scarcity of production supplies and equipment and a 10% reduction in farm workers—a revolution accomplished by putting machinery and scientific knowledge to increased use. Discount the revolutionary change by giving weather all the credit possible, and you still have a revolutionary change. Nobody expects farmers to discard their machinery—they show unmistakable signs of doing the opposite. They are buying improved equipment and as much more of it as they can get. Nobody expects farmers to stop using the crops and practices that produce more per acre at less cost per unit. Nobody expects the research man and the engineer to reach the limit of new discoveries and new applications of knowledge. Far from seeing the limit of our productive efficiency, we are just beginning to see the possibilities.

Wants No Limit on Production

In the face of this outlook, it evidently would be impossible to limit total production over a period of years without resorting to complete dictatorship or impoverishment of producers and the land. In the thirties, surplus control measures brought shifts in type of production, but total output stayed up. Acreage reduction brought increased yields. Less of one crop meant more of another. Only drought could substantially change total production. It seems to be a natural law of agriculture—at least of United States agriculture—that production persists and seeks new high levels. Our only choice is to create a pattern of production through which to use our resources wisely.

The second reason we have no practical alternative to a policy of organized plenty is that when we produce what our people really want we will emphasize livestock farming, which is an aid to soil conservation and future productivity.

Livestock production involving beef and dairy cattle and sheep is directly based on pasture. Hog production also makes heavy use of pasture. And pasture is the most conserving use of land. As you improve agricultural resources in a system of livestock farming, you not only increase productive capacity but also provide a good use for land that might otherwise grow surpluses. Let me give you a few figures that indicate the importance of that point. We know, for example, that it takes about seven times as much grain to supply a person a diet of livestock products as to supply him a grain diet. H. E. Babcock, the New York State agricultural authority, recently pointed out that the 40-ounce human stomach can use up the equivalent of 35 pounds of corn a day, just by enjoying three good meals. He stated that ten pounds of grain per person a day would require annual grain crops totaling between nine and ten billion bushels compared with our present production of about six billion.

Preliminary results of a current study in the Department of Agriculture show that of the cropland used to produce the civilian diet in the war years 1943 through 1945, about 80% was used in the production of livestock products; not more than 20% of the land that produced civilian food was devoted to crops for direct human consumption. The same study indicates that with present yields we would not have enough cropland to support our present population if all of us ate the same high-grade diet that our high-income families eat. Our cropland with present yields will support about 190 million people on a low-cost diet or an average diet, depending on the amount of imports assumed. But it would support only about 140 to 150 million people on a liberal diet. At average yields, it takes the product of only about two acres a person to produce the food for a low-income diet, while it takes three acres or more per person to supply the food for a liberal diet. It takes no imagination to see the possibility of eliminating the old problem of surpluses if we have the means to eat what we really want.

Livestock farming is in itself a good farm program.

But you can apply the same general idea to our forest crops. We need more forest products, and at the same time, for conservation reasons, we need to improve the management of present forested areas and devote more of our poorer cropland to its best use—forestry. If we give enough attention to our forests to protect the watersheds of our streams, to protect ourselves against future shortages of forest products and depletion of forest range land, to prevent the impoverishment of people who depend on the forests—and we must do these things if we are to exist for long as a people—then by these very actions we create abundance.

Of course, all this can't be worked out immediately or with automatic precision. For example, to produce what people want, after the world food emergency subsides, we would have to use about 300 million acres for intertilled and close-growing crops. Of that amount about 180 million acres was subject to some erosion damage, according to estimates of land use for 1946. Only about 120 million acres could be used without some damage, pending the adoption of considerably better management systems and practices. Gradually, however, under a pattern of production emphasizing soil-conserving practices and livestock enterprises, we could produce in abundance and bring the soil budget into balance. Eventually, by adapting our land to its best use and protecting it properly, we can have close to 450 million acres suitable for continuous use as cropland.

In testifying on the 1947 Department of Agriculture appropriation bill before the Agricultural Sub-committee of the House appropriations Committee, I reported at some length on the state of the nation's agriculture, including our soil resources. Inasmuch as that testimony is or will be available to you, I will not repeat it here.

Our Agricultural Resources

However, I would like to give you a few summarizing facts about our agricultural resources.

We have farther to go now than before the war toward establishing a permanent agriculture. In the Corn Belt alone, farmers altered their regular rotations to increase the annual acreage of tilled crops such as corn and soybeans by 11 million acres—mostly at the expense of good sod and pasture. Wheat growers, mainly in the Great Plains, increased their crop acreage from 62 million to nearly 72 million—mostly at the expense of grass and fallow.

Parts of the range have suffered under increased numbers of cattle and greater crop acreages.

For the country as a whole, it is estimated that at least half the acreage needed this year for intertilled and close-growing crops is subject to erosion.

Although during the war farmers increased their use of lime and phosphate and their use of various practices such as contour farming, strip cropping, and turning under green manure, the soil requirements still call for double, five times and even greater increases in use of these materials and practices.

In our forests, we have speeded up the rate of cutting until the drain exceeds the rate of growth by about 50%. About 16% of our commercial forest land has been denuded, and only 10% of what remains is old-growth saw timber. Both volume and quality are going down. And we continue to waste large amounts through unsound cutting practices and preventable losses by fire, insects, and disease.

War undoubtedly took a toll of our resources. But even in peacetime we have never used, nor are we now using, systems of soil and forest management that will sustain permanent, high-level productivity in this nation."

This is plain, long-drawn-out suicide. We have to change our course. But if we do choose to build and conserve our resources—as we must in order to survive—then we have no alternative but to accept abundance and learn to live with it.

We are in a strange fix, aren't we?

It must sound paradoxical to countries poor in resources that we must search for ways to use our abundance in order to provide abundance for the future. And yet that is our true situation. Our experience has shown us that the shortest road to national destruction—the quickest way to become a have-not nation—is the route we follow when consumption goes down, surpluses pile up, and producers must neglect and drain the natural resources in order to live. It is not through using our agricultural resources that we impoverish ourselves but through misusing them. I doubt that any other nation has ever had such an opportunity as we have today—to use resources without misusing them, and by producing an adequate supply of what the people want to assure plentiful resources for the future.

My third reason for believing we have no alternative to a policy of realistic abundance is the nature of the atomic age. The world and our place in it have changed. No longer is peace merely an objective. It is necessity itself—the only hope of civilized human survival. The world looks to us for leadership. You can see this in many ways, including the world-wide interest in decisions made by this Congress and even in world concern over statements by some of our individual citizens. We can lead toward a democratic world of abundance, or we can lead toward a regimented world of scarcity. In only one of these directions lies the hope of peace and freedom.

I have gone into some detail to show why I believe that a policy of abudance is immensely practical and that no practical alternative exists. In doing so, I have given some indications of the third point I originally said I would cover—the matter of programs that are needed.

Obviously, a well-rounded farm program will be essential to set up and maintain the required agricultural pattern. The policy I am proposing is one that is vastly difficult to put into effect. No country has ever done it. I think no country has ever seriously attempted it as national policy; perhaps that is why it has never been achieved. Even to point out the facts is to run the risk of being misunderstood. I want to say to you now that I have surveyed the picture from the standpoint of my whole experience.

As a former relief administrator, I want never again to see the misery we had in the great depression. As a former Congressman and as Secretary of Agriculture, I see the importance of the policy of plenty to the general welfare. As a business man and farm operator, I see the plain facts of supply and demand. People want more of what the farmers can produce—there we have the

(Continued on page 33)

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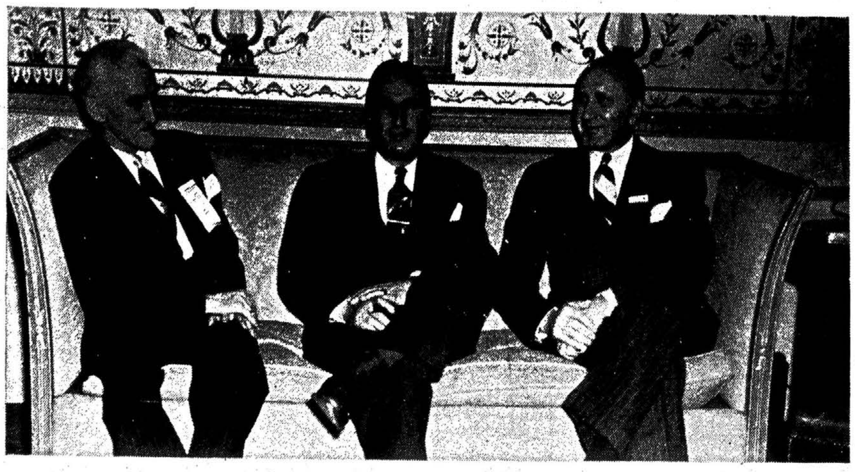

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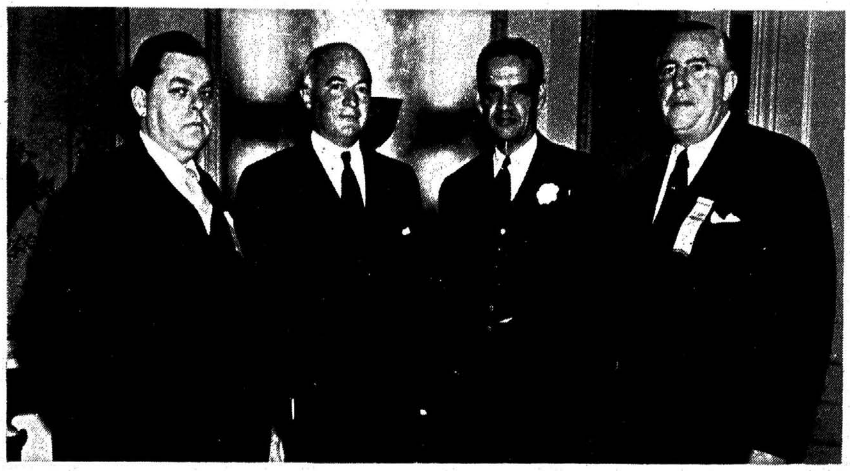

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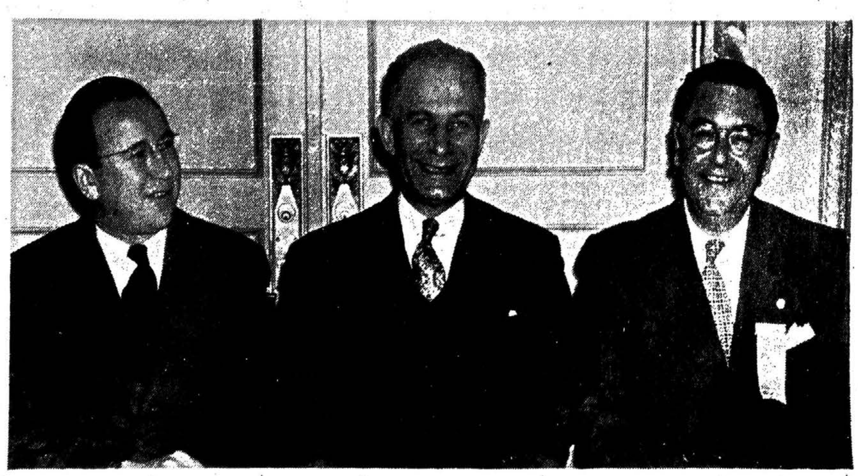

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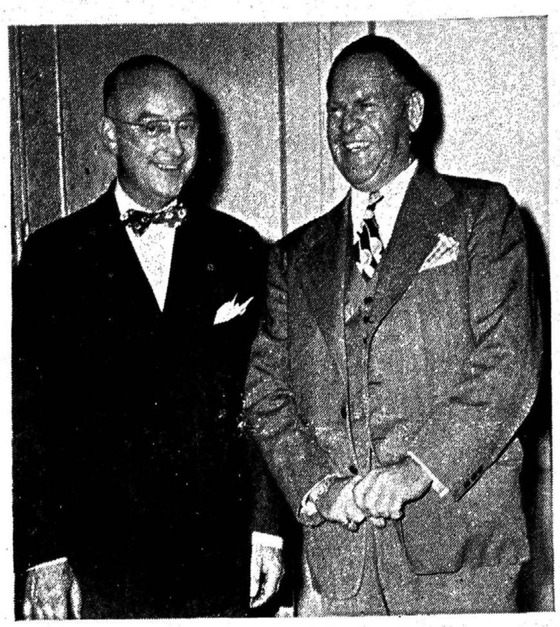

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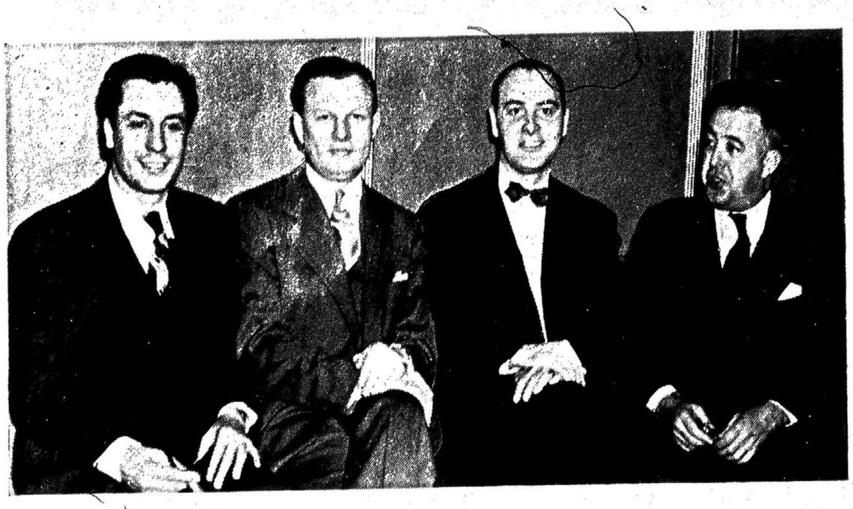

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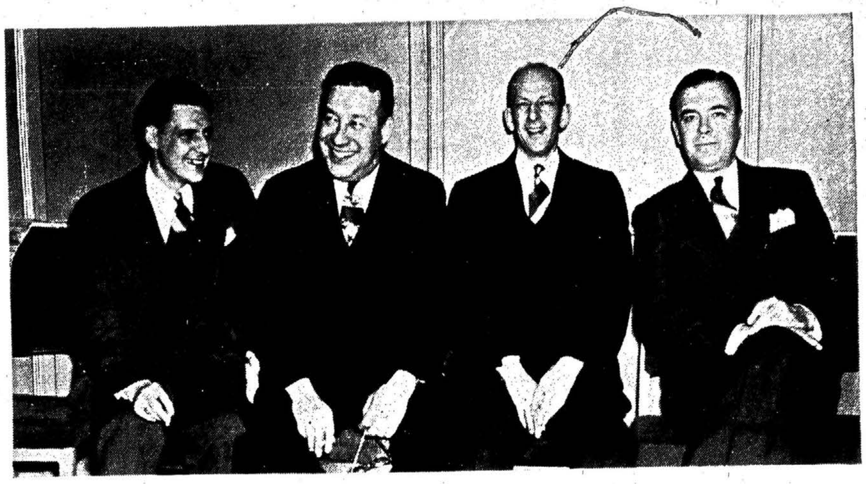

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Abundant Farm Production with Surplus Food Allotments

(Continued from page 28)

making of a great market. The farmers as a result of increasing productive power must have that market. There's nothing visionary about a policy aimed at getting the product and the market together. It's just good business for all of us.

This idea is not new. But there is something new about it: We now have facts and ability to back up what used to be a dream. We have opportunity, for our agriculture is healthier and more productive in every way than ever before. And demand for food is very high in relation to the past. If we start now, we don't have to fight our way out of the hole in order to get the chance to try. Furthermore, we are faced with urgent necessity.

Now is the time to train our sights on the target of organized, sustained, and realistic abundance.

Programs can be built around that objective and the people will support them gladly because they know in their hearts that the aims are right, that the policy makes good sense.

I shall only outline my views on the programs we need because it is my understanding that you expect me to testify on them in detail at a later date. Also, the Policy and Program Committee of the Department, which has worked out the forward-looking pattern of agriculture I have been discussing with you, has assigned subcommittees to study the program requirements for the proposed policy. I shall be glad to summarize the results of these studies for you when they are further along, and of course the details will be available to you also.

However, we don't have to await the outcome of studies to see the broad requirements.

Gearing Agriculture to the Economy

First of all, we need to keep our agriculture geared to develepements in other segments of the economy to the end that a high level of income and employment is maintained. Agriculture can help maintain those conditions—it supplies a large share of both the raw materials and the market for industry. Our agricultural policy is necessarily related to the policy expressed in the Employment Act of 1946, which states that it is the continuing policy and responsibility of the Federal Government to promote maximum employment, production, and purchasing power.

Second, we shall need programs to help maintain stability of prices at levels fair to both producers and consumers. Anything less leads to waste and to general economic conditions which penalize abundance. We know from experience that the business cycle has its ups and downs, even in periods of general prosperity, and that farm prices are very sensitive to them.

We need to develop a long-range system of commodity price floors to protect producers against excessive or abnormal declines during the market season and to generally cushion declines in farm prices and incomes in the event of business recessions. We should make sure, however, that we do not establish a rigid system of price relationships. We will do well to heed the warning of the House Special Committee on Post-war Economic Policy and Planning. It spoke of the danger of pricing our commodities out of the markets; it said the needed long-run adjustments in agriculture are "not necessarily accomplished by present price support programs together with systems of production quotas"; it spoke of the need to meet producers' problems by expanding both markets and production. Prices are and should be an effective means of encouraging changes in production as the conditions of production and demand change. To this end, the parity formula should be modernized. We should emphasize studies and programs to reduce costs of production. This is one way to make abundant production profitable to farmers. However, if farmers are to go on cutting costs and increasing production they must be assured of an adequate market; they must have assurance that prices of industrial goods will not be held up through monopolistic practices; and the people who are no longer needed in farming must be assured of adequate employment opportunities in the non-farm field.

The third broad program requirement is an over-all land program to make sure we conserve and improve our agricultural resources. Therein lies the hope for sustained and increasing abundance. I have already said a good deal about this. Let me add only this: We are still a long way from a permanent soil-conserving agriculture; our goals this year call for the use of about 420 million acres of cropland; and perhaps as much as half of it will be subject to erosion damage at some time during the year.

Improving Rural Areas

The fourth group of programs we need has to do with the welfare and rights of farm people. A policy of realistic abundance cannot be effective unless farm people have a chance to enjoy the fruits of the policy. Good prices and income are the basis for improvement, but experience indicates that something more is needed.

Public services and facilities are slow getting to rural areas where population is more scattered than in cities.

Farm families have a greater proportion of young people and the aged than do city families. This means they have greater need for medical services. But they have far fewer doctors, fewer nurses, fewer hospitals, and fewer clinics than do cities in relation to population. They do not have parity in educational facilities either. Rural teachers are more poorly paid; rural schols are generally less well provided with buildings, equipment and faculty.

By accepted standards, two-thirds of the farm families are ill-housed. They lack parity in telephone, radio and electric service, in roads and fire protection. They pay, directly and indirectly, for social securty benefits whch are denied them.

Althugh for many years farm employment has been going down as production-per-worker increased, the farms have had to absorb unemployed industrial workers in times of depression. And many who leave the farm to find opportunity have to go to big industrial centers because there are not enough small industries in rural areas. This is an important fact because, as a national average, only three out of every five young men on farms will have the opportunity to remain there. Young men are coming along at a faster rate than older men die or retire. Rural industries are needed not only to provide jobs—both full-time and part-time—but also to provide new opportunities for local capital, new or better local services, and more profitable outlets for locally-grown farm products.

We are confronted with serious tenure problems too. Some farming areas are overcrowded; some farms are too small or too poor to support a family; a few farms are too large for good management. About half a million share croppers and half a million migratory farm laborers represent one of the most serious social problems in the nation, for they are among the most poorly housed, clothed and fed of all our citizens. We see land abuse and exploitation that results from insecure tenure, from antiquated leasing customs and laws.

The people on farms are the nation's greatest agricultural resource, and it is to the nation's interest to see to it that the right of equal opportunity is restored.

Applying Scientific Knowledge

My fifth class of needed programs includes the gathering and application of scientific knowledge. This deserves special mention even though such programs clearly must underlie all of our efforts. We need intensified research in the biological sciences; we need research and service programs in marketing and distribution, in production technology, and in efforts to expand industrial uses of farm products. We need research in economics; we need statistics and statistical studies; we need extension programs to spread and demonstrate the new information. In short, we need to learn and apply more and more knowledge if we are to continue our advance in production, distribution, human nutrition, and conservation of our resources.

Getting to work under the Research and Marketing Act of 1946 is of prime importance. Every effort should be made to keep the free enterprise distribution system clear of bottlenecks, capable of carrying the entire flow of farm production. That is in keeping with our traditions and ideals of trade. But the people who market, process, transport, and sell farm products do not control the whole economic system, any more than farmers do. Bottlenecks do develop, farm production fluctuates, consumer buying power changes from time to time. The results are waste of products and human want.

A Floor Under Consumption

So we need a sixth type of program. We need a floor under consumption of farm products. We must make sure that none of us go hungry and that no production is wasted. The school lunch program is a good start in this direction. But something more is needed to counteract the peaks in supply and valleys in demand, to absorb products that are temporarily too abundant, and to see to it that everybody has a chance at an adequate diet. We need to have a surplus distribution program or perhaps some sort of food allotment program available at all times—something flexible enough to meet both chronic and acute difficulties.

Related to this type of program is the need for action on the farm front to stabilize supplies from year to year and to meet changes in demand. By the very nature of agriculture it is impossible to hit production goals exactly, and of course it is impossible to predict demand exactly. There have to be guideposts such as the production goals now in use to indicate specific needs for production. These help farmers to cut in concert to shift the pattern of production. In case of more difficult problems of shifting production, acreage allotments and marketing quota programs should be available. And there have to be cushions to absorb the year-to-year variations in yield and demand—blotters to absorb little surpluses before they spread out and become unmanageable.

These programs—my seventh group—include the ever-normal granary storage loans and marketing agreements which foster orderly marketing. These programs are important for price and income protection as well as for stabilization of supplies.

Special Marketing Programs

Special marketing programs in which food trades cooperate to move seasonal surpluses are also helpful as cushions for fluctuating supplies.

We can get a further cushioning effect through international trade arrangements which provide for storage stocks and sales of excess supplies to needy countries at special prices.

International trade and cooperation are essential for other reasons too.

Our country is a member of the Food and Agriculture Organization of the United Nations. We thus share its objective of world freedom from hunger. We are a member of the International Emergency Food Council, which temporarily allocates through mutual consent of its members, world supplies of scarce commodities. We participate in the work of the World Bank and the Monetary Fund, and other United Nations activities. All of this work in the international field has important aspects for United States agriculture and should be regarded as part of our farm program line-up. Let me say a special word about our need for foreign trade.

It seems inevitable that we will continue to need regular and sizable foreign markets for cotton, wheat, tobacco, lard, rice, and certain fruits and vegetables. Potential foreign customers will continue to have difficulty maintaining dollar exchange with which to buy both agricultural and industrial products. In order to sell, we need to provide for increased imports without injuring established domestic enterprise. We need the benefits of an international organization to reduce trade barriers and to provide a world clearing house for commodity agreements which preserve the principle of international economic collaboration without running contrary to domestic policy. Our domestic farm price policy precludes the removal of all trade barriers, but it should be possible through agreements to limit the use of trade barriers, to divide markets among competing countries without cutthroat competition, and to provide for the handling of excess supplies.

As I indicated earlier, we should have little difficulty in exporting as much as necessary when our own people are able to get as much as they want and need from U. S. farms. However, U. S. farmers have an interest in exports of industrial products because these make jobs for workers who use what the farmers produce.

Coming back to domestic affairs, there are still some essential farm programs that I have not mentioned directly. We might label this group "farm business aids and safeguards."

We have to make sure that farm and forest operators and their cooperatives have ample credit, on suitable terms, to finance farm ownership, production and marketing of commodities, forest growth and development, soil conservation, shifts in land use, major changes in types and methods of farming, and farm housing.

We should continue to encourage sound development and use of cooperatives by farmers.

Electric power helps to make farming easier and more profitable and farm living more satisfactory, and its extension to new areas is a great stimulant to business. Only half the farm population now has the benefits of this power, and the REA self-liquidating loans to cooperatives are in great demand.

Farm families and the communities they live in need the protection of sound crop insurance. From the standpoint of the general welfare, crop insurance has great value in stabilizing the purchasing power and tax-paying ability of the farmer. And it reduces the need for emergency loan and relief programs.

All of the programs I have mentioned—and perhaps more besides—should be available for use at all times. A farm program should be something like a typewriter; it's most useful when it has all the keys on it. Some of the keys get very little use, but they've got to be there when you need them. We should have a farm program that would effectuate our policy in times when the free play of economic forces gives us prosperity and also when the business cycle turns downward.

Cost of Program

The cost of such a farm program would vary according to the load placed upon it.

Needless to say, it would cost a great deal if we hit periods of low activity in industry. Over the long pull, industrial activity must at least match that of agriculture. But an agricultural program designed to maintain stable supplies and prices across the peaks and valleys of the business chart can do much to stabilize and stimulate industry.

In any event, we cannot afford the alternative to agricultural abundance.

The people always pay for abundance. In the depression when people could not buy anywhere near all the farmers had produced, the people of this country paid for the production controls that were necessary at that time. When real jobs didn't exist, the country paid for relief. When farm prices were unfairly low, the farmer paid the cost of subsidizing the consumer, and then at length the people began to foot the bill for parity payments to farmers—nearly $200 million a year for six years—and for other commodity payments totaling $3.8 billion. For programs to expand domestic consumption, the people have spent $1.4 billion. They put out $5 billion in commodity loans and only by reason of the war have they been able to get it all back. The people have paid for export subsidies—a total of nearly $200 million. They have paid a little toward rebuilding and conserving neglected soil—payments for this purpose other than those I have mentioned as commodity payments total $1.5 billion, not counting programs of technical assistance and demonstration.

Altogether, direct payments to farmers from 1933 through 1941 added more than one-eighth to farm operators' net income. In two years payments added nearly one-fifth to the net income farm operators otherwise had.

We the people have paid in money and in soil fertility.

We always pay for abundance. It's high time we started getting what we pay for. That is why I appeal to the Congress to adopt the goal of organized, sustained, and realistic abundance as our national agricultural policy. It is plain that the people want more and better food and more of other commodities than we have ever produced. It is just as plain that by continuing our advance toward a sound, permanent agriculture, we can supply what is needed for better living, expanding industry, and healthy world trade. Here is our opportunity to advance the cause of peace and prosperity for our own country and the world.

The Case for Scientific Stock Market Analysis

(Continued from first page)

many candles shed such a soft and pleasant light on our table. Observe the finely cut crystal prism from which a delicately shaped sphere is suspended. This prism receives the light from many candles. The light itself is white. Yet what color of the rainbow does this piece of crystal seem to reflect?" "Blue, of course," exclaimed the Grand Duchess. Krylov put the same question to all those present. To each the light reflected in the lovely crystal appeared to be of a different color.

I often think of this little tale. When I attend an economic meeting, or glance through the pages of a publication such as the "Chronicle," with its gallery of distinguished faces and opinions, I am impressed by the great variety of judgments on the economic realities in which we live. This remark is not a reflection on the quality of the opinions expressed by admittedly competent and sincere observers. It illustrates rather, the inescapable difficulties of appraising phenomena which are essentially highly complex.

The uncertainty of our judgment as to what is likely to happen, even in a relatively near future, in the country's economic life is raised to a still higher potential if we attempt to appraise the probable course of the market.

Under present conditions of low bond yields and of declining purchasing power of fixed incomes, few investors can afford to confine their holdings to securities whose price fluctuations can be disregarded with equanimity. Common Stocks, as a rule, constitute large segments of representative holdings. They are doomed to fluctuate in price swings of lesser or larger magnitude, and prolonged declines are at least disturbing to the peace of mind of the holders and sometimes may mean for them grave financial consequences.

Capital appreciation is the fondest hope of investment management, but preservation of capital worth is its starkest necessity and the acid test of investment policy. Which are the tools that an investor has at his disposal to assist him in his quest?

Two Approaches to Stock Price Appraisal

Two main avenues of approach are open for appraising the levels and trends of common stock prices. The foundation of the art of security analysis, the first tries to estimate the investment value of a stock. However, because prices in their fluctuations, often and for long periods stray far from values, this method has definite limitations. They are discussed in "New Tools for Stock Market Analysis," which also describes the materials with which stock values are built and outlines various valuation techniques. Probably the main shortcoming of the value approach as a guide to practical investment decisions is that value is essentially an average. To have any meaning, it must take into account good and bad times, profits and deficits. For this reason, a definite correlation exists between values and *average* prices. Actual prices, however, are essentially dynamic. They follow, even magnify revivals and recessions, expansions and contractions, peaks and troughs of business cycles.

The second approach—economic analysis—also is an essential part of the research basic to formulating sound investment policies. It is especially rewarding in the middle phases of cyclical swings when stock prices and business conditions are most nearly in step. Even then, however, if attempts are made to forecast trends in stock prices from trends in other economic factors, the prognostic value of economic analysis may be doubted. For example, none of the economic factors studied in a Cowles Commission investigation was found to be an adequate forecasting series for the stock market.

Economic analysis yields least reliable results once the upper reaches of the cycle are entered or the bottom of a cyclical decline is approached. Unfortunately for the chances of success in forecasting cyclical turns, stock prices themselves are among the factors most sensitive to cyclical influences.

The Cycle Is the Key

If we confront historical tables of bull and bear markets, as they are given, for instance, in Barron's annual books on the Dow-Jones Averages, with similar tables published in scientific studies of business cycles, we shall observe in a great majority of cases a close correspondence in their respective dates.

It is conceivable that Dow theorists, or market analysts belonging to some other technical school, may label a sufficiently long or drastic movement of stock prices as a bull or bear market without it being followed by corresponding cyclical developments in the economy itself. Such will be the case, for instance, for the 1946 decline if no business recession develops in the near future. Yet it is a fact of outstanding importance that truly significant bull and bear markets are not unattached and haphazard fluctuations of stock prices, but are, on the contrary, deeply imbedded in the economic cycle itself.

Advantage of the Market Analyst

Herein lies the advantage of the market analyst. To visualize the economic realities crowded into the two words "business cycle," remember that "business" covers a wide variety of activities, such as the growing, harvesting, and extraction of raw materials; the manufacturing, transporting, and distributing of all kinds of producer and consumer goods; the paying, spending, and saving of money incomes; the operations of commercial and investment banking. Between them they add up to many hundreds, or perhaps even thousands, of statistical curves.

This complexity of business cycles and their great variations in amplitude and duration give to each cycle a separate and distinct personality. It is true that conditions prevailing in each cyclical phase tend to generate the next phase, revealing the existence of internal causation within each cycle. But knowledge of this fact does not help us to determine in advance the particular chain of circumstances that will bring about a turning point in any individual cycle, nor does it always allow us to locate its causes even when the effects are already visible.

While the hundreds of factors which constitute a business cycle are still in motion, it is a difficult undertaking to determine by their simultaneous analysis a cyclical turning point. Only historical studies can be sure of their ground; but they are post mortems and have no great practical utility for current investment decisions. Besides, even if the turning points of business cycles, while they are still in the formative stage, could be timed with any degree of assurance by the means of economic analysis, this would still be of relatively little assistance to the investors. Stock prices themselves, as mentioned before, are one of the most sensitive cyclical factors and their turning points usually precede by many months those of general business itself. At the time when even successful economic analysis could pronounce its verdict that business activity is facing a decline, investors in stocks would already have suffered, as a rule, such losses that, in most cases, it would be too late to take any protective action. Thus the indirect methods of analyzing the levels and trends of stock prices through a study of intrinsic values or of the trends of underlying economic conditions are so subject to limitations as to suggest the desirability of direct study.

Advantages of Direct Approach

A direct approach to the analysis of the fluctuations of stock prices has several important advantages. It attacks the problem there where it is instead of arriving at it after much roundabout traveling. For, to begin with, the immediate purpose of the investor, the core of his problem is to protect his existing holdings by a timely sale before the decline and, in the case of new investments, to possess the greatest possible assurance that his purchase will not be followed by a shrinkage of values. His interest in business conditions as a buyer or holder of equities is only indirect; it exists only to the extent of the bearing that the course of business may have on equity prices.

The advantage derived from the very directness of this method of approach is further strengthened by the fact that it offers for study a much more limited field. The risk of getting lost in a maze of contradictory factors becomes immediately and greatly reduced, thereby making the conclusions more valid and reliable.

For this reason alone, the market analyst is more likely to succeed. While the student of the general business cycle has to deal with many hundreds of factors, all perplexingly different in their respective movements, the market analyst has his attention focussed on two factors only: stock prices and the activity in their transactions in the market. These two factors, moreover, are not extraneous to the general cycle, but are, on the contrary, among its most representative and essential components.

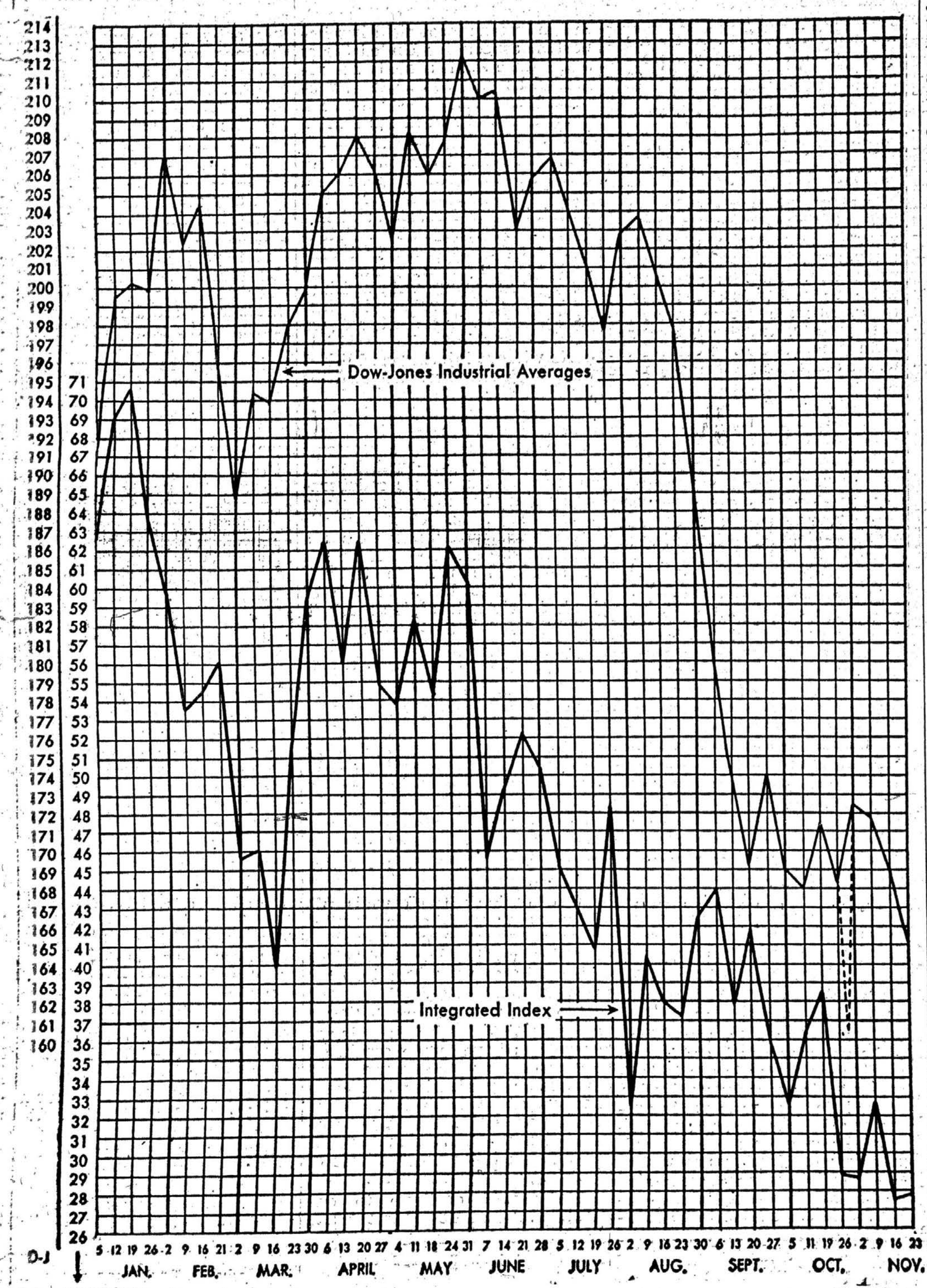
The analyst of the movements of stock prices should, therefore, have no undue humility about the nature of his work. Provided the results of his efforts are genuinely reliable, he not only renders a great service to the investor, but is also a specialist in a limited but vital field of cyclical studies.

The same statistical methods of analysis and measurement can be applied to a study of trends of stock prices as are used for any and all cyclical series. The use of some of these methods, such as the correlation technique, the coefficients of variation measuring the dispersion of stock prices, and some other measures, was shown in the "New Tools." It led to the conclusion that at the time when the market was approaching its 1946 highs it had reached a full statistical expression of cyclical maturity.

Once a working hypothesis of the probability of an impending cyclical reversal has been established, the market analyst, so forearmed, can concentrate his attention on locating the actual point of reversal. His task is simplified by the fact that the turning points of stock price trends and of the volume of trading have definite and clearly recognizable earmarks. They have been noted and described in scientific studies of general business cycles.

But in his more specialized

Chart 1



Weekly Movements of Integrated Index and Dow-Jones Industrial Averages, January-October 1946

work the market analyst can afford to dig still further into the characteristics of the only two factors with which he is concerned. Instead of treating them in their sums total, he can dissect them in order to discover internal structural relations within them thereby gaining more detailed insight into the phenomena he studies. This differential, as compared to global, analysis of his statistical series can throw much additional light on the impending changes in their trends.

This writer has little knowledge of so-called chart reading. His is a different approach which utilizes purely statistical methods of analysis. He believes that patterns of past behavior are not a reliable guide for the future, for they may not recur. Nor is, to his mind, the study of current trends especially helpful, for a trend, even if it can definitely be recognized, may well reverse itself in the near future. He believes that one cannot hope to secure worth while results without delving beneath the surface and by measuring undercurrents of price movements and shifts in the internal balance of the market. Such an approach can be valid, however, only if it is based upon relations that have themselves a foundation in the facts of economic life.

Principles of Differential Analysis

First, let us consider prices. While the movements of stock prices permeate the entire market, the analyst knows that different classes of stocks have widely different amplitudes of fluctuations, even though their changes in trend are as a rule simultaneous. The reason this differential behavior has occurred in the past and must necessarily recur in the future is to be found in the simple economic truth that, in periods of business improvement, marginal properties benefit relatively more than the well established.

Differences in market action characterize stocks belonging to different price groups, as well as those differing in intrinsic qualities, partly because low price and marginal position frequently coincide and partly because low price gives a stock the advantages of a cheap call on the hope of large percentage gains and also brings it within the reach of more buyers.

This principle has been tested and established by scientific statistical studies summarized in the "New Tools." It permits the construction of indexes revealing internal structural changes in the market which can forewarn of impending changes in price trends.

For instance, in a period of economic improvement, a marginal steel company stands a chance of tripling or quadrupling its gross profits or of doubling its share of the total steel business with corresponding effects on its net earnings; but not United States Steel. However, a point will be reached beyond which a small company cannot progress. In other words, the price of a marginal stock, when measured by the price of a quality stock, cannot advance beyond a certain limit without making a correction inevitable. The extent of the correction, when it comes, will depend upon how much the market has overvalued the marginal equities and upon the phase through which the business cycle happens to be passing at that particular moment.

The relative economic improvement of a marginal concern and the relative price rise of its stock cannot continue indefinitely. A bursting point is reached, as it was for the frog in the old fable when he tried to blow himself up to the size of a bull. Measuring low priced stocks not in dollars and cents but in terms of high priced stocks can help to determine the limit beyond which the market is likely to reverse its trend.

A Statistical Measure

In order to translate these principles into concrete terms of statistical measurements, a special index was constructed by this writer and was conclusively tested over a long period. This index measures the relationship between the higher priced and higher quality stocks and the lower priced marginal equities. A large number of stocks is included in each of the two groups, both of them representing a wide cross section of the market. Each low priced stock has as close a counterpart among the high priced stocks as could be found, making the two groups as completely homogeneous and as fully comparable as possible. Various statistical precautions were taken to avoid any distortions that might arise.

This index is described in detail in "New Tools." Suffice it to say here that it has shown great analytical accuracy, both historically and in its current daily application to the difficult markets of 1946 and 1947. Thus, while after the break of February, 1946, the market resumed its advance, making several successive new highs in April and May, this index never exceeded its January high and began to decline in May at the identical point from which it started to recede in January. In this way it indicated clearly that the relative valuation of marginal stocks in terms of conservative issues could proceed no further. And again, in 1947, while the market was rising from its 1946 lows, this index never left the groove of its September-October 1946 range, refusing to confirm the soundness of this rise. Quite recently, it made a fresh bear market low on April 7, i.e., several days before the market penetrated downwards, on April 12, its so-called January-March defensive position, which, incidentally, according to some of the writer's other indexes, had never even existed.

Importance of the Volume Factor

The possibilities of differential analysis are not limited to price relations alone. Even more valuable information can be obtained from similar study of the activity of transactions. Not enough attention is usually paid by market analysts to the study of volumes. Yet they are the active force whose inflow or withdrawal shapes price curves. The volume of shares traded is the generator of the current of prices. It is also an important constituent factor of the general business cycle.

In "Measuring Business Cycles," Burns & Mitchell bring out that in the 15 cycles between 1878 and 1933, share trading led the downturns in 14 and the upturns in 11; it lagged behind general business only once at a cyclical peak and only twice at a trough. On the average, it turned up four or five months before business, and signaled the downturns approximately 10 months in advance. Shares traded have a very wide amplitude of cyclical fluctuation and, unlike most other economic factors, the upswing is more rapid and explosive than the downswing.

When the volume of trading is analyzed in greater detail, i.e., not for all shares listed, but separately by classes, further valuable information may be obtained. Volume analysis complements price analysis, revealing the presence of structural changes in the market that are not always reflected in price relations. It often discloses what investors and speculators respectively are doing. The quality of marginal pairs of bids and offers, i.e., the bids of the most optimistic buyers and the offers of the most pessimistic sellers, between which transactions take place and prices are fixed, is always in flux. At bottoms of declines bids, and at peaks of rises offers, emanate predominantly from investors buying from and selling to speculators. The height and velocity of the speculative wave of the moment determines how near the bids and offers of investors will come to the effective marginal pairs. This finds a reflection in the relative activity of transactions in the stocks in which each group predominantly trades.

In a recent address on "Right and Wrong Ideas About Stocks," reprinted in part in the "Chronicle" of Feb. 6, 1947, L. O. Hooper called attention to the increasing stability of corporate ownership. In the course of the last decade alone, the annual percentage of listed shares traded has declined from 36.5% to 20.5%. In 1928, it was 123%. In standard stocks, the annual turnover in ownership often is less than 10% of the outstanding shares. "In other words," says Mr. Hooper, "90% or more of the holders of standard stocks seem to regard themselves as more or less permanent owners with only an academic interest in day to day, month to month, and year to year fluctuations."

In speculative stocks, however, the turnover is considerably faster than in standard and more "seasoned" stocks. Changes in the relative volumes of transactions in these stocks are primarily responsible for the ebbs and flows of speculative movements.

If the stock exchange were strictly an investment market, its price fluctuations would present a much flatter curve. However, owing to the influence of speculation, stock prices are but shadows of future events as discounted by the traders. And, like all shadows, they enlarge or dwarf the projected object, depending upon the position of the economic sun. It is the activity of speculation attempting to exploit cyclical swings as well as temporary changes in sentiment which is the force behind the formations and reversals of market trends. And since its inflow or withdrawal is quickly reflected in the relative structure of volumes, differential volume analysis holds often the key to the forthcoming changes in market trends.

Price-Volume Interactions

When both prices and volumes are integrated into combined indexes they produce indicators that are sensitive in the extreme. Chart 1 serves as an illustration. It condenses the writer's daily Integrated Index and the Dow-Jones industrial averages into weekly figures and presents them in an easily read, schematic form. The dotted line for the last week of October extends the Dow-Jones averages to their actual intra-day low of Oct. 30.

It will be observed that the Integrated Index began to decline two weeks before the market itself reached its high early in 1943. It is interesting also that during the subsequent rise of the market to new tops in April and May, the Integrated Index did not regain its previous driving power, thereby revealing the internal weakness of the recovery in the spring of 1946. And during the two last weeks of May, when the Dow-Jones industrial averages were at their bull market top, the Integrated Index made a precipitous fall from 62 to below 46—a drop of 26%.

In studying the action of this Index, it should be borne in mind that numbers of shares traded, as well as their prices, enter into its composition. For this reason, in periods when the volume of transactions rises coincidentally with a falling market, this is reflected by an "inverted" rise of the Index which has, needless to say, a bearish significance. Such was, for instance, the case during the two-week period of Aug. 23 to Sept. 6. And when the Index returns from an "inverted" rise to a "normal" decline, this action indicates that the rate of acceleration of the decline has passed its maximum point and that a climax is near.

Significance of Index in 1946-47 Rally

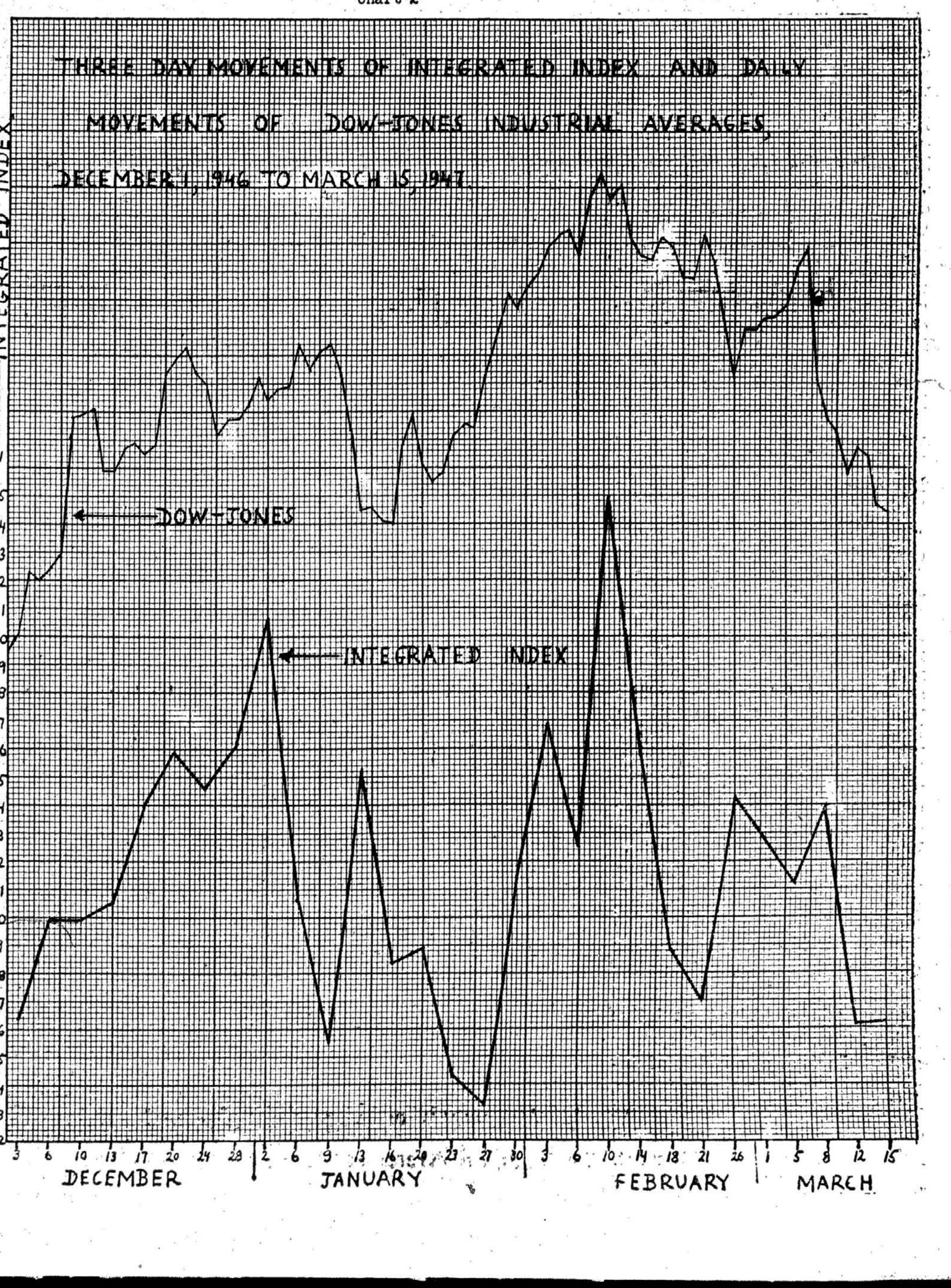
Similar indications were given by this Index during the rise of the market from the lows of 1946 to the February, 1947 high of the intermediate recovery movement. The basic working hypothesis that the reversal of the cyclical upswing had taken place already in 1946 prevented, once accepted, the ascribing of any long-term significance to this upswing. Therefore, the task of the observer was limited to catching its turning points. And the Integrated Index, by bringing out the deteriorations of the price-volume structure, gave clear signals of reversals of this short-term rise, as is shown on Chart 2. The remarks concerning "inverted" rises of the Index in a falling market naturally apply in this case quite as much as in connection with Chart 1.

No "Chart Reading" Implied

It should be again strongly emphasized here that the writer's approach implies no "reading of the charts." They are merely used by him as a convenience for

(Continued on page 36)

Chart 2



The Case for Scientific Stock Market Analysis

(Continued from page 35)

the eye--as a graphic illustration of the statistical information they depict. No interpretation of chart patterns is ever attempted nor are any comparisons made with any chart formations of the past. In fact, in his practical daily work, this writer often dispenses with charts altogether, merely examining the statistical data themselves. And they, in turn, reflect the relations of the forces operating in the market. So, for instance, the Integrated Index expresses the balance between the price-volume factors of both the low-priced and the high-priced stocks.

The Integrated Index is only one of many statistical measures used by this writer. No absolute reliance is placed by him upon any single tool. Each contributes an essential element to the making of a complete picture. Correct understanding of the market means too much for the financial welfare of individuals and institutions to leave any useful instrument unexploited.

Possibilities and Limitations of Market Analysis

Like all other approaches to investment problems, market analysis has, of course, its own limitations. It diagnoses internal relations in the market only at the time of the measurements. Under certain circumstances, sudden decisive events may upset them. But this is not often the case. News is seldom utterly unexpected. Usually, before it has been announced to the public, it infiltrates the market, causing structural changes. And statistical indicators, by revealing such changes, can serve as weather vanes for investors.

Perhaps the best way to illustrate both the possibilities and the limitations of this type of analysis, as applied in actual practice, would be by quoting from a recent market letter of this writer (April 1, 1947):

"Our last memorandum expressed the belief that a clash between buying and selling pressures, whose outcome could be decisive for the direction of the next intermediate move, was likely to develop when the market once more approached the critical levels of last Fall. The short but sharp rally which took place last week raises the question whether this is not already occurring at a higher level than was anticipated by this writer. This rally extended the anemic rise of the week before and made it look more convincing.

"However, price-volume relationships continue to remain unfavorable. For some time, now, the Ratio of Volumes has been rising only on days of declining markets. By referring to the usual statistical exhibits, our readers will see that this Ratio fell on both Wednesday and Thursday when the market advanced. This indicates that the brief recovery was not of an organic nature. It did not spring from the inner depths of the market, but seemed to reflect pump-priming efforts.

"This reluctance of speculation to follow the market's upward thrusts may mean at times that the initiative is passing into stronger hands. Such is often the earmark of important turning points after prolonged declines. Yet these hopes are belittled by the relative price action of the better quality stocks. In fact, our Index of Investment Consumer Goods Stocks, which consists of the strongest equities on the Board, responded hardly at all to last week's spurt. And, prior to March 15, it was leading the downward procession in company with our Index of High-Priced Stocks.

"The character of these reports should not be misunderstood. No claim is made here that it is possible to predict with precision the fluctuations of the market from day to day. They may be caused by extraneous factors. Our aim is merely to study the underlying structural relations which are the materials out of which the trends are built. So far no evidence has appeared that a significant upward trend is in the making. Perhaps a stronger following than that of last week may develop if new efforts are made to push the market up. It seems doubtful, however, that it can gain much momentum. Technical indications still point to a further extension of the decline."

Analysis of Short-Term Trends

For periods shorter than those of the cyclical swings, the relative value of the services that can be rendered to the investor by a direct analysis of market trends, as compared to those that can be derived from an analysis of the underlying economic conditions, is even greater. These shorter movements often have no counterpart at all in the state of and outlook for business. Frequently their cause lies in changes in the psychological attitude of buyers and sellers of stocks rather than in changes in the trends of production or profits. Lord Keynes defined speculation as the process of forecasting the psychology of the market. He ascribed to it a leading part in market operations:

> "A conventional valuation which is established as the outcome of the mass psychology . . . is liable to change violently as the result of a sudden fluctuation of opinion due to factors which do not really make much difference to the prospective yield."

These waves of optimism and pessimism are so powerful that even the well informed investor "is forced to concern himself with the anticipation of impending changes, in the news or in the atmosphere, of the kind by which experience shows that the mass psychology of the market is most influenced." And this generates a "battle of wits to anticipate the basis of conventional valuation a few months hence, rather than the prospective yield of an investment over a long term of years. . . ."

Psychology versus Economics

When psychological influences dominate the market, an economist can provide no guidance to the investor. But a painstaking analysis of structural changes in the internal relations of the market itself can detect the probability of impending changes in its price trends. For once we know how to isolate and detect the forces that generate market trends or whose withdrawal will cause their disintegration, we are well along the road of determining the timing of their reversals.

While catching short term fluctuations in stock prices does not have for the investor the same vital interest as timing their cyclical turns, it cannot be completely ignored. The selection of the most profitable moment for the execution of a decision to buy or sell can often mean large differences in dollars and cents.

Summary and Conclusion

Indirect methods of analyzing the levels and trends of stock prices are so subject to limitations as to suggest the desirability of direct study. But the indexes and averages most commonly used for technical market analysis show surface conditions alone. They do not expose internal structural changes in the market which often betoken impending changes in its trend. The indexes devised by the author measure internal market conditions from many different angles. The difficult markets of 1946 and 1947 were a good testing ground for the new indicators. They acquitted themselves well, giving ample warning of the successive declines.

The technique of scientific market analysis is barely at its inception. Many other methods can be used and developed. By taking sufficiently substantial and representative samples of the different segments of the market, and by submitting them to appropriate statistical processing for measuring the changes in price-volume relations, valuable information may be obtained.

However, this writer is far from suggesting that all other approaches to investment problems should be discarded or that market analysis suffices unto itself. As for the defense of the country we need the protection of the army, the navy and the air force, so, for the defense of his welfare, the investor needs the services of all the three basic techniques.

Value analysis, economic analysis and market analysis, all are links in the chain of investment thinking and action. None is fully adequate by itself. Each has its own particular field of application in which its comparative advantage and usefulness are greatest. Value analysis is essential, since without it investment thinking remains in a vacuum; and unless an investor studies economic trends, he cannot form an opinion as to the probable future earnings and interest rates — the ingredients of stock values. But market analysis alone can help to solve the all-important problem of timing. For this reason, it is an essential prerequisite of sound investment policy.

No Sharp Drop in Food Prices

(Continued from page 9)

cline in consumer income is more likely to occur, I believe, in 1948.

The percentage of consumer purchasing directed to agricultural products will diminish as more consumer durable goods become available, but I do not believe this factor will have much effect on farm prices. The supply of durable consumer goods available has steadily increased. In fact the production of many consumer goods such as cars, radios, and washing machines is now considerably above prewar levels, and yet farm prices have continued to rise. I do not anticipate much weakening of farm prices because of people spending more of their income on these durable goods and, therefore, less on pork chops and butter. A considerable volume of new durable goods will, no doubt, be purchased out of savings or on instalments. Some consumer resistance to high food prices is being felt; but so long as incomes are at a fairly high level, I believe the consumer will continue to pay high prices for food.

From all indications we shall have another year of top production in agriculture. Plantings have been heavy, fall and early winter weather has been favorable, quality seeds are in ample supply, more fertilizer and new machinery is available, and the supply of labor is expected to be greater than in recent years. These factors, together with the stimulus of anticipated high prices will again result in near-record production on the farms. In my opinion this high production is the most likely to cause farm prices to fall. But I do not anticipate that they will fall by any sizable amount before the beginning of the new crop year.

The fourth principal factor affecting farm prices, foreign demand, is likely to continue strong. In a recent article in "Barrons," Secretary of Agriculture Anderson pointed out that the needs of Europe for American farm products is likely to be larger than was at first expected.[1] Because of unfavorable weather in western Europe the wheat crop prospects in that area are poor. Furthermore, Great Britain may want more feed to build up its livestock industry, and England and other European nations will want more dried milk and eggs. Even if the purchasing power in European and other countries is insufficient to purchase much American food, I believe that exports from this country will nevertheless continue. We are unlikely to refuse food to countries where starvation or real hardship exists.

To return then to the questions, when and how far will farm prices fall, it seems to me that farm prices may fall slightly in the immediate future, but on the other hand there is much evidence that they will stay fairly firm until the new crop becomes available in the fall. Concerning how far they will decline, I see little indication at this time of any real weakness in the forces determining farm prices. Consumer purchasing power, I expect, will remain relatively strong during this year. Possibly I am overly optimistic on this score. It is true that consumer purchasing will be directed more to durable goods as they become available, but people will still prefer to eat moderately well, if they have the income. Increased production stimulated by former high prices will tend to weaken farm prices, but the effect of this will be offset possibly in large measure by the foreign demand.

Secretary Anderson in his article in "Barrons" indicated he believed that by the end of this year farm prices would average 20 to 25% lower than they were at the beginning of the year. However, this estimate is based on the assumption of a drop in business activity in the second half of 1947, and I am not willing to agree that we will see a sufficient fall in business activity to bring about such a decline in prices. Furthermore, while farm prices as a whole are sufficiently above support levels to allow a drop of about one-third, the prices of a few important commodities, for example, corn, are close to parity, and, therefore, cannot fall far before support prices—90% of parity — are encountered. This fact will tend to keep certain other commodities above support levels. It is true that as general prices fall, parity prices also decline since they are based on the prices the farmer pays for what he buys. But in practise there tends to be a lag inasmuch as support prices for most crops are announced at the beginning of the marketing season and farmers received the announced prices even if parity prices decline during the season.

In short, while I agree that farm prices are likely to fall, I do not anticipate that they will drop as soon as many people seem to feel they will. Furthermore, the downward adjustment which will be required to bring them in line with those of other commodities is likely to be arrested to some extent by present price supports. Thus it seems that complete adjustment will not occur until at least the expiration of the Steagall Amendment, that is until at least Dec. 31, 1948.

1 Clinton P. Anderson, "Farm Problems for the Next Few Years," *Barrons*, March 24, 1947, p. 8.

Supreme Court Limits Vet Seniority

The United States Supreme Court, ruling on April 14 on that section of the Selective Service Act which provides that where a veteran is entitled to be reemployed in his prewar job he "shall be restored without loss of seniority and shall not be discharged without cause within one year of restoration," declared that the law does not protect a veteran indefinitely against loss of seniority rights on his old job, Associated Press advices stated. The 7 to 2 decision was rendered in the case of Lawrence Whirls, a Cincinnati veteran, whose seniority was reduced from 9 years to 6 months by a contract negotiated, said the Associated Press, by the CIO United Automobile Workers with the Trailmobile Co. of Cincinnati. When the contract was negotiated, the press advices stated, Mr. Whirls had been back from the war for more than a year.

He went to court with the contention that the Selective Service Act prevented reduction of his seniority. The lower courts agreed, but the Supreme Court majority held otherwise.

The Court's decision, delivered by Justice Rutledge, was based on what it called the lack of a showing that Mr. Whirls lost seniority directly because of his being a veteran. From the Associated Press advices we quote:

> Before and immediately after his return from service, Mr. Whirls was employed by the Highland Body Manufacturing Co., a Trailmobile subsidiary. Later, Highland's equipment and personnel were transferred to the Trailmobile plant.
>
> In the majority decision, Justice Rutledge said that veterans and non-veterans alike in the Higland group lost seniority standing when the more numerous Trailmobile workers organized themselves into a new union and negotiated a new closed shop contract cutting the men from the merged subsidiary back to a seniority based on the date the Highland company was absorbed.
>
> Referring the case to lower courts for further action, the Supreme Court majority said the time to pass on issues based on the union reorganization will be when those issues are presented directly to a high court.
>
> Mr. Whirls has been read out of the union for taking legal action outside of union procedure, to enforce his claimed rights. That action of the union also was left without Supreme Court review at this time.

Justices Jackson and Frankfurter dissented from the majority opinion. Mr. Jackson said that the seniority rights of Mr. Whirls had been bargained away from him by a union "which, under the National Labor Relations Act, was entitled to bargain as his representative. I do not think that Mr. Whirls' seniority rights after one year are made immutable or immune from collective bargaining," Justice Jackson said. "But the statute restored these rights to him as a veteran. They stand until they are lawfully modified."

Is the Money Supply Too Large?

(Continued from first page)

our money supply, swollen as a result of war finance, is too large. It is held that the existence of this money—even though its total is no longer increasing—represents a continuing threat of price inflation. Accordingly, it is proposed that the money supply should be reduced. This could be done in three ways: (1) The Government might use any surplus funds to pay off its securities held in commercial banks. (2) The Government might sell bonds to the public and use the proceeds to pay off securities held in commercial banks. (3) The Federal Reserve Banks might restrict commercial bank reserves by selling some of their portfolios of government securities, by raising the discount rate, by increasing bank reserve requirements, or in other more novel ways, as have been suggested. Incidentally, in the process of reducing the money supply by any of these devices, interest rates would tend to rise.

In my judgment, there are three important reasons for questioning whether the present money supply—large though it may be in comparison with past amounts—is too large. I shall discuss each of these reasons briefly.

Quantity Theory of Money

First, it seems to me that fear of our money supply is based upon an overly literal acceptance of the quantity theory of money. This theory is one of the most ancient and persistent of economic ideas. Briefly stated, it is that the general price level varies more or less directly with the quantity of money. A large money supply is supposed to be associated with high prices and a small money supply with low prices. Applying this theory to the present situation, it is held that the money supply has nearly tripled during the last seven years while wholesale prices have increased by only 85%, on the average. Hence, a further increase in prices is regarded likely, or even inevitable, unless the quantity of money is somehow reduced.

As with most traditional and popular ideas, the quantity theory of money has an element of truth in it. But the relation between the quantity of money and prices is by no means the automatic or invariable thing it is sometimes believed to be.

This can be illustrated. Chart 1 shows index numbers of wholesale prices and of the money supply (i.e., deposits and currency in circulation) since 1800. During this whole period, with few interruptions, the supply of money has increased steadily. Wholesale prices, on the other hand, though subject to important fluctuations, have moved generally in a horizontal direction.

In 1880, for example, the price index was 68, and the index of deposits and currency about 5. In 1915, the price index was 68 and the deposits and currency index 40. In other words, over the 35-year period from 1880 to 1915, the money supply (i.e., deposits and currency) increased by eight times yet the price level at the end of the period was the same as at the beginning.

Again, during the 1930's when we began deficit financing and when the flow of gold to this country was increasing bank reserves, fears of inflation were widespread. Yet the chart shows that in 1929, the price index was about 95 and in 1940 it had fallen to 80, yet—during this same period 1929-1940—the index of deposits and currency increased from 110 to 153.

Again, observe the period of World War I—roughly 1915-1920. The increase in prices during the period is usually attributed to the growth in quantity of money associated with war financing. As the chart shows, deposits and currency did increase somewhat more rapidly than before. Yet, after the war, the amount of deposits and currency continued to increase with only a minor interruption in 1921, but prices were lower in the 'twenties than at the time of the war and, in fact, were declining. Choose any other period you wish, and you will find, I think, that the relation between the quantity of money and prices is not a singularly close one.

The difficulty with the crude quantity theory is that it attempts to explain changes in the price level by one single factor and without considering other more important factors. The quantity of money can affect the price level only through its influence on spending. But it does not follow that people spend more merely because they hold a relatively large amount of money. The most important factor influencing spending is the amount of current income and the second most important factor is the amount of wealth people own. The proportion of wealth they hold in the form of money is only a minor additional factor. Moreover, the effect of the quantity of money on spending is canceled in part by the fact that the interest rate tends to be low when the quantity of money is large as at present.

There is one case in which the quantity of money does strongly influence spending. That is the case of hyper-inflation as in Germany in 1923 or in Hungary today. Under these conditions, the government issues money wantonly. The public loses confidence in the currency and spends it rapidly in order to get rid of it before it depreciates. This increase in spending then causes prices to rise sometimes to fantastic heights.

Money and National Income

The most important thing shown by this first chart is that historically the quantity of money has increased fairly rapidly and steadily. This increase in money supply has been made necessary in part by the general growth of the country, and in part by other factors as I shall show.

My second point in questioning the view that our present money supply is excessive is this: the amount of money now in existence is apparently about normal in relation to national income—taking into account long-term trends in the relation between the quantity of money and national income. This is suggested by my second chart.

In the upper half of the chart, the solid curve shows national income and the dotted curve money (deposits and currency) since 1800. The lower half of the chart shows the relation between the two, i.e., deposits and currency are expressed as a percentage of national income.

Whereas, before 1870, deposits and currency were less than 20% of national income, by 1900 they were 50%, by 1930 about 70%, and in 1940 over 80% of national income. On the average, this percentage has increased at the rate of 1¾% per annum as shown by the trend line.

You will remember that all during this period, prices—aside from irregularities—were moving more or less horizontally. In other words, the money supply of the country was increasing even more rapidly than business activity as measured by national income without exerting an upward pressure on prices.

That the money supply would consistently increase more rapidly than the national income poses an interesting question. There are two principal explanations: (1) The proportion of the nation's production passing through the money-using process has steadily increased as we have shifted from a frontier-barter economy to an economy of specialized machine product on to a mass market. To put it another way, more money is needed now than was needed under frontier conditions. (2) As our wealth has increased, people have wished to hold a greater and greater percentage of their assets in the form of cash. There are many advantages to an individual or business in holding a large cash balance. As people become wealthier, therefore, they tend to want more cash just as they want larger amounts of clothing, automobiles, and other goods.

As things now stand, assuming that the long-term trend in the ratio of money to national income as shown in the lower part of chart 2 fairly represents our growing monetary requirements, the money supply is about in line with requirements, at the present level of prices and of business activity. National income is currently running at the rate of about $176 billions as indicated by the dot near the right-hand margin of the chart, and the supply of money is about $167 billions. The ratio of money to national income is about 95—also indicated by a dot—which is almost exactly on the long-term trend.

The Quantity of Money Determined by the Decisions of The Public

A third point is that the present large money supply was created almost entirely in response to the desires of the public to hold money. In the finance of the war, the Government had three sources: (1) taxes, (2) sale of securities to individuals, (3) sale of securities to banks. The Government first raised as much as it felt it could from taxes, then it sold as many bonds to the public as it could, and then it obtained the balance of its requirements from the banks. Only this last resulted in an increase in money. But this money when spent by the Government flowed to individuals and businesses who preferred to hold it rather than use it to buy government securities—which they were always at liberty to do and in fact were strongly urged to do. In other words, the money was created in response to the demands of the community—not as an arbitrary and inflationary action of the Government. The initial spending surely represented an increase in demand, but it does not necessarily follow that its continued existence is a sure source of price inflation.

That this is the amount of money which people want to hold and not the amount which has been foisted on them by unsound finance is evident from the fact that they are always at perfect liberty to buy government securities in exchange for their money—and at good rates of interest (especially in the case of savings bonds). But instead, they choose to hold the money.

Conclusions

I have advanced three reasons for questioning whether the present money supply is excessive: (1) the quantity theory of money is of dubious validity, (2) the present supply of money bears about a normal relation to national income when long-term trends are considered, and (3) the present money supply exists only in response to the demands of the public to hold money.

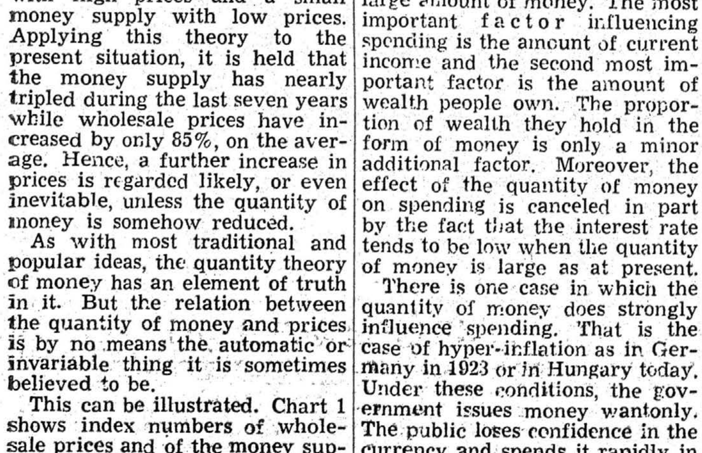
In my judgment, therefore, the present supply of money is not necessarily excessive in terms of present rates of production, present prices, present rates of interest, and present habits of the public regarding the use of money. Also, I doubt that continued price inflation, or a later resumption of price inflation, is indicated merely on the basis of the quantity of money now in existence.

Recently the monetary authorities have been exercising gentle restrictive pressure on bank reserves in connection with the debt retirement program. Many leaders of public opinion have been advocating more severe restrictions in order to cut down the supply of money further and more rapidly. In my judgment, the authorities are acting wisely to follow a course of moderation. Any sharp restriction of credit at this time might well lead to a serious decline in demand and might precipitate or accentuate the recession—which is so widely expected for reasons of a non-monetary character.

Past experience with the policy of contracting credit near the crest of a boom hardly inspires confidence. This is illustrated in the lower half of chart 2. For example, prior to 1920, the money supply was growing less rapidly than the national income. Credit was tight and interest rates were high. Although I would not go so far as to assert that this was the cause of the 1920-21 depression, I feel that the tight-money policy accentuated it. Again in 1928, the Federal Reserve authorities pursued a restrictive policy. As you can see in the chart, the regular growth in ratio of money to national income, which occurred following 1923, came to an end in 1928. One may at least question whether this action was helpful at that time. So it seems to me at least questionable that severe credit contraction would be appropriate now.

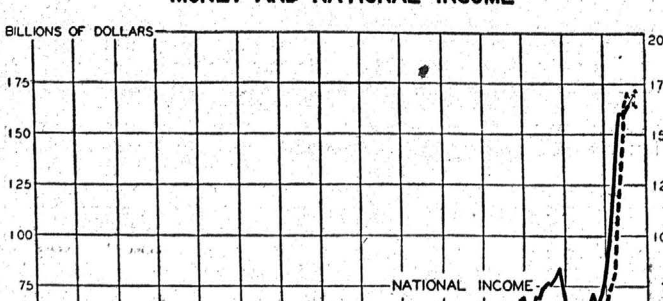
[Because of the broad interest in the subject, the "Chronicle" would be pleased to receive comments from readers on Dr. Bowen's thesis that the present money supply is not excessive and on any other related phases of the subject under discussion. Letters should be addressed to Editor, Commercial and Financial Chronicle, 25 Park Place, New York 8, N. Y.]

MONEY AND PRICES



Irving Trust Company of New York

MONEY AND NATIONAL INCOME



Irving Trust Company of New York

Harry Severson Joins Dun & Bradstreet Staff

Dun & Bradstreet, Inc. announces that Harry L. Severson has joined the Municipal Service Department of their New York office.

For the past year Mr. Severson has been a member of the staff of the Development Department of Bankers Trust Company, and for nine years prior to that had charge of the investment research program of the Federal Deposit Insurance Corporation in Washington.

He is the author of "Municipal Credit Analysis," which appeared in "Municipals," published by the Federal Deposit Insurance Corporation, as well as articles on municipal bonds and investments.

Now Friedman, Brokaw & Lesser

ST. LOUIS, MO. — Effective April 21st the firm name of Friedman, Brokaw & Samish was changed to Friedman, Brokaw & Lesser. The firm which maintains offices at 711 St. Charles Street holds membership in the New York, St. Louis and Chicago Stock Exchanges, and other exchanges.

Rogers & Tracy Instals Wire To Edw. J. Bourbeau & Co.

CHICAGO, ILL. — Rogers & Tracy, 120 South La Salle Street, announces the installation of a direct private wire to their Los Angeles correspondent, Edward J. Bourbeau & Co., 510 South Spring Street.

Grounds for Immediate Tax Relief

(Continued from page 6)

tax reduction to the maintenance of active business operations, high level employment, and a liberal flow of national income. Apparently those who contend that the tax reduction should be deferred until signs of a recession appear, believe that the current rates of employment, production and national income will continue uninterrupted, in the face of present high tax rates.

Our view is that definite steps should be taken now looking to the support of employment and production in the future. It will be too late, if tax reduction is deferred until positive signs of a recession are visible. A tax reduction such as is provided for in H. R. 1 as amended cannot be expected to have an instantaneous effect. In the hearings before the Ways and Means Committee on this bill, Secretary Snyder admitted that something like a year would be required for the reduction to develop its full effect. This would be just as true if the reduction were to be made at the onset of a definite business recession as it would be under present conditions. In advocating this step now, we are looking ahead to the business situation as it may be a year or so from the present time. There can be no assurance as to what that situation may be then, but testimony is not lacking to the effect that some slackening may be expected. The Council of Economic Advisers, in its first report to the President, last December, referred to the somewhat artificial character of the present prosperity and expressed the view that this prosperity could not be expected to last indefinitely. It is our contention that tax relief, now, to the extent provided in H.R. 1 as amended, will be a substantial anchor to windward in the event that a business recession is brewing. It is our contention, further, that a postponement of action on this important matter until the recession is at hand would be too late. Moreover, it would be dangerous, since we should be obliged to worry along for some time through the recession until the tax reduction had developed its beneficial effects. We know, from experience, that many things can go wrong in even one year of depression tendencies. We consider it the wise and prudent action to be prepared in advance for such a contingency. Therefore, we must disagree with those who think that no tax reduction is necessary at this time on account of the extraordinary prosperity which we are currently experiencing. On the contrary, this is the time to act, if we are to provide such assurance as tax relief can give against a slacking off in the levels of employment, production and national income.

Redemption of Public Debt

Another general proposition that has been advanced as a basis of opposition to the immediate enactment of H.R. 1 as amended is that we should keep tax rates high during this period of unusual prosperity in order to make a large payment on the public debt.

We agree that the size of the debt and the problem of its management are serious matters. But we would emphasize two points in this connection. The first is that we shall be able to accomplish more toward the ultimate reduction of the public debt if we can maintain a high level of national income. It is far more important that we be able, over a period of years, to make steady, regular payments on the debt than that we take such action for a year or so and then face a recession which will dry up the revenues to a point where debt payment must be suspended. It is our contention that tax relief, now, will do more to sustain and extend the high level of prosperity which we currently have than can be accomplished by keeping tax rates high.

The second point to be made in this connection is that we are not facing a choice between debt reduction and tax reduction. The outlook for the Federal receipts is such that we can do both. These receipts are now running at record peacetime levels, because of an unprecedented peacetime national income. Again we must emphasize our proposition that we have a better chance of maintaining the national income by reducing taxes than we shall have by not reducing them. Therefore, we shall have a better prospect of being able to continue making good-sized payments on the debt if we reduce taxes now.

To date in the fiscal year 1947 Federal net receipts have been at a rate which indicates a total for the year of some $41.5 billion. Assuming the continuance of such a rate in the fiscal year 1948, under present tax rates, the limitation of expenditures even to the ceiling of $33 billion, as approved by the Senate, would provide a margin of some $8.5 billion. The revenue loss under H.R. 1 as amended is estimated at $3.8 billion annually. Hence the Federal net receipts, after enactment of H.R. 1 as amended would be $37.7 billion, which would make available for debt reduction $4.7 billion under the Senate expenditure ceiling, an amount much in excess of that which the Senate has already voted as a minimum for this purpose. In the event that a conference ceiling were to be set at some amount less than $33 billion, the available surplus for debt payment would be correspondingly greater. We hold that a payment of from $4.5 billion to $5 billion on the debt in the fiscal year 1948 would be more than enough to sustain the confidence of the people in the integrity of the Government's purpose regarding debt redemption, and in the soundness of the values which the debt represents. We hold also that it is fully as important to promote the confidence and the well-being of the people as workers, as consumers and as investors, for it is only as we do this that we can sustain the volume of production and the level of national income from which sufficient revenues can be derived to assure the maintenance of the debt redemption policy.

High Taxes and Inflation

A third general proposition that has been set up in opposition to tax reduction at this time is that high taxes are useful in combating the inflationary situation. The argument as it is made applies with equal force against any and all tax changes, and not merely to H.R. 1 as amended. The underlying thought appears to be that by taking away more of the current income which the people, as taxpayers, now have, they will be able to spend and invest less and hence will not be as ready to pay high prices as they would be if taxes were reduced and the taxpayers had more money to spend.

We do not agree with this analysis. In our opinion, it is an ill-disguised attempt to justify an Executive budget which is entirely too high. It is true that taxpayers will have less income to spend—and save—if taxes are high than if they are low. That is because the Government, instead of the taxpayer, is doing the spending. This is just as inflationary as private spending. Under present circumstances, it is more so because it diverts materials and manpower from civilian production. Stated differently, the Government's use of the taxpayers' money does not reduce the demand for goods; but it definitely limits the production of goods with which to meet the demand.

In this connection, the President last August stated that "one of the most effective means" of reducing inflationary pressures "is to reduce Federal expenditures." He also stated that "it is particularly important that the Federal Government not compete with private demand for items in short supply." These words are as true today as then. Yet, the Government is now spending, and contemplates spending next year, but little if any below the rate of last Summer.

The condition which we call inflation is the result of the great expansion of bank credit in the course of the war financing. Relief from this situation can be had either by an immense increase of production, which would correct the distorted price structure by adding to the supply of goods, or the relief can be had by reversing the process of bank credit expansion, which would diminish the aggregate of purchasing power. I would like to quote from a recent discussion of this subject which was issued by a group of experts headed by Randolph Burgess:

"In sum, both bank deposits and money in circulation increased with the rise of government borrowing from the banks, or to put it the other way, with the rise of bank investment in government securities. Part of this increase in the money supply was warranted by substantially higher levels of business, employment, and payrolls. However, during the war the money supply increased much more rapidly than did the national income. In the prosperous twenties, money supply (demand deposits and money in circulation) was about one-third of the annual national income; during the uncertain thirties it averaged slightly less than one-half. The war raised it to about three-quarters of the yearly national income. * * *

"Over a period of years, the economy may expand sufficiently to reestablish relationships between the supply of money and the volume of business more in line with prewar experience. Until that stage is reached, *the only effective method for restoring a more normal balance is to reverse the process by which the money supply was increased during the war, or, in other words, to follow policies that will reduce bank holdings of government securities.*"

Our conclusion from the evidence relative to the nature and the cause of inflation is that reducing taxes would not be inflationary at this time. The inflationary pressure resulting from the expansion of bank credit can be reduced only by contracting the volume of bank credit. By proper and effective control of the spending for current purposes it would be possible to provide a surplus revenue for debt payment within a budget total of $31.5 billion and even within a much smaller total than that after another year or so. High tax rates, as such, will not diminish the inflation. And I must point out that, although the President's budget for 1948 contemplated the retention of existing tax rates, the provision for a surplus in that budget was much smaller—even after restoration of wartime excise rates and recommended increases in postal rates—than this Congress is intent on providing.

It is possible, however, that the present high tax rates may contribute to the inflationary situation through the effect which these rates may have upon the financing plans of business. There has been a marked increase of private bank borrowing. From June 30, 1945, a date which coincides aproximately with the end of the fighting, to Dec. 31, 1946, the loans of commercial banks expanded by $7.6 billion. It is well understood that an expansion of bank credit through private borrowing has precisely the same inflationary effects as the expansion which occurs through government bank loans. The private bank borrowing was resorted to, in large degree, to secure additional working capital, a necessary requisite to an enlarged scale of business operations. It is logical to assume that the depletion of cash by the heavy taxes on both business and individual incomes compelled business concerns to borrow from the banks on a larger scale than would have been necessary had the tax rates and the tax burdens been lower.

I turn now to some of the specific criticisms that have been made against the tax reductions incorporated in H. R. 1, as amended.

Two principal criticisms that have been advanced require particular attention, because in each case there appears to be a considerable degree of misunderstanding involved.

H.R. 1. not an Unfair Tax Bill

The first is the charge that H. R. 1 as amended is an unfair tax bill, in that it gives too little relief to those with small incomes.

The question of fairness or unfairness in taxation is always a relative matter. Taxes are burdensome for they represent a reduction of the income which the taxpayer could otherwise use for his own consumption or investment purposes. Taxation means that some one else makes the decisions as to how a portion of each taxpayer's income is to be spent. We all recognize the necessity of this sacrifice of control over a part of our income, but it must be clear that the greater the proportion of one's income over which the private owner has no control, the greater the impairment of the incentives to get income.

In the case of the individual income tax, we have adopted, as a public policy, the procedure of taking relatively more from the large than from the small income. There is no scientific rule in progressive taxation; hence there is no basis on which to determine, by any absolute standard, just how much more it is "fair" to take from a large than from a small income.

During the war all tax rates were advanced to levels that must be regarded as unfair for the postwar period, by any reasonable standard of fairness. In the case of the individual income tax, the progression of tax rates has been steadily steepened in the series of war tax acts. It is doubtful if any candid person can consider the tax rate scale of the 1945 Act without agreeing with the conclusion to which we have come, namely, that this tax rate scale must be revised.

This general revision must be deferred, however, until the Congress enters upon the comprehensive task of tax adjustment and revision. It is not proposed in H. R. 1 as amended. Those who oppose any action on tax reduction at this time are fully cognizant of the severity of the tax rates, but they are evidently prepared to subordinate all questions of fairness or unfairness to such other purposes as they may hold as a basis of their opposition. NAM's recommendation for a 20% cut across the board would have retained precisely the same effective progressive relationship as now exists under the 1945 rates. To the extent that this relationship is acceptable, then the results of a 20% cut must also be so regarded. Whatever degree of fairness or unfairness there may be in the 1945 rates would also exist in the distribution of the tax burden after a 20% cut.

As H. R. 1 as amended passed the House, however, the percentage reductions of tax actually involve a steepening of the tax rate progression beyond that which now exists. The small taxable incomes would receive a 30% cut, and those few large incomes above some $302,000 would receive only a 10½% cut. It follows, therefore, that H. R. 1 as amended does actually moderate, to the extent of the 10% differential, the relative burden of taxation on the small incomes.

The charge of unfairness has been carried farther, by some, who have demanded that there should be, not merely a liberal percentage cut in the tax at the bottom of the scale, but a complete exemption of additional amounts of income at the bottom.

These demands rest on an unrealistic conception of the distribution of incomes and of the operation of a tax on net incomes. In a statistical exhibit attached to the statement of Secretary Snyder before the Ways and Means Committee it was shown that an increase of $100 in exemptions across the board would decrease the number of income taxpayers by 4,728,000, and would diminish the revenue by $1.65 billion.* An increased exemption of $200 across the board would reduce the number of taxpayers by 10,528,000 and the revenue by over $3 billion. In the exhibit was a chart which showed that the first surtax bracket $0-$2,000 of taxable surtax income accounts for 72% of total taxable income, and for 56% of total income tax yield, at current national income levels.

These data indicate quite conclusively that it would be impossible to grant as much tax relief at the bottom of the income scale as some have asked for, if any reduction at all were to be made elsewhere in the income scale. We have brought out, in our earlier discussion of the general objectives to be aimed at in this tax measure, that we expect it to be a strong, positive advantage for the economy as a whole. We believe that its enactment will contribute to the maintenance of employment and production in the future. But such results cannot be expected, if the bill concentrates the tax relief at the bottom of the income scale to an extent that makes substantially proportionate relief elsewhere impossible. As the figures just quoted indicate, even so moderate an adjustment as an increase of $200 in exemptions across the board would cause almost as great a loss of revenue as the flat 20% cut would involve, yet an additional exemption of $200 would be utterly inadequate as a measure of tax relief for the middle and upper incomes.

Relief to Middle and Upper Incomes

The second basis of attack against the specific content of H. R. 1 as amended is that it goes too far in the amount of relief to be given to the middle and upper incomes, since the present high level of employment and national income demonstrates that there is no lack of venture capital. Hence, it is argued, there is no need to reduce taxes on the larger incomes in order to permit greater savings.

This contention, as is evident, is a companion piece with the argument that there is insufficient tax reduction provided at the bottom. If no relief at all is required or warranted for the higher incomes at this time, then there would be more leeway for relief at the bottom.

These arguments seem to concede that little or no saving is possible out of the larger incomes under existing tax rates. This is so, perhaps to a greater extent than is realized by those who lay

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*Hearings before the Committee on Ways and Means on H. R. 1, pp. 32, 33.

stress on an economy of consumption without much thought about how production occurs.

We do not minimize the importance of consumption. But, of equal importance, is the health of the producers of the nation — the little ones, the new ones, and those yet to produce anything, as well as the established manufacturers. Production must precede consumption. The thing that distinguishes America is its capacity to produce. Our leadership in the world is wholly dependent on the maintenance and expansion of that capacity.

Capacity to produce and investment in production are one and the same thing. We imperil the capacity to produce whenever and however we imperil the ability and the willingness of individuals to save and to invest.

Must Permit Individuals to Save

Only a tax system which permits individuals to save substantial amounts out of income, and to risk such savings in new and untried business ventures, will protect and enlarge our capacity to produce as a nation. The source of savings available for such purposes is, therefore, of primary concern to all the people of this nation. In view of this fact, we have had a study prepared, by NAM's Research Department, of the sources of individual savings and of the effects of the present individual income tax on savings. It is appended to the formal statement or brief filed with this Committee on Monday. Briefly, its findings are:

1. The rate of saving like the rate of taxation is progressive. In other words, the greater the individual's income, the greater the percentage of his income which is saved.

2. The nation is nearly entirely dependent for new venture capital on savings of individuals with incomes exceeding $10,000 per year.

3. At present, personal income taxes consume approximately half the potential savings of the nation. And

4. Of those savings which are not taxed away at present the great bulk are not in a form which makes them available for financing enterprises involving risk. This means that personal income taxes today consume very nearly all of the potential savings which, except for the taxes, would be available as risk or venture capital.

Thus, the study leads to the conclusion that high taxes on the larger incomes are paid primarily out of income that would have been saved and invested, and only secondarily out of income that would either have been spent or saved in other forms.

It is thus clear that, if the tax relief to be provided at the present time were to be concentrated as heavily in the lower income brackets as some have proposed, there would be only a small amount of savings accumulated out of these incomes by reason of the tax reduction.

The argument that there is no present need for venture capital reveals an inadequate understanding of the way in which our complex economic system works. The present employment situation is in no sense an indicator of the need which the economy now has, or will have, for new supplies of capital. We have already cited the expansion of bank loans, an expansion which to some extent would not have occurred had tax rates been lower. The important fact in this connection, as in our earlier discussion of the bearing of tax reduction upon future employment and business activity, is the substantial time lag between the release of income through tax reduction and the accumulation of savings and the conversion of the saved funds into new capital equipment. A considerable time would be required, after tax rates were reduced, for individuals having incomes from which something could then be saved, to accumulate amounts of any size out of current income. This cannot happen overnight, or even in a single year. In stressing the need for new venture capital, we are looking to the future, for which we must now begin to make preparation. Here also, it will be too late if we delay until the future has become the present before taking steps to provide more capital.

Need for More Capital

As we look to the future, we know that there must be more capital provided, for these reasons:

First, there will be a steady net addition of some 500,000 to 600,000 persons annually to the total of workers through population increase. Provision of jobs and opportunity for these new workers to earn good incomes, build homes, establish families, and live comfortable lives is dependent, in our complicated economy, upon a flow of new capital into the varied forms of economic activity. Assuming that it will require anywhere from $2,000 to $10,000, according to the type of industry, to provide a job for each additional worker, we shall have, in the growth of population, a steady demand for some billions of additional investment annually while the population growth continues.

Second, there are many new fields of enterprise which can and will be developed when capital is available and when the rewards for the risks involved are once more adequate by reason of lower tax rates. There was a time when some were seriously concerned lest we had reached the stage of a mature economy. The war disposed of this myth and there has been a marked falling-off in the number of those who still preach this doctrine. It is now rather generally realized that enormous possibilities of new and better production await the coming of more venture capital and of a tax system that will not unduly and improperly penalize those who assume the risks of enterprise.

Third, we all look forward to a steady, consistent rise of our scale of living. This rise will be dependent upon the growth of output and productivity per worker, a result which in turn is dependent upon additional capital investment per worker. The expanded capital investment will be required both for the new workers who will come along, and for all members of the present labor force. In short, our capital equipment must be improved both horizontally and vertically. That is, we must gain both in the quantity of investment and in its quality. Increasing output depends on more tools and better tools.

Conclusions

In conclusion, our arguments may be briefly summarized.

First, we have shown that the operation of time lag requires action on tax reduction in advance of the conditions under which such reduction becomes an emergency measure. This is true both with respect to the influence of tax reduction in sustaining employment and business activity in face of recessive tendencies, and to its influence in establishing the atmosphere under which new supplies of venture capital will be forthcoming. It is our conviction that the tax reduction should be made now.

Second, we have shown that there can be both tax reduction and debt reduction, in view of the productivity of the Federal tax system at current income levels and of the control over total expenditures which the Congress is intent upon exercising.

Third, we have shown that the tax reduction to be made at this time should be sufficiently broad in its application to all taxpayers to promote the economic motives and incentives to work, to save and invest, and to take the risks of enterprise. In this connection, we have emphasized the fundamental truth that in the long run the best interests of even the small income recipients will be most fully served by a tax reduction policy which benefits all members of the economic community.

The people want more and better things for use and enjoyment. The tax relief to be provided through enactment of H. R. 1 as amended will be a significant beginning toward the release of the productive energies by which this popular demand can be met. Passage of H. R. 1 as amended will be an act of constructive economic statesmanship.

Investment Dealers Of Ohio Formed

COLUMBUS, OHIO—Formation of a state organization of securities and investment dealers was announced with election of officers of the Investment Dealers of Ohio, Inc.

Ewing T. Boles

Ewing T. Boles, of The Ohio Company, Columbus, was named president; Robert O. Shepard of Hawley, Shepard & Company, Cleveland, vice-president; Harry C. Vonderhaar of Westheimer & Co., Cincinnati, vice-president; and Howard I. Fullerton & Co., Columbus, secretary-treasurer.

The organization will provide its members with information regarding qualification of new securities issues, legislation and court decisions affecting the investment industry. Offices will be maintained in Columbus.

Directors of the new state group, in addition to officers, are: John B. Greene, Greene & Brock, Dayton; John D. Burge, Ball, Burge & Kraus, Cleveland; Jay L. Quigley, Quigley & Co., Cleveland; Richard A. Gottron, Gottron, Russell & Co., Cleveland; Don M. Craft, Collin, Norton & Co., Toledo; Erbe M. Bancroft, Stranahan, Harris & Co., Inc., Toledo; Charles F. Conners, Pohl & Co., Cincinnati; Clair S. Hall, Clair S. Hall & Co., Cincinnati; Willard C. Weiss, Weiss, Work & Co., Cincinnati.

Of the seventy-five members of the organization, thirty are located in Cleveland, twenty-two in Cincinnati, ten in Columbus, seven in Toledo and six in Dayton.

Export-Import Bank Credits for Brazil

WASHINGTON—(Special to the "Chronicle")—Last week the Export-Import Bank approved three Brazilian credits: (1) a $6,650,000 railway equipment credit for three years to the Electrical Export Corporation, for the Sorocabana Railway; (2) a three-year credit of $1,500,000 to the Whitcomb Locomotive Co.; and (3) a credit for the construction of an alkali plant by the Companhia Nacional de Alcalis at Cabo Frio, Brazil, totalling $7,500,000 amortizable between 1949 and 1959.

In New Location

PHILADELPHIA, PA.—Paul & Co., members Philadelphia Stock Exchange and associate members of the New York Curb Exchange, announce removal of their Philadelphia office to 1528 Walnut Street.

Washington and You

(Continued from page 5)

The non-residential construction worm is on the turn. By propaganda and priority restrictions, Truman's trustees have sought to discourage commercial and industrial building. Now they (1) fear a residential slump; (2) have official estimates that non-residential building likewise is shrinking, (3) would coax industrial and commercial builders to up operations and employment. Commerce Department technicians have revised their earlier estimate of 1947 private non-residential construction downward from $3.95 billion to somewhere between $3.3 and $3.6 billion.

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Five Senators who have introduced legislation on proposing a Missouri Valley Authority similar to TVA are merely opportunists—not optimists. Actually, they know their pet project has little chance of nosing into the Federal money bag. They chucked their bill into the hopper simply to grab such attention as may come along. That won't be much.

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The government crop insurance program may survive in some form—probably will—but must run two pretty tough obstacle courses. (1) It must parade its wares before a special House subcommittee created to X-ray the merits and demerits of the system. (2) It must extract continuing funds from the skeptical House Appropriations Committee. Watch the farm block go to bat for this one.

* * *

Here's important news for some bankers. The Production and Marketing Administration is formulating Federal standards for frozen foods. Bankers have found it especially hazardous to make loans on frozen foods in the absence of standards such as those set for canned goods. In fact, some bankers have lost substantially on frozen food deals. It's largely in their behalf PMA is expediting frosted yardsticks.

* * *

Another tangle with Argentina is indicated by that country's reluctance to sell wheat for export at current offers. France is pressing for more U. S. wheat. United States planners say we can't fill their bins that the French must have Argentine grain. But our southern neighbors want higher prices and our international collectivists aim dark, frustrated and not very diplomatic scowls southward.

* * *

Congressmen who have been pressing for legislation specifically prohibiting SEC from touching municipal bonds are satisfied with a written admission by SEC that it has no legal authority to regulate such issues. California's Republican Representative Hinshaw told the "Chronicle" . . . "Since the SEC has committed itself in writing, we're ready to drop our bill categorically exempting municipal bonds from SEC jurisdiction."

* * *

Nevada's Democrat Senator McCarran has snatched a paramount issue from napping Republican leaders by introducing legislation to have Congress make a new audit of national government functions . . . to eliminate duplicating and overlapping Federal activities . . . to limit Federal functions "so that our central government will not be too big for men to manage". . . to foster strong state and local governments. That's an ideal GOP platform. But having a Democrat publicly espouse it may embarrass the Republican steersmen into non-acceptance. Regardless of merit, the McCarran bill will suffer because Republicans failed to think of it first.

* * *

Elation at the Treasury Department marks the belated formation of an IBA committee to aid in U. S. savings bond promotion. For months the Treasury has been nagging the investment bankers to fall in line with other banks in exploiting savings bonds. IBA capitulation comes in time for the Treasury's mid-year sales campaign.

* * *

Drop around to the Federal Trade Commission for a glimpse at red faces as well as red tape. In a recent broadside against the evils of conglomerate corporations, FTC truculently charged that Sterling Drug, Inc., had even become so conglomerate as to buy a furniture company. That wasn't so. It was some other Sterling outfit that acquired the furniture setup. So temporarily, at least, FTC ferocity subsided into apology.

* * *

Veterans Administration officials are perplexed by the rate at which GI business loans are defaulting. One out of every 60 such loans which the VA backed with a government guarantee has already bounced. VA has participated in 59,450 loans totaling $187,000,000. Of these, 960 have ended in defaults and claims against the government. VA has paid off 732 claims aggregating $680,000

* * *

Real beneficial impact of the legislation suspending the 4-cent copper excise tax two years isn't to be felt by American fabricators until this year's third quarter. Immediate result will be limited relief from what would have been an acute shortage. The abeyance bill passed through Congress in 78 days, record time for any piece of major legislation.

* * *

Government people won't predict how the long range copper price is to be shaped by suspension of the import tax. They generalize the price may jump a couple of cents for a while, thereafter come down by a penny. Determining factor appears to be the amount of profit the Chilean Government extracts from export copper sales.

* * *

Take a long breath for the commas, then read the following extract from testimony before the Senate Finance Committee this week by U. S. Chamber of Commerce Federal Finance Chairman Ellsworth C. Alvord . . . "Shortages are decreasing, inventories are at record high levels, orders are leveling off, prices are wobbling, costs are increasing, earning forecasts are less bright, and the entire economy is vulnerable to a variety of unfavorable influences."

* * *

Outlook on legislation continuing export controls after June 30 remains too hazy for projection at this time.

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Prospect for a business census next year has been clouded by a Senate committee proposal that a highway transportation census be attached. This may survive Senate sniping but will invite House opposition where economizers have already declared against the business study. Census Bureau places at $1,000,000 the cost of the transportation check.

Why Tax Reductions Immediately

(Continued from page 4)

basic element in every price tag and in every hourly pay schedule.

I would like to introduce at this point a graphic picture of the rise in some prices since 1939.

We hope prices will come down —all prices—including the price of Federal Government—which as you will note, has risen 371% in this period.

We are apt to forget that the Federal Government is only one part—true, a major part—of this particular problem. Out of a total national income of $176 billions, the American people are paying out for government—at the state and local, as well as federal, levels—the staggering total of $52 billion. This is a back-breaking charge that must be met **before any taxpayer has a single dollar to spend for his own account.** It is a prior lien on the whole productive energy of the American people. If we can't reduce that tax charge, at a time when business activity is at the highest level in the nation's history, we know perfectly well it won't be reduced if business begins to slacken and unemployment begins to mount.

We must start now, it seems to me, to prepare against such adverse developments. The problem is not only financial and economic; it is psychological. Down in North Carolina, where I come from, we found out a long time ago that we could get more work out of a mule by coaxing than by beating. A bag of oats gets better results than a whip. Let's apply this homely adage to our present tax situation.

Our Federal debt today is equivalent to $6,800 per family. In 1940—only seven years ago—it stood at $1,200 per family. In 1930 it was $650 per family. After World War I the Federal debt reached its then peak for all time of $1,070 per family.

The history of the repayment of all great national debts contracted during war periods shows that reduction is brought about by the **creation of new wealth** through production. Essential elements in the creation of new wealth are (1) incentive to those who assume the risks of building new business enterprises, (2) hard work by all classes of population, and (3) thrift which makes possible the building of new homes and better living.

Debt or Tax Reduction

It is for this reason that I have said that the question is far larger than "Which Should Come First—debt reduction or tax reduction?" Earnest and intelligent people have been confused over an argument that has been blown up, out of all proper proportions, in my opinion.

The general feeling that the debt must be reduced during this period of prosperous business is most wholesome. I heartily agree. But to attempt to pay off debt without relieving the taxpayer of at least a part of his excessive tax burden is wrong. It will defeat the very purpose we are trying to achieve.

Let me illustrate how this problem affects business as I saw it work out some years ago.

In order to enter a new business requiring a total capital of $1,160,000, three men put in $100,000 each, and borrowed $860,000 from a bank in their local community at 3% interest.

Before embarking on this new venture, each of these men had net income from outside sources of $20,000, plus interest of $2,500 from a safe investment of his $100,000. At today's sharply higher income tax rates, their spendable income after taxes would have shrunk to $14,250.

Before Entering New Business:	Mr. A	Mr. B	Mc. C	Total
Net income from outside sources	$20,000	$20,000	$20,000	$60,000
Interest from investment of $100,000	2,500	2,50C	2,500	7,500
Total net income	$22,500	$22,500	$22,500	$67,500
Less tax on $22,500	8,241	8,241	8,241	24,723
Spendable income	$14,259	$14,259	$14,259	$42,777

The new business was expected to, and did produce, a 12% return. The three men paid off their bank loan in less than six years, the business prospered, and a healthy and happily little community grew up around the plant.

Here is the same situation as it would exist today:

	Mr. A	Mr. B	Mr. C	Total
1. Income from business assuming 12% return	$46,400	$46,400	$46,400	$139,200
2. Less interest on bank loan at 3%	8,600	8,600	8,600	25,800
3. Net income from business	$37,800	$37,800	$37,800	$113,400
4. Assumption: Net income from outside sources	20,000	20,000	20,000	60,000
5. Total net income	$57,800	$57,800	$57,800	$173,400
6. Tax on $57,800 (tax bracket of 71.25% or effective tax on the $57,800 of $53.70%)	31,036	31,036	31,036	93,108
7. Income after tax	$26,764	$26,764	$26,764	$80,292
8. Payment on bank loan (at amount to give same spendable income as if they had not gone into the business)	12,505	12,505	12,505	37,515
9. Spendable income	$14,259	$14,259	$14,259	$42,777

After paying interest on his share of the $860,000 loan, each man would have net income (including his income from outside sources) of $57,800. After paying his tax of $31,036, he would have left $26,764. Let us assume that each man was willing not to increase his scale of living, but to keep his spendable income at the same level as before entering this business. He could then pay back $12,505 each year on his loan. At this rate it would take 23 years to repay the bank loan. No bank in the United States would make such a loan today.

Thus after a quarter of a century, each man will have built up his equity in the business, under the following circumstances:

(1) By risking $387,000 of his capital;

(2) By being content not to increase his scale of living for 23 years; and

(3) On the very optimistic assumption of an annual return of 12% for every one of the 23 years.

It was this combination of opportunity with the ability to obtain adequate capital that made possible the unprecedented development of our whole country. Vast as that development has been, particularly in new industries, the surface has barely been scratched. But that program will come to a halt—indeed to a dead stop—if some of the tax barriers daming the flow of fresh capital are not removed.

Before I leave this particular phase of the subject, I should like to touch upon one question which has been raised Would tax reduction proposed in H. R. 1 be inflationary?

We must consider tax reduction as only one part of a three-phase fiscal program. The other two phases are: expenditure reduction and debt reduction.

Tax Reduction Deflationary

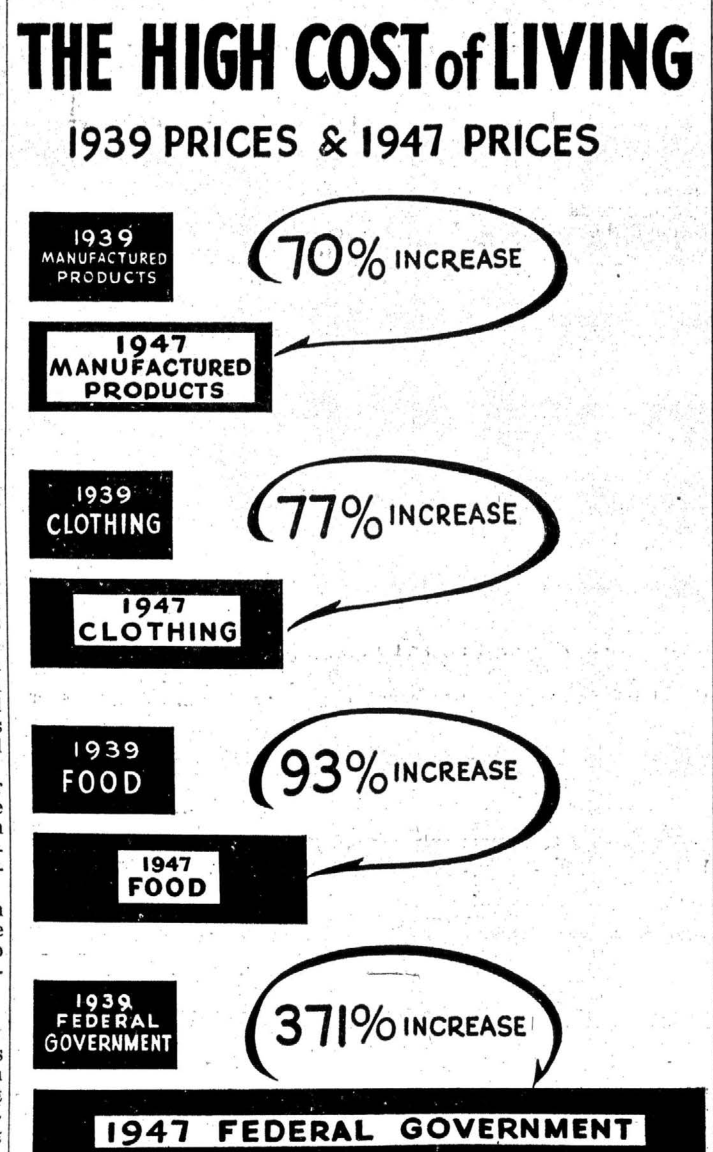
The fact that tax reduction is accompanied by debt reduction effectively meets the argument that tax cuts would be inflationary. After all it is the net effect of the Government's fiscal operations which counts. When the Government takes more money away from the people than it pays out to them, and has a surplus to retire debt, its operations are **not** inflationary but deflationary. That is what the Government is doing now, and that is what it will still be doing after H. R. 1 is passed. This is true however only so long as Congress adheres to its program of cutting expenditures.

It is true that people will have more to spend if their taxes are cut. On the other hand, the Government will have less to spend, by the same amount. There will not be any more money in the aggregate to spend. People will be spending their own money, for a change, instead of having the Government spend it for them.

In another sense, also, the argument that tax cuts would be inflationary overlooks major considerations. The buying power of vast groups of the population has been cut by price increases. Labor demands higher wages to compensate. Yet higher wages mean still higher prices and a further increase in prices must be avoided. Tax reduction to restore individual buying power helps people keep abreast of living costs, and thereby contributes to price stability.

Finally, I would say that while we should resolutely fight against further inflation, we must also avoid the opposite extreme of monetary deflation introduced by too much or too rapid debt retirement. There are now signs that the inflation has about run its course. If the economy is ready to turn downward, a further argument is provided for balancing debt cuts with tax cuts.

For all these reasons I believe the claim that this program would be inflationary is without merit. It may be an excuse but it is certainly not a valid reason for opposing tax reduction.



The next question is whether the program of tax reduction embodied in H. R. 1 is a good program or whether some other would be better. I think it is a good program, first, because it is in an amount that we can afford and still retire debt. Second, because it makes the same percentage cut for all taxpayers with the exception of a larger cut for the lowest brackets and a smaller cut for the few persons in the top brackets.

Suppose you were offered $1 for your first hour's work, 75¢ for the second hour, 40¢ for the third hour, and 15¢ for the fourth hour, how long do you think you would work? Yet this is essentially what we ask the men who guide our businesses to do when we levy taxes under the present schedules.

Across-the Board Reductions

There is still another misconception regarding the tax reduction method proposed under H. R. 1 that is in need of clarification. This is the proposal for across-the-board reductions. The argument is made that this benefits the larger taxpayer more than it does the small taxpayer. By examining the chart which I submit herewith to the Committee you will see that the reductions proposed maintain exactly the same relationships between different levels of income as under the present law.

RATIO BETWEEN TAXES PAID
UNDER PRESENT LAW AND UNDER H. R. 1
AT VARIOUS INCOME LEVELS

	$2,000 Taxable Income	$5,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$380.00	$1,045.00	2.75
Tax under H.R. 1	304.00	836.00	2.75
	$5,000 Taxable Income	$10,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$1,045.00	$2,508.00	2.40
Tax under H.R. 1	836.00	2,006.40	2.40
	$10,000 Taxable Income	$20,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$2,508.00	$6,897.00	2.75
Tax under H.R. 1	2,006.40	5,517.60	2.75
	$20,000 Taxable Income	$30,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$6,897.00	$12,559.00	1.82
Tax under H.R. 1	5,517.60	10,047.20	1.82
	$30,000 Taxable Income	$40,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$12,559.00	$18,753.00	1.49
Tax under H.R. 1	10,047.20	15,002.40	1.49
	$40,000 Taxable Income	$50,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$18,753.00	$25,479.00	1.36
Tax under H.R. 1	15,002.40	20,383.20	1.36
	$2,000 Taxable Income	$50,000 Taxable Income	Ratio Between Taxes Paid
Tax under Present Law	$380.00	$25,479.00	67.05
Tax under H.R. 1	304.00	20,383.20	67.05

The theory of "ability to pay," which underlies and justifies our income tax schedules, has been abused. For instance, under the Revenue Acts of 1936 and 1938, our concepts of taxation were changed from revenue-raising purposes to the use of taxation for social ends. This was based on a socialistic philosophy and has no place in the tax system of our capitalistic economy.

The bankruptcy of this policy should be evident. Income taxes have now been scaled up progressively to the point where they provide virtually 75% of Treasury revenue. This fact alone entails the most far-reaching consequences which are worth examining.

When a position is reached where the Government is completely dependent upon one main source of revenue—in this case, the income tax—that source of revenue tends to become, as far as the Treasury is concerned, the most indispensable of all taxes. When business slackens, Treasury revenues will fall rapidly.

Similarly, there develops a fixed relationship between the financing of Government spending, proceeding at an unprecedented rate, and the income tax rates required to sustain that spending. In other words, the greater the spending, the greater the necessity to justify the confiscatory surtax rates levied primarily against the business groups of the country. The result is that the time never arrives when it becomes possible to make **voluntary** reductions in such rates. Always the argument is made that the lower income groups should receive preferred treatment, a viewpoint which is designed to receive widespread political support.

Next, let's turn to the inequity of this situation, as reflected in tax yields to the Treasury. Here we find how completely the existing surtax brackets have sucked dry almost every available dollar that can be obtained from the higher income groups.

How much revenue would the Treasury actually lose if all income tax receipts on income over $100,000 were segregated from general tax revenues? The answer is $877 millions! In other words, the surtax rates long ago passed the point of **diminishing returns** and became, in fact, purely **punitive** levies against wealth as it is expressed in the form of income, or against the country's managerial capacity employed to direct our industrial enterprises.

Next, let's see how really discriminatory these surtaxes are and how, as a result, they fail of any revenue-producing purpose. As a matter of fact, these rates are now so high that if all income above the **$50,000 level** were actually confiscated over what is now left after the payment of taxes, the total sum accruing to the Government would be only $382 millions! In other words, if the surtax brackets were raised to a full 100% after the $50,000 level of income, the increased tax return to the Government would be enough to run the Government about three days. That shows, I think, how little still remains for the tax collector to get from our present high income groups!

Now I want to make myself absolutely clear. I am addressing myself to one particular phase of this question: the taxation of ability and energy; in other words, the tax on earned incomes. I am making on plea for the rich. What I do protest is a foolish and dangerous discrimination against those with managerial ability, which has no economic justification, and rests solely upon a mischievous class consciousness. What I protest is not a tax on wealth or income but a tax on brains—a stupid levy against the know-how and the managerial experience that are the nation's greatest assets!

The enactment of H. R. 1 by the Congress in no way precludes a thorough-going revision of our entire tax system. Therefore I support wholeheartedly the program of cutting spending to the limit as voted by the Congress, of cutting taxes as proposed by H. R. 1, and of applying to debt reduction the surplus that will result therefrom.

Grand Ave. Bank of Kansas City Forming

KANSAS CITY, MO.—A new bank is in process of organization under the name of the Grand Avenue Bank of Kansas City and will be located in the quarters now occupiied by City National Bank and Trust Company at Eighteenth and Grand.

The new bank is expected to start the same day City National moves to its new quarters in the R. A. Long Building at Tenth Street and Grand Avenue.

R. Crosby Kemper, President of City National, said it would take about ten weeks to complete the work at the downtown quarters. Remodeling currently is suspended by the construction workers' strike.

Financial arrangements and capitalization of the new bank have been completed. The institution will have an initial capitalization of $625,000, consisting of $250,000 in capital, $250,000 in paid-up surplus and $125,000 in paid-up undivided profits.

The management of the new bank will include R. V. Aycock, a director of City National the last 25 years, as President; John C. House, assistant cashier of City National, as Vice-President, and M. H. Ely, chief bookkeeper of City National, as Cashier. The board of directors will be named later.

City National will lease the basement and main floor of its present quarters to the new bank. The mezzanine will not be taken by the bank.

The new institution will conduct a general commercial banking business, including safety deposit and saving services. It will not have a trust department.

Of the 12,500 shares of $20 par capital stock to be issued, 20% will be set aside for officials of the new bank. The remaining 10,000 shares are to be offered to the stockholders of City National at the rate of one share of stock in the new bank for each share held at $50 a share. Stockholders will have until May 3 to accept the offer.

Mr. Kemper said the stock has been oversubscribed.

Formal application for a state charter will be made May 4.

Our Opportunities in World Commerce

(Continued from page 7)

expect to import about $9 billions of goods and services, or nearly $2 billions more than last year. But the gap between our imports and exports will still be in the vicinity of $7 billions, which we expect to close in the following ways: about $2½ billions of public and private gifts; about $3½ billions of long and short-term loans; and about $1½ billions from drawing down foreign dollar balances and sales of foreign assets in this country.

Trade Volume Increased

Those figures contain in a nutshell the story of both our difficulties and our opportunities in world trade. First it is clear that our trade volume is much greater than prewar, and the reasons for this are apparent. The disorganized countries of the world are in need of food and other products which only we are in a position to provide. We curselves are enjoying a level of national income which is unprecedented in our history.

The only practical limitation on our exports of needed goods and services to other countries is the supply of dollars available to people who want to buy our goods. In brief, the alternatives boil down down to this: we can give dollars away; we can lend them; and we can make dollars available in payment for goods and services which we import.

To date we have given many dollars away, which was absolutely necessary. In the aftermath of the recent war we responded to the emergency needs of other countries in terms of our highest humanitarian ideals. Our gifts are now tapering off as these needs are passing.

However, gifts are not a basis for long-run trade which will be of mutual benefit to all parties. Government and private loans and investments at the present time are necessary to restore and expand productive machinery, which is basic to healthy and increasing trade. Rehabilitation and reconstruction loans are seed which will produce long-term increases in living standards and productivity around the world.

Credit for World Reconstruction

To date, we have extended a substantial volume of credit for world reconstruction. The Government has a total of slightly more than $9 billions of active credit commitments abroad. Through our subscription to the International Monetary Fund, our capital subscription to the World Bank, and unused authority of the Export-Import Bank, further credit is available. And in addition to government credits, the World Bank has authority to raise sums of capital from private sources in the United States.

In other words, America has already done a great deal, and in cooperation with other countries we have established mechanisms through which further assistance can be given. We shall continue to extend help to put the world back on its feet economically and financially and to put a firm foundation under world commerce.

However, in the long run, the success of our participation in world economic affairs will be measured by the success we achieve in expanding our imports and in encouraging a steady flow of sound investments abroad. That is the hard core of the problem; at some future time we must achieve a rough balance between our exports and the service on our loans on the one hand, and our imports and the normal outflow of investments on the other. On ccasions in the past, this country has risen to heights of indignation at the fact that other countries failed to pay their debts to us. But it was too seldom realized that by our own restrictive and protectionist trade policies we ourselves made it impossible in some cases for those other countries to pay us back, however much they may have wanted to. We have now become the greatest creditor and lending nation in the world; it has become absolutely necessary that we increase the volume of our imports. To continue practices which would make it impossible for debtors to service our loans will mean that by our exports and our loans we will simply be divesting ourselves of our wealth and property in the long run, and we will be destroying further opportunities for profitable investments abroad.

How Can We Expand Imports?

The immediate problem, then, is how can we expand the volume of our imports? For me to speak on this subject to you men, who have spent your lives in the study of that very problem, will require some boldness, but anyway I shall give you my views.

In fundamental terms, basic determinants of the volume of imports are the level of our business activity in this country and the legal restrictions and controls which exist both in this country and abroad. At present we are enjoying virtually full employment, and although there are some disturbing signs—particularly in the rising agricultural and industrial prices — I am nevertheless confident in saying that, on the basis of national income, importers can expect continued wide opportunities for increasing the volume of their business.

In regard to tariffs, restrictions, and international arrangements on these matters, I expect to say something later.

I believe that aside from these important matters there are still important ways for expanding our imports.

First, at the present rate of industrial activity, we are using up our reserves of basic minerals at an excessive rate. During the war we consumed a large proportion of our remaining copper, zinc, and lead, and we drained our reserves of petroleum without stint. We used up a good part of our high grade iron ore deposits also.

To sustain a high level of business activity and to protect our remaining natural resources we will have to increase imports of these vital materials.

If in the future our governmental stockpiling program for strategic materials is expanded as I feel it should be, our imports of these materials will further increase. This will provide even greater opportunities for importers. Purchases of these supplies should be handled to the greatest practicable extent through private traders, not through governmental purchasing commissions or inter-governmental arrangements. Furthermore, importers as well as American business in general should be given assurance that these reserves of materials will be held for special emergency purposes, and will not sometimes be dumped on our domestic market.

Second, I think most of you will agree that, speaking generally, importers have failed to take full advantage of new marketing and distribution methods as they have been developed in merchandising domestic products. I have been most interested to see the work which such organizations as the World Trade Foundation have been doing to introduce more advanced methods of market analysis and distribution. Dealers in imported goods cannot afford to confine their attention to a limited number of metropolitan markets, nor to narrow segments of the population. The United States market is a complex of many submarkets; inland markets, smaller urban areas, and the various income groups in our population all provide opportunities for imports which should be explored. With our increased national income more effective market analysis and distribution for special quality manufactured consumer goods is of unusual importance since it is in this field that a part of our necessary expansion of imports must come. Demand for raw materials and semi-processed goods is closely tied to the level of production. Technology, employment and national income; significant increases in import volume at any given level of business activity will have to come in those products for which relatively untapped consumer markets exist.

With a high level of national income, more and more Americans will want to draw on resources and products of the world to increase the richness and variety of their standard of living. Through improved merchandising methods, importers will better serve their own interests as well as the nation's needs.

Third, continued cooperation between government and business in the field of imports will be of the greatest influence in reducing and eliminating those "invisible barriers" to expanding trade in the form of unnecessary or outdated administrative procedures and requirements for getting goods into the country. Individually these obstacles may be trivial, but as every dealer in imported goods knows, they can amount to important impediments to trade when considered all together. To date, of course, we have already made important gains in this direction. The Importers Advisory Committee which works with the Department of Commerce has been of much help to us in pointing out problems from the practical view of the practicing importer, and in recommending solutions. I am pleased to report that several constructive steps have recently been taken. The new directive to commercial attaches of the Foreign Service is a significant gain. It was designed to give the same kind of assistance to importers as has in the past been given to American exporters. Activities and policies of the several government agencies dealing with foreign trade, and especially imports, have been better coordinated, but still further progress can be made along this line. To do the job we will need your continued advice and support. And in all activities, of course, it is the responsibility of private groups, not the bureacrats themselves, to see to it that essential functions are not crippled or eliminated by the executive or legislative branches of the government. Your organized activity in this regard has already been of the greatest influence, and it will continue to be.

The Geneva Conference

Now I would like to remark about the trade conference which is at present taking place in Geneva, to which I referred earlier.

There are some lines of business which tend to narrow a man's horizons, and which tend to cut him off from the larger currents of human affairs. The business of importing is distinctly not one of these, rather, it draws a man's interest necessarily to events in all quarters of the globe. It requires a realization of the close inter-relationship in the modern world between government and business, and between national and international events.

The present meetings at Geneva are a case in point. What happens there will be your weather forecast for business; your interests are directly involved in this great world event.

It would be unreasonable to expect drastic elimination of all trade restrictions as an outcome of the Geneva meetings. Many other countries have been forced to erect trade barriers to limit imports to the necessities of life and thus protect their supplies of foreign currencies. Only through a general restoration of productive facilities and expanded world trade will it be possible for other countries to join fully with us in accomplishing our trade objectives.

Despite political tensions which exist today, and despite differences in viewpoint which are evident among the several delegations at Geneva, there appear to exist powerful underlying forces for agreement. All participating countries—aside from their special problems — fundamentally recognize that expading multilateral trade is indispensable for their own recovery. I am confident that substantial agreement will be reached on the proposals for an International Trade Organization, and that the tariff negotiations will come to a profitable conclusion.

The Geneva meetings, therefore, will be another important stride in reenforcing our own prosperity and the health of our economy. For American importers it will be a sign of fair weather and clearing skies. For the world as a whole it will mean that a major challenge will have been met by the major trading nations of the world to carry out the kind of economic cooperation essential for enduring peace.

Dick & Merle-Smith Admits W. E. Roosevelt

W. Emlen Roosevelt, the sixth generation of his family to be engaged in the banking business, on May 1 will become a general partner in the N. Y. Stock Exchange firm of Dick & Merle-Smith, 30 Pine Street, New York City, investment bankers. As successor to the securities business of Roosevelt & Son, founded in 1797 by Mr. Roosevelt's great-great-great-grandfather, James I. Roosevelt, Dick & Merle-Smith stems back to the oldest New York firm in the securities field.

W. Emlen Roosevelt

The partnership of Dick & Merle-Smith was created thirteen years ago by Fairman R. Dick, and Van Santvoorde Merle-Smith, then partners of Roosevelt & Son, to take over that firm's securities business, following enactment of Federal banking legislation which made this step necessary. Roosevelt & Son is now engaged exclusively in the business of property and investment management.

W. Emlen Roosevelt is the namesake of his grandfather, senior partner of Roosevelt & Son from 1898 until his death in 1930. He attended Andover and Princeton University. Entering the United States Army in 1941, he was discharged with the rank of Lieutenant-Colonel last year, after service overseas with the First Army. His last Army assignment was as Finance Officer of the Fifteenth Armored Division. Mr. Roosevelt's father, John K. Roosevelt, and his uncle, George Emlen Roosevelt, are presently partners of Roosevelt & Son.

Inventories and Price Trends

(Continued from page 15)

for others, no generalization concerning current policy would be at all sound. However, some general observations can be made.

"When all prices are rising, it is a risk not to build inventory. For several years most of you have had the alternative of buying all you could lay your hands on, or of closing your plants. In some lines of business, buying ahead has now become a greater risk than not buying ahead. A few still face the squeeze of scarcities.

"These latter must now recognize that when price declines spread from industry to industry, their own industry will not be permanently immune. No matter how inconceivable it may now seem to them that their materials will soon be plentiful instead of scarce, they must keep an alert watch on changes in supply. For them it will be particularly important to keep in mind that as soon as they and their purchasing competitors stop building inventories, demand for the materials they buy will lessen even if consumption is maintained.

"All plans for plant expansion or for integration of production should now be carefully reviewed.

"As for wages, they tend to be the last price to stop rising.

"A year ago it was being widely said that prices of manufactured goods could not decline so long as wages kept moving upward. Most of you now realize that this was wishful thinking. Market conditions may force you to lower your prices, while wages remain firm or even rise further. From your standpoint, your only answers to this dilemma are lower raw material prices, manufacturing cost reduction through increased efficiency, and shutting down of marginal high cost production units.

Policies for the Longer Future

"In a 'seller's market,' there is an umbrella over the production man's head. In a 'buyer's market,' with prices in a declining trend, he has no protection except constantly to improve his performance. If prices in the next 25 years follow their characteristic postwar behavior, an entirely different production mind will be called for than that which has been most widely successful in the past fifteen years. Top management ought to be keenly aware of this and start right now checking every long-time policy and plan for manufacturing, marketing, and finance. One old but little known precept deserves special thought: In a period of rising prices, highly integrated production is an advantage. In a period of declining prices, it may be a disadvantage.

Policies For All Time

"Finally, I want to suggest to you something much more basic than a mere adjustment of policies and plans to whatever price conditions may now be ahead. I should like to make a plea that you get away from the 'shotgun wedding' type of response to price change.

"The old saying that the most constant thing in the world is change is definitely true of prices. Prices rise for a while, then they go down. After they have gone down a while, they rise. The price cycle is always with us. But when the inevitable change comes, the traditional and typical attitude of business men is to postpone decision and action until the force of circumstances is overpowering.

"My suggestion is twofold.

"First, every business should have two sets of policies, both carefully worked out. One set of policies should be appropriate to a period of rising prices, and should cover, in the manufacturing end, not only purchasing for inventories, but also employment, equipment purchase, wages, hours, organization setup, quality and inspection, cost control, plant size—yes, even plant location. Anything within the manufacturer's responsibility, in fact, that would have called for different strategy in 1929-1932 than in 1932-1937. In longer terms, consider the difference between 1920-1932 and 1932-1946.

"Marketing and pricing, which tie production to the rest of the business, need even more consideration.

"Second, there should be carefully worked out in advance an understanding of the conditions which will cause one set of policies to be put on the shelf and the other set dusted off. Successful generals formulate their strategy of offense before they assume the offensive. In addition, they have clearly in mind what circumstances will call for the change from the defensive to the offensive—or vice versa. Generals in industry may well fellow their example.

"Here is where we come again to the study of price behavior.

"One reason why business men have in past been subject to emergency decisions regarding prices is that the field of prices has been left to theorists. This is no longer necessary.

"An amazing amount of data about prices is now avaliable, sufficient to throw light on almost any price problem if it is studied from the standpoint of behavior. After more than 20 years of observing the way in which competent manufacturing organizations work out their problems, I am confident that if you will give the same attention to prices that you have previously given to other phases of management, you will get farther faster than by listening to all us 'experts.'

"Begin by getting records as far back as you can, of the prices which mean most to you. Study how they have changed, in past. Compare their change with those in the general price level. Do they tend to come sooner, later, oftener, less often, than the average? Are they more or less violent? Study and watch some prices which do not concern you directly, so that you can see the forest as well as the trees.

"Notice the cycles in the prices you study, and break them into phases. Not only the phase grouping I have suggested here, but other steps through which each cycle usually passes.

"Once you see the pattern, it will amaze you to note how details of news, discussion, gossip and political talk fit into it, and the confusion of others adds to your own clarity.

"Then, if you work out your two sets of policies, you are ready for action in almost any conceivable circumstances."

Bond Club of New York Announces Guests

John J. McCloy, president of the International Bank for Reconstruction and Development, Eugene R. Black, United States executive director, Robert L. Garner, vice president and E. Fleetwood Dunstan, director of marketing, will be guests of honor at a luncheon meeting of the Bond Club of New York to be held at the Bankers Club on May 26, James Coggeshall, Jr., president of the Bond Club, announced.

A Bird's Eye View of Central Europe

(Continued from page 2)

foreign exchange. There is a scarcity of dollar exchange in these countries. The less you have of anything the greater its utility. And so Europeans become very selective, as they must very necessarily do, in the expenditure of their stocks.

As a measure of cooperation with importers and sales outlets I made it a point to consult with government officials in the various countries visited. Those visitations were for the object of finding out just what the procedure was in connection with the issuance of import licenses, and what I could do as a representative of an American producer to expedite or speed up the issuance of those licenses.

It was not surprising to find that in most of the countries an application for an import license is considered by the bureau charged with that responsibility first on the basis of essentiality. Was the commodity essential to the country? Particularly in connection with its industrial rehabilitation. If the subject commodity did not pass that test, usually a rejection followed. In the event subject commodity of an application for an import license was being produced in the country, then price took on a new significance. At this time I want to say that price is becoming very, very important to Europe. Immediately after liberation I think it was the general temper of those countries to get what they could and to get it as fast as they could. But they are now becoming a little more careful in considering purchases from the standpoint of price. Some folks think it is a push-over to go to Europe and build up a lot of sales. I would like to discourage that idea. You have got to go over and sell; you have got to go over and certainly assure definite deliveries. And you have got to have your price right.

If your particular product passes the test of essentiality and if you can make firm offers of definite deliveries, I think you should do business. With the exception of one country it may be said that the various European governments manifested to me a willingness to expedite the issuance of import licenses. For instance, upon my arrival in one country I consulted with a banker to check on the question of foreign exchange. He was not very optimistic. That, however, did not discourage me. Certainly there was no room in the field of sales promotion for those who are pessimistic. After talking with the banker I proceeded to talk with the gentleman in charge of the government bureau having to do with the issuance of import licenses. He assured me that if I could initiate business in that country that his cooperation would be extended in granting licenses promptly. I thereupon went out and dug up business, and true to his word the import licenses were granted and they were granted promptly.

That experience made the thought occur to me that very frequently these things that appear so insurmountable when sitting at a desk can certainly be resolved by personal negotiations in the field. I would like to suggest that maybe it is time for some of us to cut loose from the desk.

Business Out-Look in Particular Countries

In January I spent three weeks in Sweden. During that time I had the oportunity to talk with a great many businessmen and industrialists concerning the future of Swedish trade. Business conditions were favorable, but there were two matters that tended to irritate businessmen. One was the tendency of foreign exchange to be decreasing, and the other, and certainly more important, were the repercussions on businessmen in Sweden that emanated from the trade between Sweden and Russia. The obligations Sweden assumed under the provisions of that treaty called for large exports of steel, machinery, ball-bearings and other materials. In exchange for that Sweden is now procuring foreign exchange.

As one interested in trading with Sweden I was more concerned with the implications of that treaty than with a decreasing foreign exchange. Constantly I would inquire into the background of that treaty. Whether the query was made in Stockholm, Goteberg, or Malmo, the reply was always in the same vein, and ran something like this: There was no good business reason for the treaty. As a matter of fact, the public did not have an opportunity to participate in the discussions or formulations of that treaty. It had little knowledge of the affair before it became a sealed document. It was strictly a political move on the part of Sweden in the hope of maintaining a state of neutrality in the event of a future war. Consensus of opinion had it that Sweden had tried to buy security. According to reports, Russia in January had a mission of 140 engineers and technicians in all Swedish factories. It was expected that that number would be increased to 500 in February. One large manufacturer expressed the opinion to me that if that tendency continued, if such visitation was to be maintained and increased on the part of Russia, then certainly she, Russia, would know as much about Swedish trade by the end of the year as the Swedes themselves. And he went on in a very pessimistic mood to say that in his opinion unless there was some change, Sweden would become a puppet of Russia within the next decade.

Personally I don't think I would be willing to embrace that idea, but if its does become widespread it is going to have an effect on business. Sweden's economy has been sound, but we have also noticed recently that it has become regulated, and certainly that will slow down the pace of negotiations in business circles.

In Denmark it was interesting to observe that the shortage of foreign exchange induced some industries to organize a central buying office or syndicate, as they term it. All needs of the members are screened through that office. Applications for import licenses are handled by that office. That system seems to assure an equitable distribution of imported materials and goods to the members. Moreover the setup serves to accelerate the issuance of import licenses in that the government only has to process one or two applications for many interests, rather than a multiplicity of applications.

It was also interesting to note that Denmark is developing a rather substantial trade with Russia. Prior to World War II Denmark had a big trade with England for her dairy products. It now appears that England is not in a position to pay the price for Danish butter, for instance, that Russia is paying. So most of the Danish butter for export is going to Russia. In exchange for that however, Denmark is procuring very badly needed coal from Poland. Denmark, of course, has no problem of reconstruction. She has the problem of replenishing her livestock. All in all, considering the size of the market, I think the outlook in Denmark is good.

In Holland, as I saw it, the outlook is not good. The destruction of property in the recent war was appalling. Farm lands were seriously damaged, and the report was that it would require at least two years to recondition them. In the meantime, of course, there is no yield. Industrialists are exerting every effort to import raw materials, to start the wheels going again. But from my own experience I can say—and I am sorry to say this—that the bureaucracy that exists at the Hague is really staggering.

On top of all this the people are alarmed over the outcome in the East Indies. The general belief seemed to be that if Holland did not at least maintain a participating interest in the commerce and operation of the East Indies they had very little to look forward to in the future.

In entering Belgium from Holland a traveler becomes instantly aware of an amazing difference between those countries in all aspects of life. I became conscious of it while riding on the train from Amsterdam. Just as soon as you cross the Belgian border the waiter in the Pullman changes the menu. I won't indulge in any travelogues; I will stick to my promise. But I think it is symbolic of Belgium today. You can get a variety of foods on the same train. You can get wines and liquors, and I think including Schenleys. You get excellent cigars, and all in all that was Belgium.

Business conditions are good and trade is carried on with confidence and enthusiasm. The Belgian transportation system is intact. Belgium has coal and industry is operating. Right after liberation I was told that Belgium had put on a drive on imports for the purpose of arresting or using that as a preventive measure against inflated prices.

Merchants had goods to sell, and there is a general feeling of good will. During the war, of course, Belgium had its Congo, and with the foreign exchange that was thus made available she has been able to reach in rapid fashion her present way of living.

Most of my time in Italy was spent in Milano. The destruction there, as we all know from reports, was very extensive. I understand that 30% of the buildings and particularly of the factories in that city were destroyed. Italy should be a good market for such things as raw materials. But business is very spasmodic. The country is suffering from an acute shortage of steel and electric power. As a consequence factories are working on the average of two days a week. Plant operators would like to purchase raw materials from America in large quantities. But if they had them there would be no opportunity of utilizing them. The transportation system of the country is in very bad condition. Such circumstances, of course, retard the recovery and delay buying.

On the credit side I noted that the Italians seem to have an intense will to work, and that is particularly so in the Milano or industrial section. Unless Italy is successful in obtaining outside financial aid little progress will be made in her rehabilitation. And right now, as far as making any predictions on business, I would prefer not to do it. It is a questionable outlook.

In referring to business conditions in Switzerland I think it is only necessary to say that it is the one country in Europe where the American dollar loses its magic. That speaks for itself.

I observed a readiness in Switzerland to import from the States materials that were being produced domestically in that country, and apparently in sufficient quantity to take care of Swiss demands. This rather intrigued me, and I made a little investigation on that subject. It appears that the Swiss are anxious to import from the States to supplement their own production, so that they may carry on an export trade. Of course, from any standpoint, as an American I am not interested in doing something indirectly if I can do it directly.

What Is the Business Outlook in France?

Judging from my experience the possibilities are good, notwithstanding the fact that since liberation France has suffered from inflation and from the fear of Communism, which has really stifled her incentive to forge ahead. When it is realized that France was almost bled white in World War I and was further devitalized by a long occupation in World War II, it shouldn't be surprising that her people do appear to be a little bewildered.

Maybe that accounts for the extraordinary happening in France of the progress Communism has made, not among the ranks of the industrial workers but among those who till the soil. Much criticism was heard in Europe of the French in not working hard enough to come back. But really, most of that criticism I heard came from the lips of Frenchmen in Paris. I think it is a good sign. And certainly I would not be inclined to criticize them for the same reason. Those who live in glass houses should not throw stones.

In the progress of carrying on activities in France I saw her factories work. I saw her people manifest a desire to improve their lot. And I don't think she is going to slide backwards.

Germany's Place in the European Economy

Some of my listeners might question the relevancy of including in this report any reference to Germany's place in the European economy. If this report is to convey to you some of the things that Europe is thinking about, and that is pertinent in estimating market possibilities, then I submit that it is proper to discuss Germany on this occasion.

In each country visited on my itinerary there was one topic that business men never failed to introduce, and that was the rehabilitation of Germany. Germany today, as we know, is a vacuum in the middle of Europe. Its prostration is affecting the economy of Western Europe. You will be interested to know that industrialists in Holland and Belgium, for instance, have attempted, at least on one occasion to my knowledge, to take joint action to explore the possibility of reviving certain industries in Germany. During my stay in Amsterdam in February I was informed by one individual that he had been appointed a member of a mission of Dutch and Belgian business men and industrialists to go to the English and Russian zones in Germany. Up to that time the trip had not been launched because the English and Russians had denied permission to enter their sectors. Do the Dutch and Belgians feel sorry for Germany? Do they wish to see her revive because of emotional reasons? That, of course, scarcely deserves an answer, particularly on the part of Holland, where, as I have said, the loss was of a most extensive nature.

The answer is that Germany has been the hinterland of Belgium and particularly of Holland. In battered Rotterdam the Dutch spoke of the power of the city as a port and the traffic it used to handle to and from Germany. The thought occurred to me that they were trying to project themselves into the future, to the day when they would resume that trade. And from a strictly commercial standpoint it is necessary. Certainly any emotions of man are subordinated to the demands of business.

Until Germany is in a position to act again as a supplier of raw materials and finished products, what country will replace her? An acquaintance of mine in answering that question the other day suggested Russia. Along with several other millions of people, I know so little of Russia that certainly there is no way of evaluating what her possibilities are in replacing Germany. I do know, however, that Europe, Western Europe, is looking to the States to take up the slack. An opportunity is offered to the American producer now to create an identity, to lay a foundation for the future and to get his foot in the door. Right now anything American in the way of manufactured goods seems to have the admiration and respect of Western Europe. But time slips away and people get tired of waiting. Perhaps some day management will cease to look upon overseas trade as foreign and put it in its right perspective as merely an extension of our own domestic trade. I would urge American producers now to see what they could do in replacing Germany, not as a temporary measure, not to take up a slack, but for the future. There is no reason why, if we get that trade, it cannot be held.

Europe's Concern With America's Foreign Policy

There are two sides to every story. These comments so far have treated with a few impressions of Europe, and necessarily they must be very general. On the other hand, how does Europe look at us, particularly from a political standpoint? Discussing political matters I don't think is digressing. As businessmen we know that commercial prospects in any country can be measured by the political philosophy or stability of that country.

America is looked upon by Europe today as the most powerful nation in the world. In the early part of my trip European curiosity and concern were evidenced over the question of whether the United States intended to lead the world to stability and peace, or would stand aside while Communism engulfed Europe. The absence of a positive answer to that question up to the time of President Truman's utterance on the Greek-Turkey situation left Europe in a state of uncertainty. She knew the way she wished to travel but hesitated to go unescorted. She realized that as England withdrew from her former spheres of influence, only one of two nations could replace her. So she sat languidly and wondered. The effect of the President's speech was definite.

I was in Paris at the time and saw the reaction. Frenchmen who had appeared resigned to the lot of Communism just a few days previously looked at the future differently. In the course of their affairs business men no longer merely went through motions. There was a decidedly different tone to negotiations. Talk was heard now of creating new uses for old products, of building, of expanding. It appeared to me that the French had found a new anchorage in life.

I do not advocate giving the United States Treasury away, but I do subscribe to any foreign policy of our Government designed to stabilize world affairs and to protect the commerce of our country.

Conclusion

In conclusion, I would like to address a recommendation to American industry: At the time of my departure for Europe I contemplated the trip ahead not in terms of dollar sales to be made but in the nature of a mission, dedicated to the industrial rehabilitation of the Old World. At the end of the trip my gratification did not spring from the volume of business that had been procured, but from the realization that the flow of my company's products across the Atlantic meant a genuine contribution to the welfare of Europe. Only through production can Europe wipe out inflation. Only through production can Europe rid itself of the evils of the black market. Only through production will its people cease being susceptible to overtures that are made to exploit misery.

My recommendation to American industry is to share, to some degree at least, its production with Europe, as a contribution to the restoration of that area and in the general interests of world peace.

Reciprocal Trade—A Consistent Bi-Partisan Policy

(Continued from page 7)

portance to our welfare of the reciprocal trade agreements program.

I assume that you do not want me to review the objectives, method of operation or results of the trade agreements program, which have been covered fully in the course of these and previous hearings before this committee on each of the four occasions when the Trade Agreements Act was up for renewal. I am sure that this committee's interest lies in the present and the future, and also that you are concerned with the welfare of our economy as a whole. I should like, therefore, to acquaint you with my views as to the present significance of this Government's trade policies, both here and abroad.

During most of the past six years I have been overseas and have done quite a bit of traveling in Europe, the Middle East and the Far East, both during and since the war. I have seen the great destruction and dislocations that were caused by war. In Europe there is great need for food, equipment, and machinery that can principally be obtained from the United States. Furthermore, all over the world, and particularly in the underdeveloped areas of the world, there is need for American technical assistance and products of our industry.

Everywhere the people look to us with hope that we will continue along the same path we are now following in the reestablishment and development of the economic life of the world. They know that we, who have half the industrial production of the world, are the most important source of new capital, and these countries need our active cooperation. They have watched with encouragement the development of our international political policies and our strong support of the United Nations. They know that our participation in postwar international settlements is essential in the development of a just peace and in the protection of the interests of all.

A Consistent Trade Policy

They are encouraged by the fact that our international political policies have the support of the people of this country on a bipartisan basis. There is still considerable concern, however, as to where we stand on economic questions. Particularly, there is concern that we will not pursue a consistent policy of support to the expansion of world trade. They remember all too well what happened in this respect after the last war and during the depression after 1929.

They know they must sell goods in the United States if they are going to be able to pay for what they want to buy from us. They feel strongly about some American tariffs just as our traders feel strongly about some of the restrictions which they have placed on our trade in the form of tariffs and by way of import quotas, exchange controls, etc. Ever since the passage of the Reciprocal Trade Act, they have looked for the tariff concessions we were willing to make to them in exchange for equal concessions to us. In other words, the reciprocal trade program has come to be a symbol of full-fledged American participation in world trade.

Of course, there are many other factors which are of great importance in carrying out the program of world trade—factors associated with international loans, exchange rates, etc. — but the reciprocal trade program has come to be a symbol, and it is difficult to exaggerate its importance in our relations with the rest of the world. The Congress has approved this program four times, and only recently the authority of the President to negotiate modifications and concessions has been extended. We have been working under this authority and are now in a very crucial period of the negotiations which are taking place in Geneva. Questions have been raised as to whether Congress should not again review this program. It is only natural that this question should be raised, and I believe in facing the questions quite frankly. At this moment, however, I do want to emphasize that if there were to be a modification in the program it would be interpreted, whether rightly or wrongly, as a very major withdrawal on the part of the United States from the responsibility which we have necessarily assumed in working towards expanding and freeing world trade.

Problem of Tariff Revisions

It is true that many of the representatives of industry who appeared before the Committee for Reciprocity Information and before this Committee expressed concern over the possible difficulties they would meet if the U. S. tariffs were reduced on the commodities which they produce. However, I am told that no representative who appeared was able to show that the tariff reductions made in connection with former trade agreements had resulted in more than minor or temporary ill-effects of foreign competition. Nevertheless, the possibility of serious dislocation resulting from further tariff reductions will continue to be carefully watched in order to avoid, wherever possible, adverse effect upon American industry. No concessions will be made without a *quid pro quo*, and the agreements themselves will contain an escape clause enabling the Government at any time to step in and take appropriate action to protect any industry which is seriously threatened by the operation thereof.

On the other hand, organizations representing large segments of agriculture and industry made statements or filed briefs before the Committee for Reciprocity Information indicating that the need of exports for an important portion of their production was imperative if the industries were to be maintained at anything like their present capacity.

For example, the motion picture industry, with an output of over two billion dollars annually, has been receiving approximately 40% of its gross revenues from foreign markets; the machine tool industry whose production has declined from the wartime peak to a value of three hundred million dollars, may soon have an exportable surplus of 50% of its production; the aircraft industry exports almost 20% of its production, and the three billion dollar automotive industry almost 10% of its production. The electrical manufacturing industry, with a production of more than two and a quarter billion dollars, exports 5% of its production. There are many other important industries, such as radio manufacturers, producers of cooking and heating appliances, farm equipment and business machines, which altogether account for billions of dollars of our national production, and are also heavily dependent upon export markets.

Furthermore, 40% to 50% of some of our agricultural products, such as cotton and tobacco, are normally marketed abroad; similarly, in the case of phosphate rock, gum resin and gum turpentine. Were it not for foreign markets, business in the South, with a total population of 40 millions, would be vitally affected and the South would become a poor market for suppliers from other parts of the U. S. The whole country would suffer. Then, also from other agricultural sections of the country, there enter into export substantial proportions of our production of rice, fresh and dried fruits, and canned foods. And I certainly need not remind you that we need foreign markets for our surplus wheat.

To sum up: Every American has a personal stake in the expansion of world trade. Exports provide directly about one out of every twelve jobs in the United States. Through increased sales, they help to keep down domestic prices they lower the unit cost of our mass-production industries. Our exports have been increasing, and it is desirable and necessary that they should continue to do so. There are continuing needs of foreign countries for larger quantities of our goods. At the same time, our great productive capacity can only be maintained and expanded if we can continue to export.

Must Buy More Abroad

As I said before, we must buy more from abroad to enable the world to continue to buy from us. Other countries must have dollars if they are to be able to pay for our exports to them. We supply them with dollars when we buy their products and services; also when our tourists and businessmen travel abroad, and, of course, when we make loans or gifts to them. We cannot indefinitely support our export trade through gifts and loans, although such assistance is quite justifiable during this postwar reconstruction period. The more we import, however, the more we shall be able to export.

We should buy more goods abroad for other reasons as well. I mean manufactured goods as well as essential raw materials. Many imports contribute to our standard of living, and others help us to conserve our domestic resources. I have in mind not only coffee, tin, cocoa, bananas and silk, which we do not produce at all, but also wool, furs, lead, copper, petroleum, and newsprint, of which our own production and supplies are inadequate. In brief, larger imports have become increasingly more essential to our industrial strength, to a high level of employment and prosperity, to a better standard of living, and to a better balanced system of trade relations with the rest of the world.

If we are to have such necessarily larger imports, we obviously must pursue a more liberal trade policy and, in proper cases, lower our tariffs. Under the trade agreements program, these reductions are made selectively, item by item, and only after careful study of the probable effects of each concession that is offered. Experience thus far with the trade agreements program indicates that our trade with countries with whom we have negotiated reciprocal trade agreements increased in total by a much larger percent than did our trade with non-agreement countries. There is every reason to believe that additional increases in both exports and imports will result from the continuation and expansion of this program.

A Program for Debt Management

(Continued from first page)

would provide for the Government's controlling and spending nearly 25% of the presently expanded national income of the United States. Even this huge budget makes no adequate provisions for reducing the national debt.

The country is now in the midst of a business boom, with a national income almost twice as high as before the war. This boom is supported by a huge accumulation of readily available funds as a result of war financing, coupled with a large deferred demand for goods, for houses, for machinery, and for all types of durable consumption goods. This combination creates the boom. We cannot expect the boom to continue indefinitely. Therefore, a budget which is barely balanced at a tax level which places a serious burden on all the people and on business is clearly a budget out of control, and the country's first task in any program of debt management is to reduce budget expenditures.

II
Reduce the Debt

We must begin at once to reduce the debt and so lessen its dangers. There is still another reason why we cannot risk continuing the debt at this high level: we can never tell when another National emergency may arise, and we don't want to be caught then with so large a debt.

Just how much the debt should be reduced each year and what statutory requirements should be adopted is a question now being debated before the Congress. A 1% retirement a year of the present debt would mean a retirement of $2.6 billion, the amount which has been proposed by the present Senate.

The political pressure for spending and for tax reduction is so great that there is considerable merit in setting up a fixed statutory requirement for debt retirement. Another consideration is that the amount of debt retirement should somehow be related to the prosperity of the country, and in a good year we ought to retire more debt than in a year of depression. A heavy retirement of debt in time of prosperity would tend to check overexpansion and inflationary tendencies; contrariwise, a smaller retirement in times of adversity would relieve somewhat the burden of taxation and would aid a little the processes of recovery.

One interesting proposal is that Congress should set itself a definite goal of debt retirement in relation to the size of National income. Under any standards the present period of boom prosperity is one in which we ought to make a good beginning at debt retirement.

III
Distribute the Debt

The national debt is most dangerous when it is held by the banks, for in that form it adds to the money supply, and the money supply is the inflationary factor. If money exceeds goods it tends to force prices up. So in addition to making every effort to reduce the total amount of the debt, it is sound fiscal policy, especially in times of prosperity, to distribute as much as possible of the debt into the hands of investors other than banks, who will hold the debt securely out of the current stream of spending.

It was for this reason that the Treasury during the war adopted a policy of selling its bonds as widely as possible to individuals and corporate investors. Even before the war the sound policy was adopted of devising a savings bond that would be attractive to individuals of both large and small means, and selling these bonds to as many people as possible.

Thus a substantial part of the debt was widely distributed; but more than that, the sale of bonds to all these people stirred a greater incentive to patriotic support of the war. It also gave these people a share in the affairs of their government, an interest which should prove of value in the support of sound financial policies. The United States has that many more shareholders. That is enormously important because it will aid the difficult task of getting and keeping the budget under control. Government spending is not something the President and government departments do. It is what the voters insist on getting from their government. The more the voters are also taxpayers and bondholders, the less will be the danger of unwise and excessive government spending.

These is still another persuasive reason why a wide distribution of government bonds in the hands of millions of people is a safeguard to the welfare of the nation. These savings bonds provide a cushion for use by these people in lean years, against depression or unemployment. While we have learned much about the business machine and are hopeful that its fluctuation can be reduced, we have hope rather than assurance, and we need to build every buffer that we can. Through the ownership of savings bonds the investor builds his own social security; a means by which he can meet the emergencies of unemployment, or sickness, or old age. It is good for the individual, and it is even more important for the country's wellbeing, because this spending in times of emergency will help keep the country's economic life on an even keel.

So the continued vigorous sale of savings bonds is sound policy, just as it was in time of war. It is one of the best ways the banker and the businessman can contribute to the wise management of the National debt.

In addition to the sale of savings bonds it is desirable for the Treasury to be constantly alert to the markets for Treasury long-term bonds. As fast as insurance companies, savings banks, trust accounts, and individuals have money which they are willing to put into long-term government bonds it is sound public policy for the Treasury to issue and sell quantities of these bonds adapted to the market. A continued wide distribution of such bonds is a far more important consideration than the slight rise in interest rates which may result from shifting government securities from banks to investors. To decide this question on the basis solely of interest saving would be a narrow and short-sighted point of view. The wide distribution of the debt is sound because it reduces the volume of inflationary money and reduces the floating debt which has to be refunded from year to year.

IV
Reduce Wartime Taxes

At the end of each great war the National debt has seemed to the people of the day almost unbearable. In some countries and at some times the fear was justified, and the value of the currency collapsed. England and the United States have in the past borne their debts well, and the main reason is clear; the force of enterprise has been so powerful and the growth of production and income so rapid that they provided ample means to pay debt charges.

Today's debts are heavier absolutely and relatively, and we must summon to their payment our full resources of energy and ingenuity. This country has an enormous potential. Our heritage and tradition of private enterprise has developed powers of productivity never known before. Our problem is to release and stimulate these resources, for that is our one best hope to satisfy this debt without serious damage. Also production provides the goods people can buy with their expanded money supply and helps restore the balance of money and goods.

It needs no clairvoyance to know that one of the greatest handicaps to productivity in the United States is taxes. Progress depends on the full blossoming of the energies of millions of leaders, on their extra exertion, their extra concentration. The present tax system penalizes extra effort—removes the inventive for going the extra mile. As a wartime measure high tax rates could not be avoided; in time of peace and facing our present tasks they are bad medicine and ought to be reduced promptly. The method of reduction should be such as to assure the leaders in our social order that extra effort will be worth while. This means particularly lowering individual surtaxes, for they are today a brake on incentive. Small business would be perhaps the greatest beneficiary of lower surtaxes, for small business in typically privately owned and dependent on ploughing back earnings into the business.

There may seem to be a certain contradiction in a program of reduring taxes at a time when debt reduction is so demanding. Once taxes are reduced they cannot easily be raised. Reduction will have to be done gradually and tuned to the swings of business and the budget. But above all it must be remembered that the objective is dynamics. If the reductions renew incentive, and restimulate enterprise they will largely pay for themselves. It was so in the '20s after World War I. Reductions of tax rates were followed by increasing tax yields.

There are of course other brakes on enterprise that need attention, but the tax brake is probably the most powerful and is surely the easiest to release.

V
Unfreeze Interest Rates

Interest rates have two great economic functions which they cannot fulfill without some flexibility of movement.

One of these functions is the adjustment of the supply of savings to the amount required for a dynamic economy under capitalism. At the moment there appears to be a glut of money fed from the wartime stream of bank credit. But in the long run the price of money—the interest—is one of the factors to ensure a flow of needed saving.

The second and more immediate function of the interest rate is as one of the controllers of the flow of credit. In the old days booms were checked when money ran out—and the signal was a rise in money rates. Today this whole mechanism is dominated by the Central Bank and the Treasury in each country. But even Central Banks and Treasuries can't have their cake and eat it too; they can't exercise controls over excessive credit expansion and at the same time keep money dirt cheap for government borrowing.

If we are to avoid the great swings of the business cycle that do so much damage we can't afford to throw overboard the response money rates naturally make to over-extension of credit.

This is not necessarily an argument for higher money rates today. Credit control is a delicate function. It is a strong argument for avoiding commitments to a frozen rate pattern.

VI
Improve the Quality of Government

With so large a debt and so many other functions that the people have today insisted on government's assuming the United States has a totally different government from a few years ago—in size—in the number of aspects of life it touches—in our dependence on Washington bureaus.

Therefore we cannot safely continue the kind of government we have had—with its red tape—its constant tendency to expand because executive pay depends on the number of subordinates. We can't afford to have bright young men without experience settling the most weighty questions. We must build better and pay better salaries in the middle ranges of government. This is true in the Treasury along with other government departments.

Summary

These then are the essential things we must do as a nation in the management of the debt: We must cut down the budget so that we stop increasing the debt and begin to pay it off. We must distribute the debt just as widely as possible into the hands of investors and so reduce the inflationary money supply that goes with a floating debt. We must take every possible step to preserve and to increase the dynamic energy of our economic life; for that will make the burden of the debt easier to bear and will maintain our American heritage of Freedom. This will mean reducing taxes, unfreezing interest rates, and improving the quality of government.

Says Unbalance Within Price Level Is Real Cancer in Price Structure

(Continued from page 19)

1929, while total payrolls were $8.9 billion greater than in 1923.

"While the cost of living is now 21% higher than in 1926, hourly earnings in manufacturing have more than doubled. Today's hourly rate is $1.17 as compared with $0.53 in 1926. Weekly earnings averaged nearly $47 in February, 1947, or 88% more than in 1926. 'Real' earnings today thus are about a half greater than in the mid-20's, even after correction for price changes."

Impact Upon National Product

One of the pillars supporting high-level activity has been "the continuation in dollar totals of an unprecedentedly high national income and gross national product. High dollar totals during the war and the accompanying high levels of savings were a direct product of the method of financing the war through debt creation. The subsequent continuation of money income close to the wartime peak was likewise a reflection of a similar inflation in the wage and cost structure stemming from the earlier additions to the monetary supply.

It is believed that we are currently operating close to the ceiling of our productive facilities. The Economic Report of the President states that "with maximum employment in 1947 . . . perhaps an over-all increase of 5% might be a reasonable objective for maximum production." Even the stimulus of higher prices contributed only a 2.2% rise in industrial production since decontrol first emerged last Summer. Whether further gains in physical output would occur under declining prices appears "highly problematical."

"Against this background of maximum utilization of current resources, any substantial reduction in the price level would mean a smaller rather than a larger output of dollars." Thus, a reduction of the price level to that prevailing in 1941, even with a 5% increase in production, would mean a gross national product of $151 billion and a national income of $129 billion.

"In addition," the analysis continues, "a substantial reduction in the price level might touch off a whole chain of downward reactions. Anticipation of lower prices may invite hand-to-mouth buying not only at the distributive level. It may also affect the commitments of purchasing agents in the initial stages of production, as well as behavior at the final stage of consumption by housewives and other groups."

Governmental Revenues and Lower Prices

Declining prices, the analysis points out, imply lower governmental revenues from both direct and indirect taxation, while the relative weight of fixed commitments would rise sharply. "The current corporate tax rate of 38% would produce fewer dollars for Federal use. By the same token, personal taxation on individual earnings from investment would be correspondingly reduced as dividend distributions become less. Tax returns from non-investors would depend on the course of employment and wage rates. Tax income from liquor, motion picture admissions, jewelry and other commodities and services would undoubtedly be lower.

"Illusory" Benefits of Price and Wage Rates—Except for the Farmer

In discussing the situation of the farmers, the analysis states: "Although the benefits of price and wage rates have been illusory in terms of tangible benefits derived in many sectors of the economy, this cannot be said of the agricultural segment. The farmers have also been faced with rising costs, but these appear to have been more than compensated for by the increase in prices received by farmers. Prices received by farmers (index numbers: 1935-1939 as 100) were at 88 in 1939, while prices paid were at 97. The relationship as of 1946 was: prices received 217; prices paid, 162. Most of the increase in prices to consumers, moreover, was not intercepted on its way back to the farm. For a given basket of food, the farmer got 53 cents of the consumer's dollar in 1946, as against only 40 cents in 1935-1939. Distribution costs took proportionately less.

"Because of rising prices, larger production, better margins and a lowered ratio of prices paid to prices received, the realized net income of farm operators (excluding government payments) has risen from $3.8 billion in 1939 to $14.9 billion in 1946.

"Preliminary estimates for the first four months of 1947 indicate that farmers are doing even better this year."

Swedish Trade Talks Proceeding Amicably

Special to THE FINANCIAL CHRONICLE

WASHINGTON, April 30—The U. S.-Swedish trade discussions at this writing are reported to be proceeding amicably, and should end soon after this is published. The Swedes are explaining why they had to violate the terms of their trade agreement with the U. S. A. in imposing import restrictions without notice. While it is now too late to do anything about this feature, the discussions are seeking to agree upon a transition period and rules to govern it and the subsequent period. The U. S. negotiators want an understanding as to the treatment of American goods *vis-a-vis* goods from countries with which Sweden has bilateral agreements.

The U. S. A. is only one of a number of countries which have complained at Sweden's import control action.

Prices Widely Reduced Already

(Continued from page 18)

technological improvements and other factors making possible large volume output with steadily declining unit costs.

Refraining From Price Rises

There were companies who stated that they could easily increase prices 10% or more with no criticism from customers, but they are not doing so. They consider this policy equivalent to voluntary price reduction. Numerous manufacturing concerns pointed out that where they have not increased prices they certainly cannot reduce them at this time.

The Labor Obstacle

Second in importance is the "uncertainty as to future wage costs" which is tied in—of necessity—with the problem of material supplies and costs. About 58% of the returns on the questionnaire specified the uncertainty as to future wage costs as an important factor holding back lower price adjustments.

Third in importance is the matter of low labor efficiency which 43% of the returns indicated is a real obstacle to present price reductions. Therefore, it is clear that the principal problems of manufacturers in pricing their products today revolve around the enormous uncertainties of wage and material costs and labor efficiency.

Continuing with the factors itemized under question four, the matter of subnormal profit margins received considerable emphasis in one out of four cases—26%—as a distinct factor in preventing price reductions. We know that the records of the Bureau of Internal Revenue on corporation profits show that a large proportion of the nation's incorporated businesses are in the red even in good years, and therefore it is not surprising to find one out of four manufacturers concerned about subnormal profit margins. In these cases the aggregate profit may not be too small, but the risk of allowing unit profits to get too slim will often prevent downward readjustments in prices.

Only 6% of those who replied specified "runaway demand" as a reason for not lowering prices. This aspect of the problem includes situations in which the demand is so strong that if an individual manufacturer were to reduce his prices, it would mean no perceptible gain to the ultimate consumer because the competitor or middle man who failed to reduce his own prices would simply capture an extra profit.

A variety of other factors were named by 10% of the replies as having an important bearing upon the whole price reduction question. For example, taxes, tariffs, black markets, governmental policies, and certain unique circumstances were all blamed by one manufacturer or another as interfering with price reduction.

A Plea for Broader Export Credits

(Continued from page 12)

porters. It is claimed that the 16 foreign countries having government insurance have been able to bolster their foreign trade and that Canada has been doing much more exporting since the Export Credit Insurance Act became a law.

There is a bill before the Senate now proposing government insurance of exports. The authors of the bill contend that exporters, particularly smaller concerns, would benefit from the insurance by obtaining protection against loss by reason of non-payment by the foreign buyer or non-payment because of exchange restrictions.

There is considerable opposition to this bill. The Export-Import Bank, which is designated as the agency to handle the insurance, expressed the view that the need and actual demand for it is doubtful. The bank expressed the fear of a possibility of indiscriminate promotion of exports not justified by underlying credit and exchange conditions of foreign countries.

A survey of the attitude of American exporters to the proposed government insurance was made in 1944, jointly by the Foreign Credit Interchange Bureau and the Bankers' Association for Foreign Trade. About 600 questionnaires were distributed. The replies indicated that 193 felt that government export credit insurance is desirable and 131 that it is undesirable. As to government foreign exchange insurance, 231 considered the service desirable and 109 undesirable. A few hundred replies of course cannot be considered as a representative opinion of our export community which is estimated at 30,000, and a broader survey, particularly in the Middle West, should be undertaken to clarify the situation.

There is no abnormal risk in extending export credit. It is an established fact that foreign credit losses are lower than losses in domestic trade. A survey conducted by Dun and Bradstreet for 1941 and the 10 preceding years shows that losses amounted to two-fifths of 1%. The data was submitted by 514 concerns whose sales exceeded $750,000,000.

The experience of most credit men in this area is in the domestic field. This may account to some degree for the reluctance to extend credit in foreign markets. It is important for our exporters to formulate a constructive credit policy since foreign trade cannot be conducted on a cash basis in a competitive market. Importers in foreign countries do not have the abundance of capital that we have in this country and the cost of financing is much higher than in the United States. Reasonable credit terms, consistent with safety, are therefore as essential in foreign trade as they are in domestic business.

While I do not recommend the extension of unwarranted credit as a means of obtaining business or to allow terms that would permit the use of the exporter's funds for purposes other than to finance the importation, I do feel that we must do our business on a business basis.

World Bk. to Announce French and Danish Loans Together

Special to THE FINANCIAL CHRONICLE

WASHINGTON, April 30—The World Bank is expected to make simultaneous announcements of its loans to France and Denmark, in about a fortnight it is thought. It is understood that the amount of the loan to France will depend primarily on the wishes of the U. S. A. as expressed by the American representation on the bank. The National Advisory Committee is said to have indicated recently that it would not endorse the idea of the World Bank lending France more than half of the requested $500,000,000 at this time. In the case of Denmark, also, the full $50,000,000 requested is unlikely to be lent initially by the World Bank. Indeed, Denmark would not require the whole amount at once.

Bullish Factors Accumulating!

(Continued from page 8)

35½ low and last. **Anaconda looks very cheap here.)**

April 13, 1938: Santa Fe RR. defers interest on Adjustment Bonds until net is determined. (Note: In July, 1938, **Santa Fe RR.** had sufficient profit to wipe out first six months' loss.) **Currently, Santa Fe has earned nearly $4** a share in first three months.)

April 26, 1938: Union accepts cut in Goodrich pay at Akron plants. — Wool wages being lowered. — Nearly all cotton mills have already adjusted wages downward.

July 1, 1938: Phelps Dodge raises price of copper ¼¢ to 9¼¢ a pound.

July 26, 1938: U. S. Gypsum 2nd quarter profit rises to $1.13 per share vs. 46¢ in first quarter. (See item of March 2 above.)

Aug. 15, 1938: Steel rate over 40% first time in nine months.

Aug. 19, 1938: Home building spurt bolsters sales of building material. — Chain store and mail order sales, evidence uptrend. — Rayons start price rise.—Demand continues. — Sharp upturn indicated in fall film earnings.

The foregoing 1938 newspaper headlines about developments affecting security prices are particularly interesting when it is noted that the 1938 high for the Dow Jones Industrial Average was 158.41, reached in November, — or **only about 10½ points under the present level.**

The contrast between the conditions indicated then, and now, seems to me to adequately support the contention that **today, stocks are about the cheapest things one's money can buy, based on what they give back in earnings, yield, and promise.** Also, that this is the time for bargain hunters to become active, for the list is honeycombed with bargains not difficult to find. As one leading investment service points out, **at today's prices, the earnings-yield on common stocks is higher in relation to bond yields than at any time in the last 20 years, or longer.** Even at the low of the 1929 panic, and the low prices of 1937, the earnings-yield on common stocks actually, and in relation to bond yields as well, was smaller than it is today, though today we have not yet seen any downturn in the Federal Reserve Board Index of Production, or any clear evidence that a business recession of importance is in progress, or likely this year, especially in view of the growing likelihood that there will be no major interruptions to production in any of our big industries. Meanwhile, increased buying power, resulting from high wages, and from soon-to-be-enacted lower taxation, will make itself felt to relieve some of the pressure recently exerted on the merchandising field. — Railroad securities, also, will definitely reflect the high rate of uninterrupted activity in steel end motors.

Garfield Raymond With Emanuel Deetjen Co.

Garfield A. Raymond has become associated with Emanuel, Deetjen & Co., 52 William Street, members of the New York Stock Exchange, as a registered representative. Mr. Raymond has been engaged in the securities field for the past 22 years and was recently with Reynolds & Co.

With Whitney, Goadby Co.

Arthur D. Weekes, Jr., has become associated with the firm of H. N. Whitney, Goadby & Co., 49 Wall Street, New York City, members of the New York Stock Exchange.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets are again confronted with uncertainties, resulting largely from the belief now that important developments are imminent. . . . The new method of handling subscriptions for Treasury bills, along with the levy to siphon off profits of the member banks, has created the impression that the way is being paved for the unpegging of short rates in the very near future. . . . This, along with the weekly redemption of bills, has brought about a cautious attitude toward Treasury issues, especially among the member banks, which will soon be feeling the effects of the credit restricting program. . . . Prices, however, continue to move in a narrow range on light volume. . . .

Nevertheless, the demand for the eligible issues has shown a tendency to deteriorate somewhat, with minor selling being done by some of the member banks, and dealers. . . . Also there are indications that bidding has been less vigorous for certain of the bank issues, which has been responsible in some measure for the price decline in the shorter and longest maturities. . . .

There is no doubt that the feeling is growing that the eligible obligations are in a vulnerable position. . . . The restricted obligations, by way of contrast, have been steady with a good undertone, because non-bank investors are still faced with the need of putting funds to work. . . .

BIG QUESTION

The big question that appears to be confronting the monetary authorities as well as the government securities markets, is the duration of the recently initiated credit restrictions. . . . There is no doubt that the extent and the intensity with which the new policy will be carried out will depend upon the curing of maladjustments in the economic system particularly in commodity prices. . . .

This seems to indicate that the weekly redemption of Treasury bills, through the use of funds from war loan accounts, could be a temporary measure, for the primary purpose of bringing to an end the inflationary trend of commodity prices. . . .

This would seem to give a somewhat different complexion to the picture and it could have an important bearing on the market action of Treasury obligations. . . .

WATCH COMMODITY PRICES

In light of these opinions, it seems as though the all important factor to watch in order to get clues on the probable trend of government securities is the movement of commodity prices. . . . Evidence is already appearing that the upward trend of certain commodities has about come to an end, with others noticeably on the decline. . . . Also there have been statements by authorities on commodity prices to the effect that the trend is quite likely to be downward in the near future. . . .

In view of what has already taken place in some prices along with predictions of the future trend, there is some question as to whether the credit restricting measures did not come somewhat late to cure a trend that may have already been reversed. . . .

While there is no doubt that the money managers are worried about inflationary trends, would they not be more concerned about deflationary tendencies (which may be developing) particularly in view of the fact that 1948 is an important election year? . . .

NEW PRICE QUESTION?

The credit restricting measures, it seems, may bring about a new pattern of prices in the government market with opinions pretty much in agreement that the eligible issues could move down much more sharply than the ineligible obligations. . . . While the type of selling done by the commercial banks will determine the trend of prices of the eligible obligations, there could be acceleration of the movement through the liquidation of these securities by non-bank investors. . . .

If the insurance companies and savings banks should believe that the bank bonds were going lower, this could bring in liquidation of some of the issues that they hold, especially the longer-term obligations. . . . There could also be selling of the intermediate maturities. . . .

Non-bank investors are in a different position than the commercial banks because they will not be losing funds through the credit restriction program. . . . On the contrary, investable funds are piling up, and the channels into which they could be put have been narrowed. . . .

MORTGAGES ON WANE

Mortgages are not coming through as expected because of the let-down in building and other securities that might have been considered, have either been postponed or are not suitable, at this time, because of the greater desire for more riskless obligations, pending clarification of the business situation. . . .

This seems to indicate that government securities will be in for buying, by non-bank investors, even though there could be weakness in the eligible obligations. . . . Certainly in the amounts that the bank-eligibles are sold by insurance companies and savings banks, they will replace them with restricted bonds. . . .

Also because of the investment problem that faces non-bank investors it is quite likely that they will be making new money purchases of the restricted issues, until there is an opening up of other investment media, particularly the mortgage market. . . .

ANOTHER BAROMETER

While the trend of the market will be determined to a considerable extent by the action of the commercial banks, the amount of the decline in eligibles will probably be based upon the kind of issue sold. . . . If the member institutions should decide that the longer-terms can be bought back at lower prices, there will be some liquidation of these securities, despite the need for income. . . .

On the other hand, the shorts and intermediates might be disposed of, with not so much effect upon the general level of prices, unless there is selling by non-bank investors, which is a distinct possibility. . . .

It seems as though the government market is in a position where it must be watched very carefully because of the cross-currents that seem to be operating there now.

Observations

(Continued from page 5)

Tax Rates vs. Tax Collections

Again Mr. Snyder justifies present taxes by the high income and employment ruling today. But he is here confusing the *amount* of tax collections with tax *rates*. Assuredly the amount of tax collections should be large in periods of high national income, but this should be a result of overall industrial activity and not of the imposition of high rates on the individual. Reductions of the confiscatory wartime tax rates may actually be followed by increases in tax yields (perhaps even beyond the present quintupling of the pre-war amount) through increased incentives and other resultant stimuli to active business, if the pattern which followed World War I is duplicated.

Combination of two other points made on this phase by the Treasury Chief leave him in the thoroughly anomalous position of successively claiming on the one hand that taxes should not be reduced because of the *inflationary* impact on our present high national income, and on the other hand because of his anticipation of a *deflationary* drop therein of $8 billion next year.

Stalling

Mr. Snyder adduced a number of other arguments to support his theme of delay, all of them seemingly adding up to stalling-on-the-grand-scale. ("If we cut taxes too soon we shall probably find it impossible to reverse our action. It will be time enough to cut taxes when it becomes clear that conditions call for such action.") The Secretary expresses alarm over the possibility that the reduction of one tax is unsound without "thorough study" and an overhauling of the entire tax structure at one fell swoop. But it is not apparent why we cannot have both; that is, a revision of confiscatory rates now; and later the scientific inclusive revision of the entire system. And when does the Administration feel that this millenium can occur? Only in 1948? In view of the deaf ear that the Roosevelt-Morgenthau Administration consistently turned to the same pleas for an over-all revamping of the tax structure whenever their unsound tax schemes, like the undistributed profits levy, were proposed, can there be confidence that this newly-alleged prerequisite to tax changes will be accomplished by the Truman-Snyder Administration at any time within the reasonable future?

Right after the First World War it was found feasible sharply to reduce tax rates. The highest surtax was lowered from 65% to 50% in 1921 and 40% in 1924, and despite the additional handicap of the quintupling of the government's expenditures compared to pre-war, the national debt was reduced by a billion a year. Under the professed philosophy of the Truman Administration, it is difficult to imagine that any reduction whatever in tax rates would have occurred between Wars One and Two.

Even hard pressed Britain has materially reduced the tax rates in various schedules and brackets, with the Exchequer Chancellor's explanation that "it is important that income tax should not stifle incentive."

Actually, there is no reason why here there cannot be a reduction of *both* tax rates and debt, irrespective of whether Mr. Hanes' estimate or any of the successive correct and incorrect ones put forth by President Truman be used. Even if, as the Treasury claims, the proposed cut in tax rates would entail a decrease of $4¾ billion in revenue, the debt could still be reduced.

Snyder-Truman Inconsistencies

To support his aim for delay, Secretary Snyder says: "Under these favorable economic conditions [high employment and national income] present taxes do not impose an excessive hardship on the American people." But he overlooks the 100% inconsistency of this pronouncement with the economic gospel of Mr. Truman on the price front. Disregarding the public sophistry about "inflation" and "deflation" and dialectical twisting of their concepts, we may surely say that President Truman has been expounding the thesis that excessively high current prices putting things out of the reach of consumers will bring on a depression; and that this "gap" between production and consumption must be closed. But it seems that it is only satisfactory to the Administration if consumption is brought into line with production through reduction in industrial prices. It apparently is only profits and prices, not taxes, which "impose an excessive hardship on the American people." Conforming with this absurd position is Mr. Truman's pronouncement that current wage rises are a good thing; the professed net conclusion being that on the one hand the economy is in a most vulnerable position in which a deficit of purchasing power can be cured only by reducing prices or raising wages; but that, on the other hand, a reduction of burdensome taxes to relieve that same inadequacy of purchasing power is out of order.

Another example of this absurdly inconsistent position is furnished by the Truman-Eccles attitude toward instalment financing. Almost in the same breath in which the President has been worrying over the insufficiency of future buying power, he and his Reserve Board chief upbraid instalment selling as "private deficit financing" and insist on retaining the wartime restrictions to curtail buying-power which they here strangely profess to see as being disastrously inflationary.

* * * *

And so on with the screwily inconsistent "economics," which is explainable only on the ground of the political exigencies; on the encroachment of the power of the Charlie Michelson's on even the determination of the nation's economic policies. The alternative to our Democratic system, with these confusions and inefficiencies, apparently being tyrannical dictatorship, we will of course gladly keep what we have. But would it not seem possible for the Michelson's of both political parties to refrain from ghost-writing for the policy-makers at least until six months or so before Election Day?

Expect Agricultural Price Drop!

(Continued from page 8)

parity and the Halls of Congress would ring. Farm products are out of equilibrium even with this inflated economy.

Farmers Favored

The farmers' income was at the annual rate of $6 billions in the last quarter of 1939, and during the last quarter of last year ran at an annual rate of $22 billions. Farmers are making 3.5 times as much income as in 1939. On the other hand, national income was $771 billions in 1939, and during the last quarter of 1946 ran at the rate of $173 billions or only 2.4 times 1939. On my last trip West I talked with a farmer who stated that during the year he had sold $2,200,000 of produce and could have made money if it had been only $800,000—and I spent 10 years trying to get away from a Kentucky farm in the conviction that it was uninteresting, unhealthful, unwholesome, unprofitable and exhausting.

Either this favoritism of fate must soon cease or more people will go into farming and spoil the show. The forces which pressed farm products to such lofty heights are either going into reverse or becoming relatively static. The great underlying force back of it all is the enormous increase in the money supply which rose from $36 billions in 1939 to $110 billions now. The money supply is defined as demand deposits adjusted plus currency in circulation. It is the most important single inflationary force since it represents money ready to be spent. Now, however, the great wartime inflation of money has ended. The money supply is still showing a tendency to increase but the rate of increase is petering out. For practical purposes it should be considered static from now on, although there will be some further increase in bank loans. Much depends upon a balanced governmental budget, and Federal Reserve Bank policy which is now deflationary at least in principle. At least the Federal Reserve has made some threatening gestures toward the big bully inflation. It has taken off its coat and started shadow boxing. About all we have seen is footwork, but it is hopeful. Probably the Treasury is holding on to its right arm and preventing the Federal from taking a good swing.

Any further increase which is ahead will affect the average person relatively little. The average person had income of $540 in 1939 and will have about $1,240 this year. He cannot look forward to very much more more. During the great expansion the dollar wealth of the average family was increasing and it felt good. From now on the dollar wealth of the average family will stand relatively still. During the period of expansion our tax structure distributed a greater proportion of the new money to the little man. He has as great an appetitie for food as anyone, and with more money and since he constitutes most of the people it is no wonder that an extraordinary demand was focused upon food. The new money has been printed and given to the multitude. We are now in the age-old process of transferring the newly created wealth from weak hands to strong hands. It is the old theory that if $10 was given to each of 100 men on a desert island that within a year 10 of the 100 men would have all of the money.

Competition of Manufactured Goods

One of the most important factors which served to boost agricultural products, and which is going into a strong and fast reverse, is the unavailability of manufactured goods. Since the consumer-durable goods, such as cars, refrigerators, houses, etc., were not being turned out during the war, the consumer's money had fewer places to go and an inordinate proportion of it was shunted into farm products. It is very different now, however, and the only question is one of timing. How long will it take for our truly enormous production of consumer durable goods to take enough of the consumer's money and pull a large part of the demand out from under farm products. It won't take long. Even in the basic steel industry only half the products are in short supply and new plant capacity is expected to cure these shortages soon. Steel inventory is unbalanced but the over-all picture is the normal three months' supply. We are producing steel at an 85-million-ton rate and consuming at a rate of 75 million tons.

The index of the production of physical goods has risen from 109 in 1939 to 192 last January. I remember that in 1939, when the Federal Reserve Board index of industrial production was at 109, some of us used to speculate about what the capacity of this country was to produce physical goods. Some of the more dreamy-eyed theorists contended that the country could produce enough, with the equipment it had then, to run the Federal Reserve Board index up to 160. It is now 192. We are really turning out the stuff, although some of the pipe lines to the consumer have not yet been filled. Pipe lines take a long time to fill. Whether the money supply shrinks or not, it is a fact that that part of the money supply available for agricultural products is sure to decline. Competition of consumer durable goods will eat into it.

Shortages of manpower, machinery and fertilizer on the farm and on farms all over the world handicapped production of farm goods and further tended to stimulate high prices. Farming was running forced draft and doing a magnificent production job, but not what it could have done with more men and tools. Another way of saying this is that not only was there a manpower shortage on the farm, but since there was a shortage of machinery and fertilizer the man-hour productivity of farm work was not what it might have been. Now we have had, and are continuing to have, a rapid reversal and farm products will be more easily produced in quantity as more tools are available.

So much for theory. What is going on in practice? In 1936 I was talking with a restauranteur. He stated there was going to be a depression because his receipts had fallen. He said that he had observed, and his father before him had observed, that restaurant sales were one of the most sensitive barometers because the first thing that people economize on is their stomachs. Sales of eating and drinking places are down 3% at the same time that sales of most other retail establishments are up an average of 15% over a year ago. It may be that restaurant sales were effected by food shortages for the housewife as recently as a year ago, but it is doubtful. Even if so, one must be convinced tha the disparity is too wide and people are economizing on their stomachs.

How Far Will Prices Decline?

Granting that agricultural prices must come down, the $64 question still is—when and how far? As to when, the answer is any time now. It seems that the new farm product demand from Greece, Turkey, Korea and other places has delayed a break which would have come before now. Conceivably, other new demands could arise but it is not well to count on them. It is not believed that these demands can be large enough to reverse the trend or prevent the trend from developing. Probably the British will ask us to take over in Germany. Congress will furnish foreign money but will be rigid as to how it is spent. Even so, one cannot foresee more than 1% of our national income going to agriculture for this purpose, and you recall that 4% more is going already than is right. Even if we get a surprise demand for $1 or $2 billion more of farm products, that is out of $7 billions which is undeservedly being received already. We have been sending $1 or $2 billion of food abroad right along. The news of the day doesn't mean a new demand for farm products. It simply means we cannot stop sending food over as soon as was expected.

Don't count on a war with Russia. The sketchy information leads one to think that country is too poor and devastated to start a war. Czechoslovakia is now said to be independent because she stood up to Russia, and it is understood that the Czechoslovakian example has induced our own foreign policy. Scores of spot reports, which are inadequate in themselves but convincing when taken together, give confidence that there will be no war with Russia.

In an effort to determine how far down prices should go, about all one can do is to determine what equilibrium price should be in this economy. We know that when markets start down they do not always stop at their value points. They usually go above and below the equilibrium line. The organization with which I am connected believes that the equilibrium line for agricultural products is 25% to 30% below recent prices. There is no reason to think that agricultural prices will be permanently above equilibrium. The history of agriculture, like the history of most other American industries, is one of increasing productivity per man as the technology of production proceeds and the machine age bears more and more fruit. We are feeding more people than ever before, but the percentage of population on the farm today is only 22%, whereas it was 35% as recently as 1910.

Equilibrium Price

The equilibrium price may be defined as the price which affords a fair return to the producer and discourages the entrance of excessive competiton. It has been demonstrated that the farmer is receiving more than a fair return in relation to other members of our national family. That is the farm parity idea in reverse. The trouble with parity is that no person and no group of persons can possibly know enough to say what the right price is with enough certainty to justify the dangerous interference with economic laws. When I see the great increase in farm productivity I do not believe for a moment that the permanent equilibrium point for farm prices would mean a greater wartime rise than for the prices of manufactured goods. This indicates that agricultural products should drop at least 25 to 30%. That would still leave them almost 100% above prewar. I think that is conservative. It would not be surprising to see them drop more. Additional government aid should not be counted on.

Now that only 22% of the voters are farmers, the long-range outlook is for the farm bloc's power to be waning. Our farmer-labor government is gradually changing to something else. Labor is already beginning to receive its comeuppance.

Even with their comparatively modest rise, hard goods' prices are apt to decline also and place a double competitive strain on highfaluting agricultural products. Most manufacturers are either reducing prices or wondering how soon they will have to.

Let me disclaim any superior special knowledge of agricultural products. I am not a specialist in them in any sense of the word. To me, specific agricultural products defy satisfactory analysis. There are too many hazards, both domestic and foreign. Much depends upon whether there are good crop years or not. I cannot even predict the weather and I am a sailor. New and old blights and plagues harass the farmer and the analyst constantly. Then, too, there are unpredictable changes even in the styles of eating.

Using only fundamentals and ignoring important special factors, equilibrium for the farm product price index is about 130 to 135 as compared to 183 now.

Summary and Conclusion

Agricultural prices no longer have a swelling money supply to bolster them. With rapidly increasing strength manufactured products are battling for a larger share of the consumer's dollar. This is at a time when more men and tools to produce crops are becoming available. Agricultural prices should drop closer to those of manufactured goods.

When the break comes it is apt to be as severe as the rise was unwholesome. It is apt to have many of the characteristics of historical declines in other markets. Those caught with goods at falling prices will scramble to unload. Failing in this, they will seek a scapegoat. Sometimes it will be the farmer, sometimes the processor, retailer, banker or government.

Farm land values will go with the prices of farm products. The farmer will spend more of his money for machinery as it becomes available. The farmer's cash position is not only good, it **is wonderful.** But in other industries we have seen the cash positions deteriorate at a fantastic rate when their booms were over. Loans made for carrying unnecessarily high inventory or for enabling a farmer to pyramid his land holdings are dangerous because their principle is unsound. Loans made to raise the man-hour productivity of the farmer or food processor are safer because they help raise the standard of living of all of us. The farmer deserving credit is the one who is trying to get his costs down.

The Outlook for Interest Rates

(Continued from page 12)

omists to purely psychological factors. Professor Fisher in his book on interest devotes chapter after chapter to them. It is not hard to see that the demand for loans and the supply of savings are rooted in the foresight or lack of foresight, the expectation of profit, or the desire for safety of individual investors. Habit alone —the prevailing view of what the rate of interest ought to be— seems to be a powerful influence in determining what the rate actually is.

If the "natural forces" which fix interest rates are mostly psychological, it would appear that these forces must be difficult to measure and even more difficult to predict. But there is one statement that can be made with a good deal of confidence. The proclivities of individual investors towards such matters as borrowing and saving are not likely to change overnight. Changes in habits of hoarding or spending cash are likely to occur only gradually and over a long period of time.

Meanwhile, the quantity of money and bank deposits (or if you prefer to follow the older economists, the quantity of savings)is a perfectly tangible factor, whose magnitude at any given moment can be known or estimated. And the demand for loans, while difficult to determine at a given instant, can also be measured over a period of months or years.

Cause of Present Rates

Thus if any one asks what is the fundamental cause of present low interest rates in this country, it is hardly necessary to look beyond the quantity of money and bank deposits in existence. That quantity (probably about $170 billions at the end of 1946) is very great. It is about 2½ times as large as it was in December, 1940. No reasonable man can doubt that the rise in bank deposits has been a powerful factor in permitting the Treasury to finance a $200-billion increase in the National debt at declining rates of interest.

One may readily concede to the champions of "natural forces" that the wartime increase in the money supply was artificially created. It was created, that is to say, by the acts of the government and its agencies, not by the acts of individual businessmen. The government provided a vast amount of bonds to buy; the Federal Reserve System supplied the commercial banks with an unfailing flow of reserves to buy them. The present structure of bank deposits is comparable to any other man-made structure, say the Hoover Dam or the Panama Canal. It was not there before, but it is there now. While it stands, it is just as real as the weather.

The short-term interest rate, of course, is still under the thumb of the Federal Reserve authorities, and has been for a great many years. Indeed, it is practically axiomatic that in any country with a central banking system, short-term rates will be regulated by the monetary authority. There is very little evidence, on the other hand, to suggest that long-term interest rates are being supported by the Federal Reserve System. The Reserve banks have not been active in the market for long-term bonds for several years. The proportion of such bonds (maturing over five years) in the Federal Reserve portfolio has dropped from over 50% in 1940 to about 2½% at the present time.

Although the Reserve Banks have not been buying long-term bonds, and now hold relatively few of such bonds available for sale, there can be no doubt that the government could act, if it chose, to decrease the quantity of bank deposits and raise interest rates. Theoretically, the Reserve Banks could wipe out the reserve balances of member banks at any time by selling a few billion dollars of short-term securities. Such action, by forcing the banks to liquidate large quantities of government bonds, would undoubtedly have severe repercussions on long-term interest rates. It would also ruin the market for government bonds and produce a business convulsion of the first magnitude.

Federal Reserve Influence

As a practical proposition, we believe that the Federal Reserve banks are not in a position to do much about raising long-term interest rates at the present time. This viewpoint finds confirmation in a recent speech of Mr. Allan Sproul, President of the Federal Reserve Bank of New York, who remarked that "in my opinion, substantial changes in interest rates, affecting all maturities . . . are now impractical." The only change in existing policies advocated by Mr. Sproul, was "the defrosting of the presently frozen short-term rates on government securities." Such a change, as Mr. Sproul explained, would not necessarily imply any marked increase in short-term rates, but would simply mean that support of the short-term market should be left to the discretion of the Reserve Board, at rates that could be moved up as well as down.

It appears, therefore, that from now on, the swollen volume of bank deposits will be reducible chiefly by debt retirement on the part of the government. Such retirement has been proceeding at a brisk pace in recent months. For the year ending in March, 1947, the total amount of government securities paid off in cash has amounted to about $27.4 billions, roughly one-tenth of the national debt. The reduction in government-bond holdings of commercial banks, however, was probably not more than 55% to 60% of this figure.

As every investor knows, the debt-retirement program of 1946 was made possible by the Treasury's huge bank balances at the beginning of the period. As Treasury bonds and certificates came due, the Treasury simply drew down its balances and paid them off. The size of the Treasury's bank deposits—aside from deposits with the Federal Reserve Bank, which fluctuate widely from week to week in accordance with tax collections — has now been reduced to a normal working figure in the neighborrood of $2½ billions. These existing balances can no longer make much of a dent in the debt.

It seems to us that, in 1947, funds that might be applied towards reducing bank-held government bonds (and bank deposits) will have to come from the following sources:

(1) A budgetary surplus, if it materializes. There is as yet no certainty that Congress will earmark any surplus funds for debt retirement in 1947. The amount could hardly exceed $2 billions, at the best.

(2) The excess of cash receipts over budgetary charges. Income from Social Security taxes normally runs well above expenditures from the corresponding Trust funds; and there are several other items of expense that will not involve any important cash outgo in 1947. Surplus cash from these sources might amount to about $3 billions.

(3) Net sales of savings-bonds to non-bank investors. The proceeds of these sales, which may be estimated at about $1 billion, could be used to retire bank-held debt.

It would appear from these figures that during the remainder of 1947 the government may have at its disposal something like $6 billions, available to pay off maturing bonds. It is quite unlikely, however, that all of the maturing bonds will be held by commercial banks; hence it is unlikely that bank deposits will drop (as a result of debt retirement) by as much as $6 billions. Even if they should, the cut in the money supply would amount to only about 3½% of the combined cash and bank deposits outstanding.

Demand for Investible Funds

As was stated in an earlier paragraph, the demand for investible funds — while hard to calculate at a particular moment —can be measured over a period of time. That demand appears to have been very active during 1946. Flotations of corporate and municipal securities for new money apparently exceeded $4.5 billions last year; while the increase in business and real estate loans of member banks was probably about $7 billions. These two figures combined reflect a total demand for investment funds for business purposes in 1946 of about $11.5 billions, as compared with a total of only $3.7 billions in 1945.

Bank loans and security issues may continue to mount during 1947, but it is doubtful if the pace of the increase will be so rapid as it was in 1946. It is important to note that the energetic demand for investment funds in 1946—at a time when the money supply was dropping at least as fast as it is likely to drop in 1947—evoked only minor increases in interest rates. A comparison of the interest rates on various classes of securities, as tabulated in the Federal Reserve Bulletin, shows the following changes between December, 1945 and December, 1946:

Short-term interest rates (one year or less) rose about ¼ of 1%.

Medium-term rates (three to nine years) rose about 15/100ths of 1%.

Long-term interest rates, except for municipal bonds, were substantially unchanged.

Conclusion

The conclusion seems inescapable that unless there is a profound change in public psychology and the state of public confidence, only the most gradual rise in interest rates is to be expected over the next few years.

The persistence of relatively low interest rates would have important consequences for businessmen as well as investors.

It would necessarily involve a continuation of high prices for bonds and preferred stocks of investment quality.

It would carry a strong implication that common stock prices would fluctuate in range higher than that established during the 1930's. Other things being equal, a $5 dividend is worth more to the recipient when the interest rate is 2½% than when the rate is 3½%.

Finally, continued low interest rates would help to stabilize industrial production at high levels by stimulating the use of venture capital for new enterprises.

The common fallacy that high interest rates encourage productive investment is based upon a regrettable confusion in the meaning of the word "investment" itself. Investment is generally thought of as the act of the lender; and from the standpoint of the lender, it is high, rather than low, interest rates that encourage investment. But it is the borrower, not the lender, who actually uses (invests) the money in new plant and new equipment. And from the standpoint of the borrower it is low, not high interest rates, that promote investment. It is low interest rates that encourage the railroads to buy new rolling stock and the electric companies to build new power plants. In a famous simile, a drop in interest rates has been compared to a drop in the water level of some great inland sea. As the waters recede foot by foot, new lands for cultivation and new resources for exploitation are progressively brought to light.

This comparison was made, not by John Maynard Keynes, but by Robert Jacques Turgot, Baron de L'Aulne, Minister of Finance under Louis XVI.

Presidential Aide Anticipates More Labor Trouble

(Continued from page 3)

measures are ineffective and work stoppages occur.

Dr. Clark called attention to the fact that in the President's "State of the Union" message of Jan. 6, 1947, the President was "more courageous." He then asked for immediate consideration of legislation which would settle, if possible, controversies of critical importance and which, if settlement failed, would provide methods to stop strikes and bring about continuance of essential services. Dr. Clark stated that the President had gone on to describe legislation which could be effective. Dr. Clark thinks that as time passes the public will be forced by events to re-read and study that part of the President's message reading as follows:

The President, the Congress, and management and labor have a continuing responsibility to cooperate in seeking and finding the solution of these [management - labor] problems. I therefore recommend that the Commission be composed as follows: 12 to be chosen by the Congress from the members of both parties in the House and the Senate, and 8 representing the public, management, and labor, to be appointed by the President.

The Commission should be charged with investigating and making recommendations upon certain major subjects, among others:

First, the special and unique problem of Nation-wide strikes in vital industries affecting the public interest. In particular, the Commission should examine into the question of how to settle or prevent such strikes without endangering our general democratic freedoms.

Upon a proper solution of this problem may depend the whole industrial future of the United States. The paralyzing effects of a Nation-wide strike in such industries as transportation, coal, oil, steel, or communications can result in national disaster. We have been able to avoid such disaster, in recent years, only by the use of extraordinary war powers. All those powers will soon be gone. In their place there must be created an adequate system and effective machinery in these vital fields. This problem will require careful study and a bold approach but an approach consistent with the preservation of the rights of our people. The need is pressing. The Commission should give this its earliest attention.

Resigns From Board

Frederick J. Winckler, member of the firm Shader-Winckler Co., Detroit investment house, announces his resignation from the Board of Directors of La Salle Wines & Champagne, Inc., effective April 1, 1947.

Business Man's Bookshelf

Motor Memories—A Saga of Whirling Gears—Eugene W. Lewis—Alved, Publishers, Detroit, Mich.—Cloth—$3.50.

Small Business Aids—How to Use Them—Compiled by Small Business Credit Commission, American Bankers Association, 12 East 36th Street, New York 16, N. Y.—Paper.

Stepping Stones Towards the Future—Arthur F. Burns—27th Annual Report of the National Bureau of Economic Research—National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y.—Paper.

Communists Within the Labor Movement—The facts and countermeasures — Chamber of Commerce of the United States, Washington 6, D. C.—Paper—25¢ (lower price in quantity)—Deluxe edition 50¢ with reduction on quantity orders.

Menace of Rising Federal Expenditures

(Continued from page 2)

hance purchasing power or increase employment of labor. Accomplishment of these results by government spending is possible only when the budget is out of balance and the money is raised by borrowing or directly issued in the greenback form. And then the effect is only superficial and temporary, and accompanied by inflation, whose baleful results more than neutralize any possible benefits of the spending.

As to control of the business cycle, the proposition, though vigorously advocated by some, has never been demonstrated theoretically, and the practical test which we gave it in the nineteen thirties was anything but confirmatory.

Government must spend money of course—and a great deal of money in these modern times—to pay the cost of performing its essential functions. When any such function is worth to the people what it costs, then, and only then, is government spending justified. There is no dispute about this sort of spending. But we are here considering the supposed additional benefits of spending as such—spending for the sake of spending. As to this I think there is no spending by government which is not inferior to free spending by private individuals and associations.

This is what we may call the negative side of the case. Let us glance (very briefly) at the positive side of the consequences of lavish government expenditure. This may be set forth under two principal heads.

In the first place freedom to spend huge sums of money gives to government an instrument which it may use to build up its power over the people. Government money may bribe the people to give up rights which they might never be persuaded to surrender by their votes.

To cite a single example, there has long been on foot a persistent campaign to bring American public education under some degree of domination by the federal government. Twenty-six years ago Dr. Nicholas Murray Butler, in his annual report as President of Columbia University, said:

"It is now proposed to bureaucratize and to bring into uniformity the educational system of the whole United States, while making the most solemn assurances that nothing of the kind is intended. The glory and the successes of education in the United States are due to its freedom, to its unevenness, to its reflection of the needs and ambitions and capacities of local communities, and to its being kept in close and constant touch with the people themselves. . . .

"For Americans now to accept oversight and direction of their tax-supported schools and colleges from Washington would mean that they had failed to learn one of the plainest and most weighty lessons of the war. . . .

"Once more to tap the federal treasury under the guise of aiding the states, and once more to establish an army of bureaucrats at Washington, and another army of inspectors roaming at large throughout the land, will not only fail to accomplish any permanent improvement in the education of our people, but it will assist in effecting so great a revolution in our American form of government as one day to endanger its perpetuity. . . ."

I incline to think that the great majority of the American people, if brought face-to-face with the question, would agree with President Butler. It would take a lot of argument to make them change their minds. But what argument cannot do, the lure of state aid, subsidies for education, loans to hard-pressed educational institutions, might very possibly accomplish.

We have here just one of the examples of the way in which government spending may be used by those who seek Federal usurpation of the powers and obligations of the state and local governments and further regimentation of Federal power. Irresponsible power to spend public money may be very potent instrument in the attack upon the liberties of a free people.

But this is not the aspect of government spending to which I am directing your principal attention this morning. My present concern is rather with the fact that government spending necessitates either (1) a corresponding burden of taxation or (2) deficit and borrowing. There is no other choice. Let us consider first the second of these alternatives.

Dangers of Deficit Financing

I am well aware, as of course you all are, that there is a school of thought that sees nothing disturbing in deficit financing and the accumulation of public debt. Apostles of this school have told us often in the past dozen years that, while the balanced budget may be all right now and then, we don't ever have to have it; that a national debt, however large and rapidly growing (one enthusiast said up to four trillon dollars) need not worry us; that the public debt is an addition to the nation's capital; and that really it isn't a debt anyway, since we owe it to ourselves. I am sure you will recall a lot more such nonsense.

I might pause here to refute this brand of theory. I might remind you of the inevitable consequences of reckless finance in the form of deficit, bankruptcy, default, paper money, inflation, fiscal and economic collapse. The pages of history are filled with the record. Without going back of our own memory, we can recall the collapse of German and Russian finance and the near collapse in France during and immediately after the first World War. Look about you today and see the fiscal and economic chaos of many nations due to inability to finance their government costs without deficits, inflation, and monetary debauch. Even we in America have not escaped such experiences, though in somewhat milder form.

I do not think we need to go further along this path. The deficit spending school, that was recently so vocal and so well entrenched in high places, is now, happily, more or less in eclipse. Public opinion today appears to be generally against deficit spending and in favor of the balanced budget. This includes most of our Congressional leaders—of both political parties—as well as the President and his administrative advisors. Apparently we no longer have to argue the case for the balanced budget.

The danger now is that, having seen the national budget on the way to be balanced, we may be tempted to settle back in the comfortable assurance that now our main problem of Federal revenue and expenditure is solved. But look at the figures. No sense of comfort should flow, I submit, from a national budget balanced, in time of peace, at the level of 37½ billion dolars. And let no one think that this solves our budget problem. All it does is to bring us to the second aspect of lavish government spending; namely, heavy taxation.

Assuming agreement upon the balanced budget, the present charges against swollen government expenditure is that it necessitates an overwhelming burden of taxation.

Certain tax changes were made in the Revenue Act of 1945,—the "quickie bill," so called—on the assumption that it was just the preliminary move in converting the tax system from war to peace. No further material tax reduction has taken place, and it is now proposed that for still another year of peace the nation shall continue to bear substantially the burden of war taxes.

The 1948 Budget

The Budget for 1948 proposes total taxes, not including the employment taxes, of 34¾ billion dollars. Thus, in the third year, after the end of the war, a tax load is proposed which is only $8¼ billions less than the highest amount we endured in any war year; i.e., $43 billions in 1945. In comparative terms, the tax load in the third year of peace is to be over 80% of a year's collection at the height of the war from which we have recently emerged. Our peace-time tax load is to be six times the highest amount collected in any one year of World War I ($5.728 million in 1920).

Such taxation is utterly unprecedented in time of peace. The proposed 1948 tax load is nearly seven times the amount collected in 1940, just before the war. It is more than seven times the amount raised in 1921, and nearly ten times the tax level of 1922, following the close of World War I.

Such a load of taxation cannot continue without serious effects upon our economy. To this audience demonstration of this proposition is not necessary. You know as well as I that taxation at this level does not merely lower the living standard of the nation. It discourages thrift and saving; it dries up investment and weakens the motives that lead men into business venture; it checks enterprise and slows down production; it retards economic progress.

Assuming the balanced budget, there is only one way to reduce taxation. That is to reduce government spending. Government spending must be controlled, both to preserve our Federal form of government and our free economy and to permit return to a safe and endurable level of peace-time taxation.

On this subject the Chamber of Commerce of the United States has taken a strong position. At its annual meeting a year ago it declared that curtailment of government expenditures is of "crucial importance," and that such curtailment is the key to the problems of lower taxes, reduced debt, and a stable fiscal system.

The Chamber urged that there should be abolition of all war activities and other government operations no longer needed, rapid reduction of the number of government employees and, until improvemets in the fiscal position, deferment of any expensive new undertakings, even those of substantial merit.

The Federal budget for 1948 proposes government expenditures of $37½ billion. It is this unprecedented sum, nearly twelve times the average annual expenditure of the national government in the decade following World War I (1922-31), that I propose to question.

Obviously no one—least of all I—is competent to say precisely what the Federal Government ought to spend in the year commencing next July 1. Those who have given expert thought to the subject are thinking in terms of $20 to $25 billions for a normal peace-time year. 1948, however, may perhaps be regarded as still in the transition period between war and peace.

Personally I believe that if all concerned were imbued with the will to do so, the Government's expenditures could be held down to $25 billion in 1948. The Joint Committee of Congress on the Legislative Budget has recommended a limit of $31½ billion. In what follows you may consider that I am thinking of an expenditure level of about $30 billion. This does not imply that we should not strive for a level closer to $20 billions in the very near future.

Those who defend the present budget say that the whole $37½ billions are needed, that any cut will force abandonment of government functions and impairment of the government services.

New, nobody wants to limit the government's spending power to the extent of preventing the performance of its essential functions. But I am certain that very substantial cuts could be made without producing any such result.

In the first place the Government now does a good many things that, in my opinion, could not qualify as essential functions. As a single example, I suggest a good share of the billion dollars that went in Federal aid to State and local governments in 1946. Careful scrutiny of the details of the Federal Government's expenditures would, I think, enable anyone to compile an impressive list of objects for which the Government spends money that are not essential Government functions. If curtailment of the authority to spend should lead to abandonment of some of these functions, well and good.

But let us not dwell upon this point. For, after all, it is the essential functions that present the main problem.

Why, I ask, must the Government spend as much as $37½ billions in 1948? Presumably it was performing its essential functions in 1939, when it spent less than $9 billions. We recognize that higher wages and salaries, higher prices of materials, and certain continuing obligations consequent upon war must inevitably lead to increased cost. But giving full recognition to these factors does not account for any such difference. We still ask: Why must it cost the Government in 1948 four times as much as in 1939 to perform its essential functions?

Civilian Personnel

Again, I ask: Why must there be so many civilian employees in the Federal Government establishment? That there was a great increase during the war is of course understandable. To expect at least a roughly corresponding decrease after the war would seem reasonable.

The total number of Federal civilian personnel in August, 1945, excluding War Department personnel outside the U. S. was 2,915,977. By November, 1948, this number had been reduced to 2,132,422, a decrease of 783,555.

However, it is significant that between these dates the War and Navy Departments show a reduction of 1,079,709. That the total personnel declined considerably less than that is due to the fact that, in this same period, the oldline establishment (other than War Department, Navy Department, and emergency war agencies) increased their personnel by 296,154. In other words, while the war establishments were reducing personnel, more than a quarter of their reduction was neutralized by increases in the other establishments. In 15 months the total Federal personnel has declined by only 27%.

The latest figures on Federal personnel that I have are from a speech by Senator Byrd (in the Senate on Feb. 19, 1947). The total civilian personnel employed within the continental United States on Jan. 1, 1947, was 1,987,718. This means a decrease in the 17 months since August, 1945, of 928,259, or only 32%.

Going back to December, 1939, the Federal Government had 928,836 civilian employees; in December, 1932, the number was 563,805. Assuming that the Government was performing its essential functions at these dates, we want to know why it now requires 3½ times as many employees as in 1932 and more than double the number employed in 1939.

Senator Byrd recently told the Senate (in the speech to which I have referred) that: "I sincerely believe that the civilian employment, beginning July 1, 1947, can be reduced to 1,600,000, and perhaps to 1,500,000, at a saving to the Public Treasury at the rate of $2,500,000,000 a year on the basis of present employment, and nearly that much on the basis of Budget estimates."

No one would wish, by a niggardly control of money, to hamper the War and Navy Departments in the performance of their functions, so vitally essential to our national preservation. But when we are told that any cut in the appropriations for these services would necessitate curtailment of their functions, I think we are entitled to more light upon the way their money is spent. Why, I ask, must the personal maintenance of a member of the armed services (not including arms, ammunition, or the engines of war) be now, as estimated in the 1948 budget, 2½ times as much as it was in 1940 ($3,100 in 1948 as compared with $1,386 in 1940)?

The total average cost per man in 1945, including everything, was $6,960. For 1948, the budget estimates $6,790. We are entitled to ask how it is that in the third year of peace the average cost per man in the Army and Navy Department is to be only $170 less than it was at the height of war?

Here perhaps may be part of the answer. In testifying before the Senate Military Affairs Committee, regarding the proposed unifications of the armed services, General Eisenhower is reported to have said: "Comparing the two opposing plans, I should say you could develop a more efficient fighting force with unification, with 75% of the men that you would have if you had separate forces."

In reply to a question by the Senator from South Dakota (Mr. Gurney) asking if he could give a reasonable guess as to the expenditures we might have saved during the past war had we had a unified Military Establishment, Secretary Patterson said, "No, except it ran into billions of dollars." General Marshall agreed with Secretary Patterson.

One of the things that stands out is the $7.3 billion that veterans' benefits are costing annually, an average payment of $300 for every war veteran. We are paying annually nearly a billion dollars in veterans' employment allowances, despite high level business activity and widespread labor shortages. Total readjustments benefits come to $3.5 billion, while pensions come to $2.5 billion. Whereas 18 months after the end of World War I, pensions for service-connected disabilities were being paid to about one out of 10 men wounded in action, in the same period after World War II pensions were being paid to nearly three times as many as were wounded in action—a thirty-fold increase in relation to the number of the wounded. Another factor is the heavy cost of hospitalization; yet more than two-thirds of the cases being treated in veterans' hospitals and homes represent non-service connected disabilities. I think we have a right to ask why this service has cost so much.

Interest on the public debt, up now to about $5 billions a year, is one item that is fixed beyond revison, so long as the amount and the form of the public debt remain as they are. But why, after eliminating the British loan and interest on the public debt, should the essential government functions performed by the Treasury Department, cost ten times as much in 1948 as in 1939 (from $294.5 million to $2,941.9 million)?

Why should there be in the same interval a six-fold increase in the cost of the essential functions of the Department of Commerce? Even if we eliminate the Civil Aeronautics Administration, which accounts for more than half of the total estimated expenditure of the department, the 1948 budget estimate is almost five times the amount spent in 1939.

Why must the essential functions performed by the Department of Labor cost seven times as much in 1948 as was expended in 1939. In fact, if we eliminate from the 1939 figure the cost of the Children's Bureau, which is no longer in this department, the increase is 20 times.

The estimated expenditures of the State Department for 1948 are 31 times what this department spent in 1939. In this case we have an immediate partial explanation in the estimated cost of UNRRA, United Nations participation and aid to Greece and Turkey. But eliminating all these services, we still have to ask why the remaining essential functions of the State Department must cost ten times as much in 1948 as in 1939.

Present law requires the Housing Expediter to wind up his affairs as of Dec. 31, 1947. For the six months of 1948 which are involved, he is asking an appropriation of $914,500 for "special studies" in addition to $340,000 requested for "technical tests." The special studies are to be carried on under contract with other agencies. This item has been approved by the Bureau of the Budget.

I have laid before you just a few examples out of the multitude of departments, bureaus and other government establishments where the facts loudly demand explanation of recent increases in expenditures. May I now refer to one more case, where there is at least flagrant lack of fiscal control by Congress and strong presumption of unnecessary and wasteful expenditure of public money. I refer to the government corporations.

Government Corporations

There are forty-odd government corporations, of which 28 are wholly owned by the Government. The budget message forecasts that by June 30, 1948, the financial statement of the wholly owned corporations will show them with total assets of about $12.5 billion, represented mainly by loans receivable, lands, structures and equipment. They will show, however, total liabilities of about $14.5 billion, representing mainly bonds, debentures and notes payable. They will have paid-in capital and surplus of about $8.5 billion but an accumulated deficit of about $10.5 billion.

The budget contemplates that the wholly owned corporations will have income next year of nearly $1.5 billion, but expenses of nearly $2.5 billion. These figures indicate the huge scale upon which government corporations have been operating, but do not reflect the power which has been given them to obligate directly the credit of the Government. Some estimates of this power run as high as $30 billion. These huge operations have not yet been brought under adequate control by the Congress.

The initial capital of most of these corporations came from funds appropriated by Congress, but they have obtained money for their operations (generally in amount several times their capital) by borrowing either from the public or from the United States Treasury, in recent years from the Treasury. Their obligations are usually guaranteed as to principal and interest by the United States, and those in the hands of the public thus constitute a contingent public debt. They have been permitted to use as they saw fit the moneys received by them from sale of their goods or properties or from repayment of loans made by them.

Some corporations, notably the Reconstruction Finance Corporation, have made large advances under authority of law to other government agencies, or have made non-recoverable expenditures. For instance, the Rural Electrification Administration obtains funds for loans by borrowing from the Reconstruction Finance Corporation. The Rural Electrification Administration in turn makes loans for the purpose of extending electrical service in rural districts. The loans by the Rural Electrification Administration may run for 35 years.

Capital funds of the corporations have been used for payment of subsidies which are obviously not recoverable. Eventually these expenditures must be written off and the notes of the corporation held by the Treasury must be canceled. This means a charge against taxpayers or an increase in the net debt of the United States. It is an indirect method of making an appropriation.

Many of the corporations have been chartered under state law and without specific authority of Congress. As practically all the corporations with state charters have been incorporated in jurisdictions which exercise little or no control over them, the powers of these agencies have been defined by persons directly interested in their operation. Consequently most of them are extremely broad.

They have thus found themselves cloaked with powers, granted by the chartering states, beyond anything that Congress contemplated, and some of them have apparently been able successfully to flaunt their state charters in defiance of efforts of the United States government to control their activities.

Under such conditions these corporations have been able to spend huge sums of money without appropriation by Congress, without financial accountability, without adequate reports, with their business operations conducted under the cloak of secrecy.

In 1945 Congress enacted the Government Corporations Act, which marked an important step toward bringing these corporations under budgetary and accounting control. These agencies are subject now to procedures of the Budget Bureau and the General Accounting Office. Last July there was enacted for the first time a "government corporations appropriations act," as one of the supply bills. It applied to 33 corporations and independent agencies.

The General Accounting Office has commenced the auditing of both wholly-owned government corporations and mixed-ownership corporations. Reports of a number of the corporations have been submitted to Congress, and more are in process. Opportunities for economy and efficiency are indicated. Reports are being made for each fiscal year. No wholly-owned government corporation created under the laws of any state, territory, possession, or the District of Columbia may continue after June 30, 1948, as an agency or instrumentality of the United States. Continuance of such corporations will depend upon reincorporation by Act of Congress. All wholly-owned corporations must make a showing prior to June 30, 1948, as to the need for continuance.

It should be obvious that, under conditions as they have existed, there has been ample opportunity for expenditure of money by these corporations far beyond what is required to support the essential functions of government; that wasteful and unnecessary expenditures have occurred can hardly be questioned. In pursuance of the act of 1945, many of these corporations are destined shortly to go out of business. As the government succeeds under the legislation of 1945 in requiring proper accounting and exercising normal control, these corporations should certainly be able to perform such functions as are properly within their domain with far less expenditure of money than in the past. Here is one great opportunity for curtailment of unnecessary government undertakings and reduction of spending.

Senator Ferguson told the Senate on Feb. 24, 1947 that "if we are diligent and scrutinize the government corporation's budget as to expenditure, we can deduct a billion dollars from the budget."

Government Wastes

These facts which I have laid before you are merely a few samples from literally hundreds of such instances. They are, I believe, sufficient to establish strong presumption, if not absolute proof, that the $37\frac{1}{2}$ billion dollars estimate of 1948 expenditures includes far more than would be required for an economical and efficient performance of the essential functions of the national government.

On this subject, Senator Homer Ferguson told the Senate, in the speech to which I have referred (Feb. 24, 1947), that: "As a member of the Senate War Investigating Committee I have seen countless examples of waste, bad judgment, and inefficiency, all of which inflated spending out of proportion to its actual benefit. I am not ready to be fooled into believing that the malpractices are only wartime mistakes, amplified by the need for speed. Some of them probably exist today, only in different forms."

Mr. Lindsay Warren, Comptroller General of the United States, has this to say: "Our Government is in a mess. . . We have developed an extravagant hodge-podge of duplications, inefficiencies, and inconsistencies. . . 75 different bureaus and agencies of the Government that have an important connection with transportation . . . public housing. . . at least 15 different agencies . . . 14 agencies dealing with forestry matters, and no less than 35 gathering statistics . . . 34 different agencies could acquire land . . . one-fifth of the entire land area of the United States is owned by the Government. . . ."

I have obviously not been able to reduce my statement to a precise figure of the amount that might be cut without impairing essential government functions. But when we recall Senator Byrd's estimate of a possible saving of $2\frac{1}{2}$ billions on salaries alone, and Senator Ferguson's conclusion that a billion could be gained from disposal of assets of the government corporations, and think of the departments and bureaus whose estimated expenditures for 1948 are five, ten, or twenty times what sufficed for the performance of their essential functions in 1939, it is hard to doubt the practicability of saving six billion dollars, or even, I venture to suggest, ten billions.

Can the Congress accomplish such a saving? As to this question we have new encouragement in the Legislative Reorganization Act, approved last August. The sections of this act relating to budget matters are among its most important.

Incidentally, the Chamber of Commerce of the United States has for several years been working hard for this reform, and the general plan as now enacted is in accord with the Chamber's recommendations.

Briefly, the act sets up a joint committee of all the members of the committees of the two houses dealing with appropriations and the raising of revenues. This joint committee is required to meet at the beginning of each regular session of Congress to consider the budget recommendations of the President.

Whereas heretofore the appropriating committees have approved bills without regard to prospective receipts, and the revenue-raising committees have paid little if any attention to appropriations, the new law requires joint study and consultation.

The joint committee of the House and Senate is directed to submit a report to the respective houses by February 15 of each year, with a recommendation for the maximum amount to be appropriated, together with a reserve for deficiencies. If the estimated receipts exceed the estimated expenditures, the report must contain a recommendation for the reduction of the public debt. If a deficit is in prospect there must be recommendation of an increase in the public debt.

Under the plan the submission of the committee report is intended to be followed by approval by the two houses of a concurrent resolution for the fixing of the aggregate total to be appropriated.

The law provides that no general appropriation bill shall be considered in either house unless printed committee reports and hearings have been available for at least three days. The committees on appropriations of the two houses are directed to develop, acting jointly, a standard appropriation classification schedule which will define in concise and uniform accounts the sub-totals of appropriations asked for by agencies in the executive branch of the government.

Reappropriation of unexpended balances of appropriations is prohibited hereafter except in connection with the completion of public works. The committees on appropriatons are directed to make a study of existing permanent appropriations, with a view to their discontinuance where possible, and also a study of the disposition of funds resulting from the sale of government property or services by all departments and agencies, with a view to adoption of a uniform system of control of such funds.

The results of the joint committee findings, embodied in the concurrent resolution, express the opinion of Congress as to the overall ceilings on expenditures and appropriations. No procedure is prescribed for enforcing the provisions of the resolution as adopted finally by the two houses. It is presumed, however, that the appropriation committees will reduce the amounts of the several bills so that the total will not exceed the ceiling established. To this end more adequate staffs have been provided for appropriations committees, and greater technical skill is developing.

A concurrent resolution has not the force of law, and even if the ceiling were embodied in an act, Congress could amend, repeal, or ignore it. Thus, the enforcement of a ceiling provision will depend on public opinion and on the resistance of Congress to pressure from spending agencies and advocates of new or increased government activities.

The new legislation will facilitate this. The necessity for Congressional action on a budget ceiling for each fiscal year does much to compel Senators and Representatives to assume a responsibility which could easily be avoided under the old system. It gives opportunity to constituents to make known their opinions upon particular phases of expenditures while appropriation bills are pending. Heretofore the public, and for that matter, Congress, learned little concerning the proposals of the appropriation committees until about the time they were to be voted upon—usually too late for an effective registration of public sentiment.

The debate and struggle that will accompany each appropriation measure, bringing the realization to the Congress and to the public of the scope and detail of government spending, may well prove to be one of the most significant accomplishments of the new procedure. The hope is that early in the regular session there will be developed a better perspective of the needs and possibilities of reductions or increases of expenditures, taxes or debt.

There is reason to believe that a more economy-conscious Congress will emerge from discussion of the budget ceiling; that there will be crystallization sentiment away from unduly liberal spending.

Congress is at present operating under the Legislative Reorganization Act of 1946. The Joint Committee on the Legislative Budget recommended on Feb. 15, 1947, that the expenditures for the fiscal year 1948 be limited to $31.5 billions—or $6 billions less than proposed in the budget message.

A concurrent resolution approving this recommendation passed the House on Feb. 20.

The Senate amended the resolution March 3 to provide for expenditures not exceeding $33 billion—$4.5 billions less than proposed in the budget message—and also to provide that not less than $2.6 billions of the excess of revenues over expenditures should be applied to reduction of the national debt and that all proceeds from disposal of surplus property should be so applied. These actions were based on estimated revenues of $39.1 billions.

Conferees were appointed, but to date (April 30) have made no report.

Twelve major appropriation bills must be adopted before July 1, in addition to the District of Columbia and some supplemental and deficiency appropriations.

Only three of the general appropriation bills have thus far (April 30) passed the House and are awaiting consideration of the Senate Committee on Appropriations. They are the appropriation bill for the Treasury and Post Office, the appropriation bill for Labor and Federal Security and the appropriation bill for Interior Department.

For the activities covered in these bills, the appropriations estimated in the budget message were about $6.1 billions. Those passed by the House were about a $1.1 billion less.

These particular reductions in appropriations, if maintained in the Senate, will mean roughly an equivalent decrease in expenditures.

While substantial cuts may be expected in later bills, we are, thus far, a considerable distance from a reduction of $5 or $6 billions below the budget proposals. This indicates all the more need for continuous insistence upon pruning It means that an alert and forceful public demand for economy is indispensable if a normal but liberal Federal budget of $20-$25 billions is to be attained in the near future, in order to permit of a simplified, strengthened and sustainable revenue system.

Achievement in Budgetary Procedure

However, thanks to the recently prescribed procedure, we have for the past three months been witnessing something unique in American public finance; that is, debate in Congress and public discussion in the press and elsewhere dealing simultaneously with both expenditures and revenues and giving attention to the over-all total of expenditures in relation to the revenues necessary to accomplish a balance. This alone is a noteworthy achievement.

In recent weeks there has been a flood of letters and telegrams reflecting clearly the nationwide sentiment for as much of a cut in expenditures as is possible without infringing upon essential government services.

The sharp controversy provoked by differences as to the amount of possible reductions has been bene-

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Menace of Rising Federal Expenditures

(Continued from page 49)

ficial. It has aroused widespread interest in proposed expenditures, tax cuts, and payment of debt, early in the session. Ample time still remains for careful consideration of appropriations.

More attention than in other years is certainly being given to the various money bills on the floors of the two Houses. To a greater extent than formerly, citizens appear to be interested and in a mood to hold members of Congress responsible for their votes on fiscal matters.

It was inevitable that there should be some confusion in the initial use of the new procedure under present circumstances. Many of the present difficulties involved in the fixing of a budget ceiling are attributable to a change in party control in the two Houses and in the pertinent committees, to the initiation of a new system, to major readjustments in the transition from war to peace, to the absence of a definite policy as to the future defense program and assistance sought for other nations. There has been less time for detailed study of the budget than should be the case hereafter.

The discussions, however, have brought to the front the particular expenditures on which there are the widest differences of opinion, such as national defense, veterans' benefits, international affairs and public works. They have focused attention on the swollen ranks of government employees and their cost. They have shed light upon many obscure, long-standing items of expenditure, and they have led to a greater disposition to reexamine continuing commitments for expensive activities.

There still remains much to be done before the battle for sound finance is won. Here are a few examples.

The aggregate of grants-in-aid to States and their subdivisions now accounts for an appreciable portion of Federal expenditures. Besides their costs, these grants have far-reaching government implications leading in instances to centralization of power and destruction of local initiative. Matched appropriations have encouraged development of ill-advised projects because part of the cost is met by the Federal Government. There is a curious pattern of methods for determining the bases of these matched appropriations, and the whole subject of grants-in-aid requires review. The same applies to subsidies.

In this connection it is noteworthy that refusal of Federal aid has been strongly registered by certain legislatures, governors and local organizations.

There is a particularly objectionable form of legislation which authorizes executive officers to bind the United States to make expenditures. An instance is that of the Housing Act of 1938, authorizing the housing authorities to make annual contributions to housing projects in an amount of $28,000,000 a year for a period of 60 years. This is not an appropriation, but the Act declares that the "faith of the United States is solemnly pledged to the payment of all contributions contracted for." More extensive obligations were contained in the housing bill which passed the Senate in the last Congress and has been introduced in the present session to provide about $150,000,000 a year for 45 years.

It is desirable that Congress develop a plan for keeping itself more currently informed regarding expenditures and contractual obligations. Cooperation between the Congress, with the increased staff now available to it, and the General Accounting Office should develop a system of control to assure compliance with the intent of limitations in appropriations.

Further reform of Congressional procedures would help. For instance, a committee in either House having no relations to taxes or appropriations may authorize the establishment of a new activity costing hundreds of millions of dollars a year, and if the measure is passed by the Congress and approved by the President the appropriations committees are virtually helpless. It is true that the authorization provides no money, but the law creates the activity, and the appropriations committees are duly bound to recommend a proper sum. It has been urged that a legislative committee which proposes an authorization should be required to obtain from the Appropriation Committee of its House a statement of the effect of the measure upon the budgetary situation and incorporate that statement in its report upon the authorization before the measure is eligible for vote.

There should be careful examination of the proposal to concentrate the appropriation process into a narrower period of time. Senator Byrd has suggested that there be a single appropriation Act in place of a dozen or more separate measures. Certainly there is need for discouragement of the growing practice on the part of the executive agencies to defer sending estimates to Congress on many items until months after the budget is submitted. Such practice, as well as deficiency appropriations, with claims of "emergencies" and "unusual circumstances," have been commonplace and should be discouraged.

In conclusion, while our nation and our government have in the past withstood strong stresses and strains and weathered many storms, a new crisis in government finance of the most serious nature is threatening and may soon be encountered unless informed citizens and government authorities take effective steps to produce greater order, economy and efficiency in the towering structure of our Federal Government. The Government of the United States is the largest operation on the face of the globe, with enormous potentialities for good or harm. Here is a challenge to the thought and action of every patriotic American.

Benjamin Bradley With Kenneth A. Ellis Co.

PHOENIX, ARIZ.—Benjamin R. Bradley has become associated with Kenneth A. Ellis and Co., Security Building. Mr. Bradley was formerly with H. C. Speer & Sons Co., in Chicago, for 16 years, and recently with a local investment firm.

J. Arthur Reed Now With Hardy & Co.

Hardy & Co., 30 Broad Street, New York City, members of the New York Stock Exchange, announce that J. Arthur Reed, formerly a partner of Reed & Cutter, has become associated with the firm.

With A. Lepper & Co

(Special to The Financial Chronicle)

CINCINNATI, OHIO — William F. Kolb has been added to the staff of A. Lepper & Co., First National Bank Building, members of the Cincinnati Stock Exchange.

Appraising the Stock Market

(Continued from page 6)

principal reasons were his courageous stand against John L. Lewis, his stern attitude with Russia and his choice of some excellent men to replace the misfits that he had inherited. He is anxious to increase his popularity and if he continues as he has done, business will benefit greatly thereby. His attempt to improve his political fortune, with his eye on 1948, will be an aid to business.

This nation is headed for several years of prosperity and the candidate who hopes to win must be in step with the times.

Foreign Situation

When it comes to the foreign situation, I believe that there are more business men unnecessarily upset by Russia than anything else. The real sore spot is Germany, where in an area of ten thousand square miles (less than the size of the State of California) there are 67 million people without the means of supporting themselves. Their grainery in East Prussia has been taken away by the Poles and Russians and the wealth of the Saar by the French and we will not permit any industry that might be converted into war products. The surrounding nations are all clamoring for more of this territory and we are vainly trying to devise a way to help the Germans to become self supporting. That we shall is something of which I am sure. In the meantime, it is a challenge to our statesmanship. The rest of Europe will be much better off if they can get a good harvest. Last year's harvest was very disappointing, but there is great hope for this year.

Most people I find are upset by Russia and Stalin. There is nothing mysterious about Joseph Stalin. The cobbler's son, who by great courage, will power, ruthlessness, and amazing driving force has become the leader of 185 million people is very human and understandable, indeed. Of course he wants to get as much for Russia as he can. Russia has suffered terribly from the war and conditions are deplorable. Poverty, lack of food and housing are very serious problems for him to combat. But he knows just how far he can go and he also knows that Russia needs financial help from the United States.

I venture to predict that in the near future we shall see that General Marshall has made much more progress than was expected. Before they left for Russia, both Senators Vandenberg and Connally told me that they were not going to Moscow, as nothing was to be done there, but prepare the way for the next conference in London, where the peace treaties will be written. Secretary of State Marshall has succeeded in doing more than that, he has made Stalin realize that the time has come for a settlement. In diplomacy, there is always a lot more than meets the eye and what we do not see clearly at the present is the bright side of impending events.

Therefore, when we appraise the probable course of the stock market it would be well for the investor to keep in mind that the economic, political and foreign situations all have a bright star in their horizon.

With Robt. F. McMaster Co.

(Special to The Financial Chronicle)

GREENFIELD, IND.—William F. Wilson has joined the staff of Robert F. McMaster & Co., 135 South La Salle Street, Chicago, Ill.

$300 Million Illinois Bonus Bonds Marketed

Largest single piece of municipal financing ever undertaken being offered from yield of 0.70% to dollar price of 99.

Offering of $300,000,000 State of Illinois Service Recognition Bonds Series A—the largest single piece of public financing other than Federal borrowing in history—was made April 30 by a group of 124 underwriters headed by The First National Bank of Chicago, Harris Trust & Savings Bank, The Northern Trust Company, Continental Illinois National Bank and Trust Company of Chicago, and Halsey, Stuart & Co. Inc.

The bonds are dated May 1, 1947 and mature $12,500,000 annually from 1949 to 1972 inclusive, without option of prior payment. The 1949 to 1960 maturities carry a 1½% coupon rate while the 1961 to 1972 maturities are 1¾s. Bonds maturing from 1949 to 1966 are priced to yield from .75% to 1.70%, according to maturity. The 1967 to 1972 maturities are being offered at dollar prices from 100 to 99.

These bonds are interest exempt, in the opinion of counsel, from all present Federal income taxes and are legal investment for savings banks and trust funds in New York, Illinois, Massachusetts, Connecticut and certain other states. They are the first part of an authorized issue of $385,000,000 which was ratified by the Illinois electorate in November, 1946, and will, in the opinion of counsel, constitute full faith and credit obligations of the State of Illinois.

How Can We Avoid a Recession?

(Continued from page 3)

erate and shortlived proportions, and store up enough experience to avoid a serious depression some few years hence.

A nation which, during the trials of war, was able to maintain economic stability, avoid excessive inflation, and maintain tremendous production, should certainly be able to make as good a record under the easier conditions of peace. Doubtless, we could continue this good record if we maintained the degree of Government controls and interventions which were found inescapable in wartime. But we as a people are quite properly unwilling to elect that course. We prefer some risk of recessions or depressions rather than the risks involved in excessive governmental interference with our traditional freedoms. It is well to prefer the first risk to the second, but we can get away with this preference only if we do not allow this first risk to become too great or hazard it too frequently.

Success in this task requires that private enterprise perform many of those stabilizing functions which the Government guided or controlled during the war. This means that private enterprise of its own accord needs to pursue those price-wage-profit policies which add up to a healthy and balanced economy.

The Government can make an important contribution by advising, from a nation-wide perspective, what adjustments will safeguard our economic health. Those who admit that the Government's advice is sound but who argue that businessmen, workers and farmers will not follow this advice voluntarily, or who criticize the Government for not having a specific program to execute this advice itself, are engaged in self-contradiction. While they extol the private enterprise system, they lack faith in its ability voluntarily to pursue a wise economic course.

Private enterprise, of its own free will, has recently been making peaceful wage adjustments of a moderate character which can help to keep buying power in line with a productive capacity which will expand constantly if we continue to make full use of our resources. It is reasonable to expect that private enterprise, of its own free will, can make price adjustments directed toward the same end, where profit margins permit and where the maintenance of high volume sales require.

Neither a satisfactory wage policy nor a satisfactory price policy means the same wages or the same prices in all industries or in all businesses. It simply means prompt and sensible adjustments to meet each particular situation.

There are obviously crucial spots in our economy where the price level is still too high to comport with continued large-volume operations. One vital example is in the construction industry, where both residential building and business investment are threatened and already impeded by excessive pricing. In some industries where this excessive pricing persists, the organization of the industry is such as to facilitate systematic and orderly price reductions on a large enough scale to be significant. These should be made.

The price reductions already made are encouraging, but they do not measure up to what needs to be done.

It is a difficult feat of business engineering to accomplish price reductions without bringing on corresponding deflation in employment and production. But it can be done if reductions in wholesale and retail prices are carefully synchronized, and if the business and financial community accept sensible price reductions as a basis for optimism in going ahead rather than as an evil omen counseling reduced operations.

Price reductions may be a temporary inconvenience to those who make them, and may even cause some temporary shrinkage in profit margins. But if this is not translated into reduced operations, either through fear or in the speculative hope of still further price reductions, it will prove the wisest kind of investment in sustained prosperity and lead to larger profits in the long run.

This is the central test which now faces the American system of free enterprise. The successful outcome of this test will be immensely salutary for our domestic economy and correspondingly strengthen our position in world affairs.

Pointer With Buckley

PHILADELPHIA, PA.—Leon R. Pointer has been appointed registered representative for Northwest Pennsylvania by Buckley Brothers, 1420 Walnut Street, members of the New York Stock Exchange and other Exchanges. Mr. Pointer has been engaged in the securities business in Erie, Pa., and vicinity for a number of years.

Thomas E. Bates Rejoins B. C. Christopher & Co

Special to The Financial Chronicle

KANSAS CITY, MO.—Thomas E. Bates has rejoined the staff of B. C. Christopher & Co., Board of Trade Building, members of the Chicago Stock Exchange. Mr. Bates has recently been with Uhlmann & Benjamin.

Leadership—Obligation of Business Management

(Continued from page 10)

that we must somehow find ways of getting along better with one another. And yet, at a time when unity is our most critical need, we see a disposition on the part of many groups of human beings to challenge all other groups with proclamations of special and particular "rights"—very often insisting that they are fundamental human rights and, therefore, bound to be granted. We hear about the rights of management, the rights of labor, the rights of other groups. And on the world stage, we hear about the rights of nations.

We in America believe in certain "inalienable" rights—the right to life, liberty, and the pursuit of happiness. It is an article of faith with us that these rights belong to all men. In our opinion, these rights are sometimes suppressed or ignored, but they can never be taken away.

But we who so hotly defend our rights are apt to forget that there are obligations which always go with rights. Liberty is not license. Men and institutions in a democracy have a right to consider their own individual interests, to be sure. But they have an equal obligation to consider the interests of others. You and I have a right to drive an automobile—but not on the wrong side of the road. You and I have a right to publish advertisements—but not to make false claims against the public interest. You and I have a right to speak our minds—to say what we think—but we have an obligation to avoid damaging the reputations of others.

The truth of the matter is that our "rights" are really "privileges" granted by all of us to each one of us.

Freedom of speech is one of the privileges of free men, and we hold it very dear, but the American people certainly do not believe that the privilege gives American Communists a right to seek the overthrow of our Government.

Freedom of enterprise is another of the great privileges which Americans enjoy. More than anything else, it explains the position of the United States of America today. It is the foundation on which our immense achievements as a nation have been built. What has given us our high standard of living is our capacity to produce, and our productive capacity has its roots in the vigorous, competitive spirit which freedom of enterprise created.

Obligations of Free Enterprise

The question which I think we might ask ourselves this evening is this:

"What are the obligations which go with this privilege of freedom of enterprise?"

To put it another way:

"What is the price which the American people expect us to pay for the rights and freedoms we enjoy in American industry?"

All of you will have answers of your own. Let me give you some which have occurred to me. My first would be this:

The American people expect us to show leadership in tackling the economic problems of our times.

We must accept the obligation of leadership primarily because if we do not do so, someone else will. And, in my opinion, there are no other *qualified* candidates for the job.

We dare not take this obligation lightly. We dare not overlook the dangers if we do not rise to this occasion. We must have public confidence. And the public judges us on what we accomplish—not in theoretical terms, but in terms of what Americans want out of life. Between 1936, for example, when things were not going well, and this year, when things are going better, the number of Americans who think that the Government should own electric power companies dropped 30%.

When government steps into our affairs, we all resent it, but in a democracy, when people feel that things are not going right, they turn to government. Government "interference" is, to a considerable extent, an expression of public dissatisfaction. We Americans always want to "pass a law" to remedy whatever abuses we think exist. But just "passing laws" is not going to solve the problems we face today.

If our obligation as business leaders is to accept leadership in working toward the solution of the economic problems of our time, we ought to try to be clear as to what these problems are.

Must Achieve Higher Living Standards

One of them, it seems to me, is achieving a steadily advancing standard of living in this country. It is true, for example, that Americans own 92% of all the bathtubs in the world. But it is also true that 21% of American homes still do not have running water and that 50% of our farm homes and 10% of all our homes still do not have electricity.

It is true that 60% of all the electric refrigerators in the world are found in American homes. But it is also true that nearly one-third of the 31,000,000 domestic and farm users of electricity have no electric refrigerators and that 40% do not have washing machines.

Americans brag about their air-conditioning and are proud of the fact that 2½ million homes have oil burners in their basements. But it is also a fact that 58% of American homes still do not have central heating equipment.

Our nation rides in millions of automobiles, but about 40% of American families do not have a car. Furthermore, about 2,800,000 adults in this country have had no formal education of any kind in spite of our great free educational system, and approximately 60% of all adults have gone no further in school than through the eighth grade. Less than 5% have gone through college.

There can be no question that the standard of living which we enjoy in this country has been created by freedom of enterprise. But it is still a statistical fact that 20% of all families in the United States earn less than $1,000 a year, and 47% earn less than $2,000 a year. And such incomes do not go far when things cost as much as they do today.

It is perfectly clear to me that if any system can create a higher standard of living it is only the democratic system which has already created the highest existing standard of living.

Perhaps for the very reason that the people of America have seen what business and industry have been able to accomplish in creating this standard of living, they believe that we are capable of finding an answer to other problems, too. They apparently believe that American business and industry can find an answer to problems like depressions and unstable employment. Certainly I think they expect us to make the attempt.

I do not for a moment underestimate the difficulties we face in tackling problems of this scope. We have seen people turn to government for answers, and the world is littered with their tragic failures. Nations have turned to government controls and to dictatorships in a desperate search for security, and all that they have achieved is destitution, slavery and insecurity.

Because I believe with all my heart in the superiority of Democracy and human freedom over any other system, I believe that Democracy alone offers hope of finding honest solutions to such basic problems. Our freedom of enterprise may well depend on how successfully we point the way.

How it is to be done, I for one do not know. I do know that it will take the daring initiative that is the essence of leadership.

And in trying to point the way, we face one harsh and unyielding fact: It is *work*, and not theories of social responsibility, which is basic to the success of all of us. Programs which merely drain off the accumulated savings of earlier and more vigorous times without paying their way serve only to sap our country's strength. The real objective is to keep adding to the capital of mankind by increased production and distribution.

The result is what counts. And we are always brought back to the basic measuring stick of output per person compared to rate of pay—whether that person sits in an office or works at a machine. All of us will be better off when we can pay a man $5 an hour because he produces $5 worth of effort than when we try to pay him $1.50 an hour for 75 cents worth of effort.

Business in Partnership With People

Our second great obligation as businessmen, it seems to me, is to achieve a better sense of partnership with the American people.

A successful partnership depends upon mutual understanding. And there are a great many things about business and industry that the American people apparently do not understand.

Public opinion polls show, for example, that 60% of the American people think that corporations make 25% or more profit each year. The fact is that the actual profit margin of all manufacturing corporations in this country during the 15 years from 1925 to 1940 was 3.2% of total sales. Furthermore, 58% of all corporate statements during that period showed a loss, not a profit.

Surveys indicate that 75% of industry's employees think that stockholders and "top management" of corporations take more out of the business than employees do. Yet, a recent study showed that 72 large industrial companies in the country paid three cents out of every sales dollar in the form of dividends; plowed back 1.6 cents into the business, paid 25.2 cents to employees in salaries and wages; and paid 64.2 cents to other companies for materials, parts, services, supplies, etc. Taxes took the remaining six cents. Employees who think that they get less than shareholders and "top management" actually get almost six times as much as the amount paid to stockholders and the amount reinvested in the business.

As to the share paid to the men of "top management," if you add up all the compensation of officers of all corporations during the period from 1931 to 1941, it amounts to 2.3% of sales. Officers of large corporations—those with assets of $50,000,000 or more—get only one-half of 1% of total income from sales.

No partnership can be expected to work very well in an atmosphere clouded by such misunderstandings.

If a better sense of partnership among the many groups which make up industrial democracy is to be achieved, we in management also have a job of understanding to do—particularly those of us in mass production industries.

Mass production is something more than a proven means toward goals of the future. To the large percentage of our fellow citizens who work in industry, it is also a way of life, a day-to-day experience from which they must constantly draw a sense of satisfaction and personal accomplishment. If work under the conditions created by mass production is to give people this feeling of time and effort well spent, they need to know that their part—however small it may be—is an important part in the scheme of things.

Understand What People Want From Their Jobs

So it seems to me that one of our obligations is to understand just what the things are that people want from their jobs in order to make their daily effort seem worth while.

In the field of selling we have shown great skill in finding out what people want. We have learned the economic advantage of determining what products will sell readily and in large volume. It is apparent that we have not done nearly so good a job in finding out what it is that men and women in industry want from their jobs—what they consider the essential ingredients of a satisfactory way of life under the conditions of modern industrial society.

We recently sent out a questionnaire to everyone who works for the Ford Motor Co. More than 22,000 of our people took the trouble to fill out the questionnaire. They had some very interesting things to say.

39% of them feel that the policies of our company have never been explained to them. More than one-third have the impression that no effort is being made to make them feel a part of the Ford Motor Co. More than half of them think that there should be some systematic way by which they could make their views known directly to us. 62% think that questionnaires and polls of this kind are a good thing because they give them a chance to express their views.

These attitudes exist in spite of the fact that an overwhelming majority of our employees think that our products—the cars and trucks they have a hand in making—are as good or better values than the products of our competitors. They exist in spite of the fact that more than half of our employees say that they feel free to talk to their immediate superiors whenever they want to about themselves and their jobs.

In short, while our productive techniques have met gigantic needs, they have also created problems. Mass production has given us a high standard of living, but it has very materially changed the relationships between a man and his job, between employer and employee, between management and labor. The old relationship between an employer and a group of employees he knew intimately does not exist for millions of men and women. Because the factory worker is a specialist, he no longer has the kind of satisfaction which a craftsman building a complete machine might enjoy.

It now seems clear that we have not kept the development of our human relations in industry in pace with the development of our production technology. Perhaps for every dollar we spent in scientific research for the development of better products and more efficient machines, we should have spent another dollar in research into the problems of people in industry.

To increase production efficiency, American businessmen invest billions of dollars annually in new plants, improved tools, better equipment and methods. During the last quarter of 1946 such expenditures were being made at the rate of 14 billion dollars a year. To bring our customers new and constantly better products, almost 2% of total industry sales have been spent for long-range, scientific research and experimentation.

Large outlays of this kind are farsighted and necessary. They are insurance on the life of any company. But to insure our right to freedom of enterprise we may now be facing an obligation to carry this kind of long-range research and experimentation into still other fields.

Summary

Let me summarize:

The rights which we all enjoy in the United States carry obligations with them. The greater the right we assert, the greater obligation we incur.

We pay for our rights continually by meeting our obligations, and when we stop paying we run the risk of losing our rights.

With the right to freedom of enterprise, Americans have fulfilled the obligation of making our country incomparably strong and prosperous. But our rights as businessmen may well depend upon our ability to continue to meet the problems of our great industrial democracy.

We have the obligation to work toward a better sense of partnership among all groups in our industrial democracy. We face the obligation to take leadership in tackling the economic problems of our times, to acknowledge our mistakes, and to keep on trying.

All other groups in our industrial democracy also have obligations. Unless labor unions and their spokesmen can live up to their responsibilities they, too, risk curtailment or loss of rights. The American people as a whole have obligations. We of industry are partners with the people, and people have an obligation to be intelligent and understanding about their partners.

But a key responsibility is ours—an obligation of American business management. The American people expect us to manage. They look to us for leadership. They are more interested in the results we achieve than in the details of our business and in the difficulties we have to overcome. And we must accept the task of promoting better understanding between the groups of people who share the responsibilty for achievement with us.

There are many problems ahead that we would all like to see solved, and the obligation of American business to demonstrate leadership in their solution is heavy. I have little doubt that if our free American industry devotes its traditional enterprice and energy to meeting this obligation, the people of the United States, working together, can continue to set a pattern of life under human freedom for the whole world to follow.

With Atwill & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Albert G. Rich has become associated with Atwill & Co., 605 Lincoln Road. Mr. Rich was formerly with the Ajax Corporation and Blair F. Claybaugh & Co.

With A. G. Becker & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Burton L. Shender has been added to the staff of A. G. Becker & Co., Inc., 120 South La Salle Street, members of the Chicago Stock Exchange.

H. M. Byllesby Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Thomas J. Welsh, formerly with Betts, Borland & Co., has become connected with H. M. Byllesby and Company, Inc., 135 South La Salle Street.

With Bache & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—William D. Davidson has joined the staff of Bache & Co., 21 Congress Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market getting ready to start a new rally or another decline. Both possibilities indicated in recent action.

Last week I gave up a lot of white space in describing one day's market action. In that one day I thought I saw the beginning of the end of the decline and pointed a gleeful finger at it.

* * *

During the past few days I have had little to do except wonder about many things. Main reason for this enforced idleness is a small-pox vaccination which started out as a little abrasion and now has the arm feeling like an elephant's trunk. A mere nothing, says my doctor. A perfectly normal reaction.

* * *

Perfectly normal, my foot. It's as normal as one of those ten point breaks we see described by stock market letter writers as a "healthy, normal reaction." Try giving that explanation to a man who bought them just before the reaction.

* * *

That's the way I feel about that vaccination. Besides with everybody taking a shot, I don't know anybody who could give me the disease. I tried that argument on the doctor. He didn't find it amusing, or bother to reply. He just grunted.

* * *

Anyway I'm now home, with lumps in the armpit and raging fever. At least I'm sure it's a raging fever even though my doctor doesn't agree. So I'm busy thinking about the stock market, which is a lucky thing for you. Now you can lose with the assurance that the subsequent advice came after due and careful deliberation and not the result of any snap judgment. It has just occured to me that perhaps snap judgment might be better. Oh, well.

When the market stopped going down it took on an appearance I haven't seen in a long time. Nothing that has happened in the subsequent days, up to the present, has changed that. Yet, looking at the market for the past few months and adding the action of the past few days, a certain doubt arises.

* * *

There's nothing unusual about a market that stops going down. They all do that at some time or another. It is the subsequent recovery and the subsequent decline that is important.

* * *

The rally from the recent lows was nothing to boast about. At best it was a half-hearted recovery that left much to be desired. The burden of proof is therefor thrown on the decline. A reaction from present or approximate levels should not not be alarming, provided it doesn't exceed certain levels. I'm not going to work out the levels in terms of the averages because you don't buy the averages. I'll give them to you in terms of stocks.

* * *

If the underlying reasons which caused the recent break have been dissipated, then a period of dullness with some minor set-back—even a minor rally—is indicated. Stocks should stay above their recent lows, or at worst, not go under them by more than a point or so. If stocks do sell under those levels the chances are that whatever caused the recent break has not been dissipated. Actually trading under such conditions has many advantages. For if stocks are bought during such a phase of the market cycle, the subsequent profits can be very gratifying. If bought, and they get under pre-determined levels, there will be losses. These, however, shouldn't be unduly large. Besides it must be clearly understood that every time an opportunity for profits arise there are compensating chances that the possibility for losses will be at least as great.

* * *

The only thing to do under such conditions, assuming one want to do anything at all, is to put buying orders in at certain prices, not forgetting stops. Procedure should be completely impersonal, in fact all market trading should be on that basis. Market has no room for sentiment, hopes and fears. Just because you are long of a stock doesn't make it a blue chip.

* * *

Summing it all up it appears as if the market is either forming a new base for a real advance or is getting ready for another decline. If we wait for more definite information, we'll probably miss the boat. So here is what I suggest:

* * *

Buy Anaconda at 35 with a stop at 34; Chrysler at 85, stop 83; General Motors at 55, stop 53; U. S. Steel between 65-66, stop 64 and International Paper 39-40, stop at 38.

* * *

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.]

Harriman Ripley Offers Fairbanks Morse Debs.

Harriman Ripley & Co., Inc. and associates are offering publicly today $17,500,000 Fairbanks, Morse & Co. 20-year 2¾% debentures, due May 1, 1967, and $2,500,000 of the company's serial debentures, due $500,000 each May 1, 1948 to 1952, inclusive.

The 2¾% 20-year debentures are offered at a price of 100% and accrued interest while the serial debentures, bearing interest ranging from 1.15% to 1.80%, according to maturity, are also priced at 100% and accrued interest.

Of the net proceeds, Fairbanks, Morse will use $7,000,000 to retire outstanding bank loans with three Chicago banks; $6,200,000 to complete major extensions of its property; and the balance for general corporate purposes.

The 20-year debentures are initially redeemable at the option of the company at 103% and are also initially redeemable through operation of the sinking fund at 101% with successive reductions in each price after May 1, 1952.

The serial debentures are subject to redemption at the principal amount thereof and accrued interest to the date of the redemption plus a premium of ⅛ of 1% of said principal amount for each 12-month period or part thereof between the date of redemption and the maturity date of the serial debentures to be redeemed.

The company's outstanding capitalization following completion of the sale will comprise the $17,500,000 new 20-year debentures, the $2,500,000 new serial debentures and 599,595 shares of common stock without par value.

The company has agreed to make application to list the 20-year debentures on the New York Stock Exchange.

The company and its subsidiaries are principally engaged in the manufacture and sale of diesel and other internal combustion engines, diesel locomotives, scales, electric motors, generators and magnetos; pumps and auxiliary pump equipment; railroad equipment, and home and farm appliances. Company's consolidated net profit for 1946 totaled $3,079,135 compared with $2,600,625 in 1945. Net sales last year aggregated $56,551,299 against $91,826,901 in the preceding year.

Banish Pomp From Financial Advertising

(Continued from page 14)

chen. The name Gimbel on your waffle iron stands for dignity and reserve."

That kind of talking down the nose that you financial advertisers do, always brings up a picture in my mind of a haughty dowager about to sneeze.

One bank advertises "Loans for Executives" down to $100. I wouldn't give much for an executive who had to borrow that little and pay it back in a year—and neither would you. The old snob appeal—as Ring Lardner would say, "The duchess looking at bedbugs." A guy needs $100 and they kick him in the face because he isn't an executive.

Being an old English teacher, I detest pompous and polysyllable writing—the old florid lingo filled with dustry, dry, decrepit words of Latin derivation—tired words with all the color drained out of them. Reminds me of that awful sign which we saw plastered on all premises during the war, "Illumination is required to be extinguished on these premises"—instead of "Put out the lights!"

As I riffled through these pious pronouncements—it seemed to me that even a headline like this one would be better: "Nobody but nobody has crisper, greener, more crackling folding money than the North River Savings Bank."

The Bowery Savings Bank actually said this—honest, I'm not making it up. "We're here to serve savers and to further thrift." Can you visualize Mrs. Peebles, running to Mr. Peebles, as he gets home that night, grabbing him by lapels and saying: "Oh, George, we *must* transfer our account to the Bowery Savings Bank. Do you know that they serve savers and further thrift?"

I have re-written a couple of Gimbel ads, a la financial advertising. A week or so ago Gimbels sold over $30,000 worth of suits from a suit ad. How would you like it if the ad had appeared in this fashion?

"More Apparel Value for You"

"You are invited to present yourself in our Suit Department to give your consideration to an offering which is exclusive with this firm. This invitation is extended by Gimbel Brothers, a corporation which, for well over a century, has helped to make American industry the strongest and most progressive in the world. This corporation works very closely with many of the nation's leading suit manufacturers and fabric establishments in providing the kind of apparel that American women require. This significant offering emphasizes the responsibility we always feel to merit the continuing confidence and trust of our vast number of customers in this cherished community. You are invited to discuss your suit requirements with our representatives who are always available for consultation in our suit department. No obligation, and, of course, no charge for investigation."

"Remember—I'm not exaggerating—I swear that every syllable that I have been using today has been culled from your bank ads that have run within the past few weeks.

I wonder if the Gimbels housewares department, which has jumped from a volume of less than $1 million to over $5 million in the last few years, would have done it if the ads had been written in your bank phraseology, such as this one, for instance:

"Your Housekeeping Needs Are Highly Diversified"

"Recognition, by the executive of this establishment, that your kitchen is different, explains the unique philosophy of Gimbel Brothers and the flexibility of our facilities in our Housewares Departments. These facilities include every type of merchandise from recognized vendors. Your housewares department is your good friend. We all say, 'Thanks for your co-operation.'

"Business in these departments, like business throughout this establishment, will be transacted daily until 6 p.m. and Mondays and Thursdays until 9 p.m."

Of course you people here today do not like this kind of pompous copy any more than I do. It's the heavy hand of the heavy head of the heavy institution that's responsible. Every president ought to be kept out of the advertising. God just doesn't give all talents to any one person. The type of talent that it takes to climb to the presidency of a bank or any other business just isn't congruous with the fresh, unhackneyed "what-the-hell abandon" that good writing requires. That's why writers never become presidents or chairmen of the board.

I recently saw a dedication of a book with a rather unusual twist. On the flyleaf the author had written: "To my wife, without whose absence this could not have been written."

It's up to you financial writers to be able to say "Here's to our presidents, without whose absence this bright, fresh financial advertising copy could not have been written."

Morgan Stanley Places du Pont Pfd. on Market

A nation-wide group of investment bankers, headed by Morgan Stanley & Co., is offering for public sale today 700,000 shares of E. I. du Pont de Nemours & Co. $3.50 series preferred stock, at $102 per share and accrued dividends, to yield 3.43% to the investor.

The proceeds from the sale of this stock to the public, together with the proceeds from the sale of an additional 300,000 shares of such stock to the trustee of a Pension Trust established by the company for the benefit of its employees, will add approximately $100,000,000 to the general funds of the company.

The company has a program under way which contemplates improvements in existing facilities and substantial expenditures for the construction of new manufacturing plant and research facilities. Cash requirements for this program and for increased working capital needs are such that the raising of substantial additional capital for permanent use in the business is deemed advisable at this time. Construction expenditures during 1946 and the first two months of 1947 amounted to about $110,300,000 with unexpended authorizations at Feb. 28, 1947 of about $133,500,000.

The prospectus points out that, according to a price index the company has used for several years, the sales prices of its products in 1946, on the average, were no higher than in the year 1939; and that as a result of price increases during the latter part of 1946 and the early part of 1947, sales prices, on the average, at the end of February, 1947, were about 12% higher than in 1939. The U. S. Bureau of Labor Statistics index of all wholesale prices at the end of February, 1947, on the other hand, was about 90% higher than in 1939.

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 has 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 Coach & Body Co., Cleveland, Ohio

April 21 (letter of notification) 20,000 shares ($5 par) common. **Price**—$12 a share. For subscription by shareholders. No underwriting. To refund current bank indebtedness.

• American Gas Machine Co., Inc., Albert Lea, Minn.

April 21 (letter of notification) 500 shares of Class B common on behalf of George R. Cooley & Co., Albany, N. Y. **Price**—$46 a share. **Underwriter**—Cohu & Torrey, New York.

American Hydraulics, Inc., Sheyboygan, Wis.

April 2 (letter of notification) 50,000 shares of common. **Offering**—Offered initially to stockholders of record April 15 in ratio of one new for each five shares held, at $5.50 per share. Rights expire May 15. **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. (5/6)

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: 100; preferred $20 per share and common $10 per share. **Proceeds**—To pay $712,500 balance on a bank loan, retirement of $350,000 promissory notes, and provide working capital.

American Machinery Corp., Orlando, Fla.

Mar. 31 filed 133,000 shares (50c par) common, of which 10,000 will be offered to officers and key employees. **Underwriter**—Townsend, Graff & Co. and Gearhart & Co., Inc. **Price**—$3.50 per share. **Proceeds**—For general corporate purposes including reduction of bank loans and outstanding notes.

American Overseas Airlines, Inc., New York

March 31 filed $2,030,400 4% subordinated income debentures due 1957 and stock purchase warrants for shares of $1 par capital stock; also filed a maximum of 228,899 shares of capital stock, reserved for stock purchase warrants from April, 1947 through March, 1957 at $9 through $13.50 per share. **Underwriting**—None. **Offering**—The debentures and purchase warrants will be offered to stockholders in units of $100 of debentures and one stock purchase warrants at $100 per unit. Unsubscribed units will be sold to American Airlines Inc. at $100. **Purpose**—To repay loan from American Airlines, Inc., balance for general funds.

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.

• Anderson (Ben H.) Manufacturing Co., Madison, Wis.

April 21 (letter of notification) $75,000 first mortgage 4% serial bonds. Northwestern Securities Co., Madison, Wis., will act as sales agent. To retire mortgage against real estate and for working capital.

• Apothecaries House, East Rutherford, N. J.

April 22 (letter of notification) $15,000 ($10 par) capital stock. **Price**—$10 a share. No underwriting. For advertising of product.

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). **Underwriting**—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.

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.

• Bates Manufacturing Co., Lewiston, Me.

April 28 (letter of notification) 1,000 shares ($10 par) common. Price, about $25 a share. To be sold on over-the-counter market through Baker, Weeks & Harden, New York. Shares being sold on behalf of Herman D. Ruhm, Jr., President of company.

• Beauty Counselors, Inc., Detroit, Mich.

April 24, (letter of notification) 27,000 shares ($10 par) 5% cumulative convertible preferred. **Price**—$10 a share. **Underwriter**—Campbell, McCarty & Co., Detroit. For operation of business.

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.

• Benrus Watch Co., Inc., New York

April 24 filed 150,000 shares ($1 par) common. **Underwriter**—Hayden, Stone & Co., New York. Price by amendment. **Proceeds**—The shares are being sold by five officers of the company who will receive proceeds. **Business**—Manufacture of watches.

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.

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 withold action.

Bobbi Motor Car Corp., Birmingham, Ala.

Mar. 3 (letter of notification) 60,000 shares ($1 par) common. **Price**—$5 a share. Company proposes to offer 12,997 shares of common in exchange for its unsecured promissory notes in the amount of $64,985 held by distributors of company's proposed products. **Underwriting**, the stock will be sold by officers and directors of the company. For completion of display automobiles now under construction.

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

(Continued on page 54)

NEW ISSUE CALENDAR

(Showing probable date of offering)

May 2, 1947

Pennsylvania Frosted Foods Corp.--------Preferred

May 5, 1947

Crest-Ware Inc.----------------Pref. and Common
Cudahy Packing Co., 11 a.m. (CDT)---------Bonds
Gloria Chandler Recordings Inc.--Pref. & Common
Haile Mines, Inc.----------------------Common
Lyons Finance Service Inc.----------------Preferred
Platinoyd Industries, Inc.------------------Common
Tide Water Power Co.---------------------Common
Whites Auto Stores Inc.--------------------Common

May 6, 1947

American Iron & Machine Works Co.--------Debs., Pref. and Common
National Gas & Oil Corp.------------------Debentures

May 7, 1947

Suburban Propane Gas Corp.----------------Preferred

May 12, 1947

Bowman Guns------------------------------Common

May 13, 1947

Southern Pacific Co., 12 noon (EST)---------Bonds
Southern California Water Co., 11 a.m.-------Bonds

May 15, 1947

Consol. Gas. El. Lt. & Pwr. Co., Balt.----Debentures

May 19, 1947

Upper Peninsula Power Co.-------Bonds, Preferred

(Continued from page 53)

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, Philadelphia (5/12-15)

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.

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.

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.

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.

Central Mills, Inc., Dunbridge, O.

March 13 (letter of notification) $300,000 of first mortgage bonds. **Price**—$500 per unit. No underwriting. For retirement of preferred stock, for purchase of two alfalfa dehydrating plants from Logan County Dehydrators, Inc. and for retirement of latter's preferred stock.

Central Soya Co., Inc., Fort Wayne, Ind.

Aug. 21 filed 90,000 shares (no par) common. Underwriter—None. Offering—Common shares initially will be offered for subscription to common stockholders at rate of one share for each 7⅓ shares held. Unsubscribed shares will be sold to underwriters. Price by amendment. Proceeds—Working capital, etc. Offering indefinitely postponed.

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.

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.

● **Colorado Chemical Co., Denver, Colo.**

April 22 (letter of notification) $100,000 of common. **Price**—$1 a share. No underwriting. For working capital.

Consolidated Gas Electric Light & Power Co. of Baltimore (5/15-16)

April 3 filed $16,677,100 15-year 2½% conv. debentures, due May 15, 1962. **Underwriters**—Harriman Ripley & Co., Inc., and Alex. Brown & Sons. **Offering**—Debentures are offered at par to common stockholders of record April 18 on the basis of $100 of debentures for each seven shares held. Rights expire 5 p.m. May 14. 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-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.

● **Cooperative P & C Family Foods, Inc., Ithaca, New York**

April 25 (letter of notification) 1,000 shares ($100 par) preferred. **Price**—$100 a share. No underwriting. For general operations of corporation.

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.

● **Crest-Ware Inc., Brooklyn, N. Y. (5/5)**

April 25 (letter of notification) 300 shares ($100 par) preferred and 40 shares ($500 par) common. **Price**—$100 a preferred share. No selling price was stated for the common. To be sold through officers and a director of the company. For expansion purposes.

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 (5/5)

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. **Bids Invited**—Bids for purchase of debentures will be received up to 11 a.m. (CDT) May 5 at 221 No. La Salle St., Chicago.

Curlee Clothing Co., St. Louis, Mo.

April 18 filed 22,500 shares of 4½% ($100 par) cumulative preferred. **Underwriter**—Stifel, Nicolaus & Co., Inc., St. Louis. **Offering**—The preferred shares will be offered for exchange, dollar for dollar, for the company's outstanding Class A common, valued at $31.50 each. Unexchanged shares of new preferred will be offered publicly at $100 each. **Proceeds**—Proceeds will be used to redeem unexchanged shares of Class A common at $31.50 each and to carry out the company's expansion program. **Business**—Manufacture of men's suits and overcoats.

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.

● **Delta Petroleum Co. Inc., New Orleans**

April 28 (letter of notification) 5,000 shares of common and 450 shares of preferred. **Price** — $10 a common share and $100 a preferred share. No underwriting. For expansion purposes.

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.

● **Divco Corp., Detroit**

April 30 filed 34,963 shares ($1 par) common. **Underwriters**—Reynolds & Co. and Laurence M. Marks & Co., both of New York. **Price**—By amendment. **Proceeds**—Shares are being sold by a stockholder. Twin Coach Co., Kent, O., which will receive all proceeds. **Business** — Manufacture of special type trucks.

● **Domenico Food Products Co., Inc., Louisville, Kentucky**

April 21 (letter of notification) 20,000 shares ($10 par) 5% cumulative preferred and 16,100 shares (25c par) common. The total offering prices will be $200,000 for the preferred and $4,025 for the common. No underwriting. To pay organization expenses and for working capital.

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.

● **Douglass Manufacturing Co., Inc., Portland, Me.**
April 25 (letter of notification) 10,000 shares of common and rights to subscribe for them. **Price**—$10 per unit consisting of one share of common and one right. **Underwriter**—Minot, Kendall & Co., Inc., Boston. For general corporate purposes.

● **Drackett Co., Cincinnati**
April 28 filed 14,300 ($1 par) common shares. **Underwriter**—Van Alstyne, Noel & Co. **Proceeds**—Stock is being sold by Harry R. Drackett, President (6,929 shares) and Charles M. Drackett, 7,371 shares). **Price** — By amendment.

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.

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.

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. Offering postponed.

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 shares of class A stock is initially convertible into 2 shares of common stock. **Underwriter**—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 films.

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.
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. Indefinitely postponed.

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.

● **Garfield Silver-Lead Mines, Inc., Hailey, Ida.**
April 23 (letter of notification) 1,000,000 shares of common. **Price**—12½ cents a share. To be sold directly by company. Other underwriters may be named by amendment. For prospecting and developing mining claims.

● **General Controls Co., Glendale, Calif.**
April 24 filed 30,000 shares ($25 par) 6% cumulative preferred and 10,000 shares ($5 par) common. **Underwriter**—Wagenseller & Durst, Inc., and Lester & Co., both of Los Angeles. **Price**—$25 a preferred share and $33 a common share. **Proceeds**—To repay $750,000 note and for working capital.

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.

● **Gloria Chandler Recordings, Inc. (5/5)**
April 28 (letter of notification) 500 shares ($100 par). 4% non-convertible preferred (cumulative after Jan. 1, 1948) and 200 shares ($1 par) common. Underwriting, none. **Price**—$100.40 per one preferred share and 2/5th common. Working capital.

Griggs, Cooper & Co., St. Paul, Minn.
Sept. 3 (letter of notification) 12,000 shares ($1 par) common. Underwriters—Kalman & Co., Inc., St. Paul. Price—$25 a share. Proceeds — For improvement and modernization program. Offering indefinitely postponed.

Grolier Society, Inc., New York
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.

● **Haile Mines, Inc., New York (5/5)**
April 25 (letter of notification) 200,000 shares (25c par) common. **Price**—$1.50 a share. No underwriting. To furnish additional capital to Tungsten Mining Corp. which is owned 70% by the issuer.

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.

● **Home Finance Group, Inc., Charlotte, N. C.**
April 24 (letter of notification) 8,000 shares ($25 par) 5½% cumulative convertible preferred. **Price**—$25 a share. **Underwriting**—To be sold through securities dealers which may include R. S. Dickson & Co., Charlotte, N. C. To be added to working capital.

● **Home Finance Group, Inc., Charlotte, N. C.**
April 24 (letter of notification) 20,000 shares ($1 par) common. **Price**—$5 a share. No underwriting. To be added to working capital.

Hy-Grade Supply Co., Oklahoma City
Dec. 3 (letter of notification) 54,350 shares of cumulative convertible preferred and 50,000 common stock purchase warrants. **Price**—$5.50 a preferred share and 2 cents a warrant. **Underwriter**—Amos Treat & Co., New York. It is expected that a full registration will be filed later with the SEC.

Illinois Power Co., Decatur, Ill.
June 17, filed 200,000 shares ($50 par) cumulative preferred stock and 966,870 shares (no par) common stock. **Underwriters**—By competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp.; W. E. Hutton & Co. **Proceeds**—Net proceeds from the sale of preferred will be used to reimburse the company's treasury for construction expenditures. Net proceeds from the sale of common will be applied for redemption of 5% cumulative convertible preferred stock not converted into common prior to the redemption date. The balance will be added to treasury funds. Company has asked the SEC to defer action on its financing program because of present market conditions.

International Dress Co., Inc., New York
Aug. 28 filed 140,000 shares of common stock (par $1). Underwriter—Otis & Co. Offering—Price $10 per share. Proceeds—Selling stockholders will receive proceeds. Offering date indefinite.

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.

● **Koppers Co. Inc., Pittsburgh**
April 30 filed 200,000 shares of common stock (par $10). **Underwriter**—The First Boston Corp. **Proceeds**—The money will be used for the construction of plants at Kobuta, Pa., at a cost of approximately $4,750,000, the conversion of a refinery at Oil City, Pa., into a synthetic organic chemical plant at a cost of about $1,250,000 and for the completion of facilities at Kearney, N. J., at a cost of $1,000,000.

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.

● **La Plant-Choate Manufacturing Co., Inc., Cedar Rapids, Iowa**
April 30 filed 60,000 shares ($25 par) cumulative convertible preferred. **Underwriter**—Paul H. Davis & Co., Chicago. **Price** — By amendment. **Proceeds**—To be added to working capital and will be used in part to reduce current bank loans. **Business** — Manufacture of earth moving equipment.

Lay (H. W.) & Co., Inc., Atlanta
April 18 filed 16,000 shares ($50 par) 5% cumulative convertible preferred and 15,000 shares ($1 par) common. **Underwriter**—Clement A. Evans & Co., Inc., Atlanta. **Offering**—All but 3,000 shares of the common will be sold publicly at $6.50 a share. The preferred will be offered to the public at $50 a share. The 3,000 shares of common not sold publicly will be offered to company officers and employees at $5 each. **Proceeds**—For construction of new plants at Atlanta and Memphis, Tenn. **Business**—Manufacture of food products.

● **Libby, McNeill & Libby**
April 30 filed 100,000 shares (no par) preferred stock. **Underwriter**—Glore, Forgan & Co. **Offering**—Stock will be offered to stockholders at the rate of one share of preferred for each 36 shares of common owned. **Proceeds**—The money will be used to complete a plant at Sunnyvale, Calif., and for other corporate purposes.

Lithium Corp. of America, Minneapolis
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.

● **Lorain Telephone Co., Lorain, Ohio**
April 21 (letter of notification) 5,616 shares (no par) common. **Price**—$20 a share. No underwriting. To reimburse treasury.

● **Louisiana Plastic Industry, Baton Rouge, La.**
April 21 (letter of notification) $10,000 to $25,000 of securities. **Price**—$100 each. No underwriting. For purchase of equipment and supplies for manufacturing toys.

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• Lyons Finance Service, Inc., Philadelphia (5/5)

April 28 (letter of notification) 40,000 shares preferred stock (par $5). Of the total 19,587 shares will be offered in exchange for class A stock, share for share based on value of $7 per share for class A or a total of $137,109. The balance (20,413 shares) will be offered at $7 per share. Underwriting none. Net proceeds will be used to reduce bank borrowings or to make small loans to clients.

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 to stockholders of record April 22 in ratio of one for each five shares held. No underwriting. For working capital.

McCormack & Co., San Francisco

April 14 (letter of notification) 25,000 shares ($1 par) common; $225,000 of 6% certificates of indebtedness and 15,300 shares ($1 par) common to be issued on exercise of the option granted by the certificates of indebtedness. The common will be offered at $1 a share and the certificates at face amount. Hannaford & Talbot will be the agent for the sale. Proceeds to be used to acquire all the assets of McCormack & Co., a going business.

• Mad River Corp., New York

April 24 (letter of notification) 1,000 shares ($1 par) $4.50 preferred and 1,000 shares ($1 par) common. **Price**—$100 a preferred share and $1 a common share. No underwriting. For reconstruction of two buildnigs.

Manontquebi 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.

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.

• Meyer-Blanke Co., St. Louis, Mo.

April 23 (letter of notification) 3,612 shares (no par) common. **Price**—$13.25 a share. To offered to employees. No underwriting. For general 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.

• Mobile (Ala.) Battle House, Inc.

April 28 (letter of notification) $250,000 of convertible mortgage 5% bonds, due 1957. Price, par. Shropshire & Co., Mobile, will act as agent. For expansion and improvement purposes.

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 Fund, Inc., St. Louis, Mo.

April 22 (letter of notification) 4,990 shares of ($50 par) capital stock. **Price**—$52 a share. No underwriting. For general corporate purposes.

National Gas & Oil Corp., Newark, O. (5/6-9)

March 28 filed $1,750,000 of 15-year sinking fund debentures, due 1962. **Underwriter** — G. H. Walker & Co., Providence, R. I. 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.

New Brunswick Oilfields, Ltd., Fredericton, New Brunswick, Canada

April 2 filed 150,000 shares (no par) capital stock. **Underwriters**—William D. Elwell, Elwell & Co., Inc., 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 England Electric System

April 23 filed $75,000,000 of debentures, of which $25,000,000 will mature in 1967 and $50,000,000 in 1977. **Underwriters** — To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co., and Kidder, Peabody & Co. (jointly). **Purpose**—Proceeds of new debentures will be used in part to discharge publicly held debt of three subsidiaries: New England Power Association; North Boston Lighting Properties and Massachusetts Utilities Associates in compliance with simplification plan.

O'Briens of California, Inc., San Jose, Calif.

April 16 filed 20,000 shares of $1.35 cumulative preferred stock (par $25), with warrants and 40,000 shares of common stock (no par). Warrants for common stock may be exercised through April 1950 at $10 per share, through April 1952 at $11 per share and through April 1953 at $12 per share. **Underwriter**—Mitchum, Tully & Co. **Proceeds**—To repay bank loans and for additions and betterments. **Business**—Manufacturer of candy.

Ohio-Apex, Inc., Nitro, W. Va.

April 22 filed 75,000 shares ($1 par) common. **Underwriter**—Doolittle, Schoellkopf & Co., Buffalo, N. Y. Price by amendment. **Proceeds**—Shares are being sold by six stockholders who will receive proceeds. **Business**—Manufacture of plasticizers and chemicals.

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 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.

• Pennsylvania Frosted Foods Corp., Southampton, Pa. (5/2)

April 25 (letter of notification) $200,000 preferred stock. Underwriting, none. **Price** — $100 per share. Working capital.

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.

• Platinoyd Industries, Inc., New York (5/5)

April 28 (letter of notification) 50,000 shares of common stock (par $1). Underwriting, none. **Price**—$1. Store fixtures, etc.

Progressive Air Service, Inc., Smithtown Branch, N. Y.

April 16 (letter of notification) 200 shares ($100 par) common and 1,846 shares ($100 par) preferred. **Price**—$100 each. No underwriting. For development and construction of airport at Smithtown, N. Y.

Public Service Co. of Indiana Inc.

March 26 filed $11,077,800 15-year 2¾% convertible debentures. **Underwriters** — None. **Offering** — For subscription by 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**—Par **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.

Ramie Products Corp., Pittsburgh, Pa.

April 18 (letter of notification) 94,000 shares of ($1 par) common. **Price**—$3 a share. **Underwriting**—Euler and Co., Phila. To liquidate current obligations and for general corporate purposes.

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.

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.

• Science Research Associates, Inc., Chicago

April 23 (letter of notification) 350 units of stock consisting of one share of $100 par preferred and one share of 10 cent par common. **Price**—$100.10 a unit. No underwriting. For development and expansion of business.

• Scurry & Nixon, Inc., Greenville, S. C.

April 24 (letter of notification) $71,974 of Class B common. **Price**—$106 a share. No underwriting. For financing expanded operations.

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.

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 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. (5/13)

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. **Bids Invited**—Bids for purchase of bonds will be received at office of Drinker, Biddle & Reath, 117 South 17th St., Philadelphia up to 11 a.m. May 13.

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.

● **Stanley Works, New Britain, Conn.**
April 25 (letter of notification) 5,000 shares of common. Price, about $60 a share. No underwriting. To increase working capital and for payment of bank loans.

Starrett Corp., New York
April 22 filed $2,686,000 5% collateral trust bonds, due 1966, and 31,200 shares ($1 par) common. **Underwriting**—Company said it would pay 1% commission to brokers for soliciting exchanges and that all such brokers may be deemed to be underwriters. **Offering**—Securities will be offered in exchange for the company's presently outstanding 5% secured income bonds, series 1950, and its 4% collateral trust bonds, due 1966. The exchange will be in the ratio of $1,000 of new bonds and 40 shares of common for each $1,000 of secured income bonds, while the collateral trust bonds will be exchanged on a dollar for dollar basis with the new bonds. **Business**—Holding company owning all the stock of Starrett Brothers and Eken, Inc., engaged in construction of buildings.

● **Stratton & Terstegge Co., Louisville, Ky.**
April 24 (letter of notification) 1,487 shares of common on behalf of company and 1,562 shares of common on behalf of Walter Terstegge, a director. **Price** — $64 a share. **Underwriter**—The Bankers Bond Co., Louisville. Company will use proceeds for working capital.

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. (5/7-8)
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.**

● **Syracuse Suburban Gas Co., Inc., East Syracuse, N. Y.**
April 23 (letter of notification) $25,000 5% cumulative preferred stock. **Price**—$100 a share. No underwriting. For capital additions.

● **Temprite Mfg. Co., Inc., Arkansas City, Kan.**
April 28 (letter of notification) $200,000 of common and $100,000 of preferred. **Price**—$100 per unit. No underwriting. For operating capital.

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. Offering date indefinite.

Tide Water Power Co. (5/5)
Mar. 31 filed 157,868 shares (no par) common. **Underwriters**—Union Securities Corp. and W. C. Langley & Co. are selling the stock and also are the principal underwriters. They will engage others to sell the stock. Price, about $9 per share. **Proceeds**—Proceeds go to the selling stockholders.

● **Tilden Commercial Alliance, Inc., Brooklyn.**
April 22 (letter of notification) 30,000 shares ($10 par) class A stock. **Price**—$10 a share. No underwriting. To increase working capital.

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.

● **Tri-United Plastics Corp., Irvington, N. J.**
April 25 (letter of notification) 30,000 shares of common stock (par 50c). Underwriting, none. Price, at market (about 25c). Stock will be sold through Bruns, Nordeman & Co., New York. Proceeds to selling stockholders.

● **United Brick & Tile Co., Kansas City, Mo.**
April 23 (letter of notification) $25,000 5% cumulative capital stock on behalf of the Trinway Corp. and its parent, Amerex Holding Corp., both of New York. The shares to be offered at market in over-the-counter market.

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. (5/19)
March 6 filed $3,500,000 first mortgage bonds, due 1977 and 10,000 shares ($100 par) cumulative preferred stock. **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 May 19.

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.

● **Vic Young Sporting Goods, Des Moines, Iowa**
April 22 (letter of notification) 250 shares of preferred. **Price**—$100 a share. No underwriting. To be sold through officers of company. For purchase of inventory, establishment of place of business and for working capital.

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.

● **Walker Vitamin Products, Inc., Mt. Vernon, N. Y.**
April 23 (letter of notification) 400 shares of Class B common on behalf of Theodore Blanchard, a director of the company. **Price**—$10 a share. To be offered through Billings Olcott & Co., New York, as broker.

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 Electric Co., New York
April 16 (letter of notification) 1,500,000 shares (no par) common. To be offered for subscription to stockholders of record May 27 at $40 a share. Rights expire June 27. No underwriting. To reduce indebtedness and to reimburse its treasury.

Whites Auto Stores, Inc. (5/5-15)
Feb. 25, filed 50,000 shares ($1 par) common. **Underwriters**—First Colony Corp., New York, and Childs, Jeffries & Thorndike Inc., Boston. **Offering**—Of the total common 5,000 shares are reserved for offering to employees. **Price**—By amendment. **Proceeds**—Stock is being sold by the four officers and directors. [$1,000,000 12-year debentures filed at same time being withdrawn having been replaced by private loan from three insurance companies.]

● **Wiremold Co., Hartford, Conn.**
April 24 (letter of notification) 11,000 shares of 5% cumulative preferred ($25 par), Series A. **Price**—$26.30 a share. **Underwriter**—Putnam & Co., Hartford. For new equipment and to increase working capital.

Wisconsin Power & Light Co., Madison, Wis.
May 21 filed 550,000 shares ($10 par) common stock to be sold at competitive bidding. Underwriters—By amendment. Probable bidders include 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.**

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)

● **Atlas Powder Co.**
April 29 stockholders voted to increase authorized common from 450,000 to 700,000 shares (no par). Increase is designed to provide for possible new capital investment, retirement of indebtedness or general corporate purposes.

● **California Electric Power Co.**
May 13 stockholders will vote on creating a new issue of 500,000 shares of preferred stock and an increasing authorized common from 2,000,000 shares to 2,500,000 shares. Company proposes to issue 80,000 shares at this time, the proceeds to be used for expansion purposes. Probable bidders include Dean Witter & Co., Blyth & Co., Inc.; Otis & Co. (Inc.)

● **Cities Service Co.**
April 24 the SEC approved a plan for complete recapitalization. Under plan, company proposes to use treasury resources to pay off $40,578,100 balance of its 5% debentures of 1950, and to offer a maximum of $115,426,950 new 50-year 3% debentures in exchange for its preferred and preference stocks and discharge of all claims to unpaid dividends.

Under the terms of the exchange, preferred stockholders are offered new debentures totaling $196.50 per share for the $6 preferred; $193.50 for the preference stock, and $19.50 for the preference B stock, in satisfaction of par and accumulated dividends in each case. Company proposes to retire the remaining $59,910,200 of its other 5% debentures, maturing from 1958 to 1969, with funds to be obtained from disposal of its holdings

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in the three remaining utility companies in the system. These utility holdings comprise 100% common stock ownership of Ohio Public Service Co. and Toledo Edison Co., and 65% of the equity in Federal Light & Traction Co. The preferred exchange plan is contingent for its consummation of acceptance by holders of 60% of the preferred stock. Dealers will be employed to effect exchanges.

● **Coast Counties Gas & Electric Co.**

April 23 company has applied to California P. U. Commission for authority to issue 140,000 shares of 4% preferred stock series A (par $25), of which 75,000 shares would be offered in Exchange for outstanding 5% preferred on share for share basis. Remaining 65,000 shares would be publicly offered through underwriters. Probable bidders include, Dean, Witter & Co.; Blyth & Co., Inc.; Otis & Co. (Inc.)

● **Goodall-Sanford, Inc.**

April 30 stockholders voted to authorize an issue of $4,500,000 4% sinking fund preferred stock (par $100). 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.

● **Jones & Laughlin Steel Corp.**

April 30, Ben Moreel, Chairman stated directors have given consideration to some financing, but the extent and nature will be dependent upon decisions relating to a possible additional construction program. Probable underwriter, Union Securities Corp.

● **Lerner Stores Corp.**

April 29 stockholders approved a proposed issue of 100,000 shares ($100 par) cumulative preferred stock to finance retirement of 32,000 shares of 4½% outstanding preferred stock and $4,500,000 of bank loans and to meet expansion costs. Merrill Lynch, Pierce, Fenner & Beane has been selected as underwriters.

● **Louisiana Power & Light Co.**

April 25 company in its application to SEC to issue additional common stock to its parent at $5 per share said that the money to be received ($4,500,000) will not be sufficient to complete its expansion program and that it may sell additional first mortgage bonds under its existing mortgage. Probable bidders if publicly sold, Halsey, Stuart & Co., Inc.; Shields & Co. and White, Weld & Co. (jointly); Lehman Bros. and Kuhn, Loeb & Co. (jointly); Blyth & Co.; W. C. Langely & Co.

● **Nopco Chemical Co.**

June 2 stockholders will vote on making a new issue of 50,000 shares of preferred stock issuable in series. Common stockholders shall have no pre-emptive right to subscribe to new preferred. Company was formerly known as Nation Oil Products Co. Probable underwriter if offered publicly: Paine Webber, Jackson & Curtis.

● **Pacific Power & Light Co.**

April 24 the SEC approved the merger of Pacific Power & Light Co. and Northwestern Electric Co. Incident to the merger, Pacific as survivor proposes: (a) to issue and sell $29,000,000 first mortgage bonds, of which $26,900,000 will be sold through competitive bidding; $2,100,000 will be exchanged for a like principal amount of Northwestern's 4½% debentures due 1959, held by American Power & Light Co.; and (b) to issue and sell at private sale $4,000,000 of serial notes, which will bear an interest rate not expected to exceed 2¼% per annum, payable in 20 equal semi-annual installments. Probable bidders for the first mortgage bonds include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Glore, Forgan & Co.; Blyth & Co., Inc.; Harriman Ripley & Co.

● **Southern Pacific Co. (5/13)**

Company will receive bids up to 12 Noon (EDT) May 13 for the sale of $22,500,000 new San Francisco Terminal first mortgage bonds, series A, maturing June 1, 1975. The new issue, together with other funds will retire the currently outstanding $24,767,600 of San Francisco Terminal 4s, due April 1, 1950. Bids will be received at office of J. A. Simpson, Treasurer, 165 Broadway, New York 6, N. Y. Probable bidders include Kuhn, Loeb & Co.; Halsey, Stuart & Co. Inc.

Freedom and Labor Monopoly

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pends on the police preventing a lot of unpleasant, low-minded persons from breaking into my house, taking away my clothes and holding me up on Connecticut Avenue.

My freedom to buy things, or to make things, or to work with other people, depends on a government of law and order which prevents would-be tyrants and monopolists from forcing me to buy or not to buy, to make or not to make, to work or not to work, at their pleasure.

It ought to be understood, even by children in the United States, that "freedom" means that men are not subject to any arbitrary or despotic rule. But it does not mean that they need obey no rules, because, in order to be free, men must be subject to the rules which must be laid down and enforced by a representative government. Any rule of government that permits one class of men to do as they please, regardless of the injuries and restraints imposed on others, is not a rule of freedom. Such a rule of law grants a special privilege to the favored citizens and denies freedom to all the rest.

In the last fifty years, American businessmen have been educated at great public expense, and, despite their objections, to a general understanding that the freedom of business management does not include a freedom to monopolize commerce, a freedom to defraud or gouge customers, or a freedom to dictate wages and working conditions to unorganized, and individually helpless employees.

Not all businessmen have learned these lessons. Some of them still talk about "free enterprise" as though the managers and the properties which are protected by the public should be free from any obligation to serve public needs. Speaking broadly, however, businessmen do not talk the political nonsense they spouted in the Gay Nineties.

Theme Song of Labor Leaders

But, the theme songs of the half-civilized business managers of fifty years ago are now sung lustily by the half-civilized labor managers of today. They are filling the air with highfaultin nonsense about the freedom of labor being destroyed if we deprive a labor union of the power to destroy the freedom of everyone else.

Man is supposed to be a reasoning animal; and yet men today are actually arguing that John L. Lewis and his gang should be granted freedom to freeze and starve 135 million people into submitting to their demands, freedom not only to quit working and still remain employees, but also freedom to prevent other men from doing the essential work which they refuse to do.

While I'm on this subject, let me make it plain that whether labor or management is right or wrong in a particular dispute should have no effect upon the legal duty of both parties to settle their disputes peacefully and without inflicting injuries on other people.

That is a fundamental obligation of all citizens in a civilized society. No one can be granted freedom to organize private force and to compel others to accept his dictation, if we are to preserve equal freedom for all. We organize public police forces for the very purpose of compelling men to submit their disputes to the compulsory arbitration of Courts of Justice—and of preventing them from using private force to coerce their opponents.

Now there is another phrase that needs an accurate definition. What is "compulsory arbitration"?

It is the enforcement of public law for the settlement of private disputes.

Is that necessarily a wicked and tyrannical procedure?

No. No. That is the essence of the "administration of justice," upon which rests the entire structure of an orderly society.

But, we are told that the "compulsory arbitration" of labor disputes would be an unthinkable tyranny.

We are told that both business managers and labor leaders are opposed to "compulsory arbitration"—and generally speaking that is true. In fact, they cannot be blamed for opposing the man-eating dragon they conjure up and call "compulsory arbitration."

But "compulsory arbitration" is a meaningless phrase until you define it by laying down a program of legal rights and duties and a procedure for their enforcement. A "law" may be an edict of oppression. A "court" may be an instrument of tyranny. But our faith in government stands or falls on establishing just laws and impartial courts for their enforcement.

There should be no "compulsory arbitration" of labor disputes that would destroy or even discourage collective bargaining. But that is just what we have been suffering. The need of the hour is to reestablish collective bargaining and voluntary agreements for the settlement of labor disputes and to end the compulsory arbitration of these disputes by brutal uses of private force. When a labor union or an employer wins a pitched battle in a hard-fought strike or lockout there is a compulsory arbitration by private force. The same men who are demanding freedom from public compulsion are using their freedom to compel others to submit to their private dictation.

Can it be argued that contests of brutal power will bring economic justice but that submission to a public law and to public tribunals will bring economic tyranny? This is nothing less than a medieval argument in favor of trial by combat. Yet those advancing it call themselves "liberals."

There is another word demanding a definition.

In the bright lexicon of labor forums a "liberal" is a person who will stand for anything that carries a union label, and will oppose anything that hasn't the union label.

This "liberal" is an ardent defender of civil liberties, unless a mass picket line is engaged in destroying them.

This "liberal" is an enemy of organized crime and racketeering, unless they are organized and operated as a labor union.

This "liberal" is the unrelenting foe of private monopoly, unless it is a labor monopoly, in which case he claims that the right to monopolize is guaranteed by the Constitution.

This "liberal," according to popular definition, is simply a blind, gullible partisan of anyone or any program carrying a union label.

Fathers and mothers, who have children in schools infested with such "liberal" teachers, should pray night and day that their loved ones may grow up to be strong-minded radicals or reactionaries, materialists or idealists, communists or individualists, but—please! please! don't let them group up to be weak-minded "liberals" who will swallow any kind of adulterated food or poisonous liquor so long as the can or the bottle bears a union label.

Opposition to Labor Union Regulation

One of the chief offenses of many of these "liberals" against a rule of justice under law is their irrational and pusillanimous opposition to every proposal that labor unions and their members should be subject to the same sort of laws that require good behavior by all other citizens and organizations. They join the special pleaders in arguing that special privileges and immunities that have been viciously abused should be continued. They argue that no court should issue an injunction against a labor leader or a union. Why not? Is an order of court which requires men to do right or to cease doing wrong—is such an order essentially an evil thing?

Here we need a definition—not to explain what an injunction is, but to explain why labor partisans sometimes call it an evil thing and sometimes a good thing.

If you read the Wagner Act you will learn that it is a good thing for the NLRB to issue a "cease and desist" injunction against an employer and then have it enforced by a court.

But if you read the Norris-LaGuardia Act you will learn that it is an evil thing for an employer to get an injunction against a labor union, even to protect him from irreparable injuries inflicted by plain violations of law.

If you read the flaming, sobbing, vituperative protests of Green, Murray and Lewis against "government by injunction" you may be convinced that no court should be trusted with the power ever to order a union to do or not to do anything.

Yet the law reports are full of cases where the unions have appealed to the courts to issue orders—to issue these hateful injunctions against their opponents.

I remember one time defending an A. F. of L. union in Chicago against an injunction suit brought by a local lodge against the parent organization. The suit was really a contest between a local leader who had become wealthy by what is sometimes called "legal graft" and another local leader who was trying to get rich by the more vulgar use of guns and brass knuckles. In labor lingo an injunction is only an evil thing when it is issued against you. It is a shining sword of justice when it is issued for you.

The Wagner Act has had a peculiar charm for labor leaders and their "liberal" satellites because under it no injunctions could be issued **against** labor unions but a magnificent flock of injunctions could be issued **in behalf of** labor unions.

Inconsistency of Claims

You may gather from what I have been saying that in my judgment one great cause of public confusion in the discussion of labor problems is the inconsistent way in which the same words are used by partisans in arguing their claims. We should be able to look to institutions of higher education for moderators who would at least try to provide reliable definitions of common terms and insist that partisan debaters cease to abuse the English language even if they continue to abuse the patience and confidence of their listeners. Unfortunately many of our torch-bearers have brought in more smoke than light.

In aid of greater clarity of expression I will venture today to provide a word to designate fairly those who, by indiscriminate opposition to corrective labor legislation, are now engaged in trying to prevent the reestablishment of an orderly society in the United States and who are playing an active part in undermining our free economy and our democratic government.

Labor As Autocratic Ruler

A large majority of our people and a large majority of their representatives in Congress have come to understand that we cannot preserve our economic and political institutions and individual freedom by substituting labor leaders for captains of industry as the autocratic rulers of business and government. Any economic or social class that seeks or threatens to dominate the lives of a people who would remain free must be compelled by their government to subordinate class interests and self-advancement to the overriding public interest and the progress of the people as a whole.

We cannot rely on the good will and self-restraint of those who preach ill-will constantly and seldom practice self-restraint.

The labor leaders of America are not wholly responsible for policies and practices that have alienated public support. Beset by irreconcilable employers on the right, and troublemaking communists on the left, harassed by rival leaders and organizations, under constant pressure from a rank and file worried and confused by extraordinary economic uncertainties, our labor leaders have had no easy task; and all too many have been incapable of mastering a difficult, complex job.

Let it be not only admitted but asserted that the great majority of labor leaders and trade unionists are not consciously antagonistic to the government or the institutions which they have been undermining. Because of that conviction, I have no patience with those who cry out fearfully or threateningly that the wage earners will not obey the laws of their government if laws are passed which reasonably require both employers and employees to make one of three choices—one, to settle their disputes peacefully, or two, to end their relations peacefully and permanently, or, three, to submit to an impartial arbitration of their disagreements.

Labor Has No Privilege to Disobey Laws

It is the lawful privilege of all Americans to test in the courts the validity of any laws that may affect them. It is not the lawful privilege of any citizen to refuse to obey the laws, or to set up private force to resist the public force of his government. I think labor bosses and their political allies misrepresent and defame their own constituents when they threaten that American workers will engage in insurrections against their own government. There may be rash, sporadic revolts, encouraged or inspired by the professional enemies of a free society; but I would stake all my hopes of Paradise (which, however, isn't a very large stake!) on my faith that the masses of American wage earners will support, not grudgingly but willingly, the laws of the United States which are enacted by the representatives of all the people for the benefit of all the people.

Not every proposed remedy for lawlessness and irresponsibility in labor relations is wisely drawn. But the blame for needlessly drastic or harsh legislation must rest heavily on all those labor partisans who have stubbornly refused to acknowledge evils that demand a remedy and refused to cooperate in making necessary revisions of existing labor laws.

In this critical time we need a word to assist us in identifying and carefully choosing our political associates. We need a word to define all those who, whether wilfully or misguidedly, insist on perpetuating the industrial warfare which is steadily weakening the foundations of our free economy and democratic government. These conscious or unconscious allies include both well-meaning and malevolent labor leaders, a swarm of treacherous communists, and a large number of gullible "liberals."

No new word need be coined to designate them. There is an old one which applies exactly. These men are the "sappers" of our economic and political strength. They do their bit day by day helping to undermine the industries and the government of the United States. They are gradually breaking down our faith in law and order and our confidence in the ability of a free people to govern themselves. And to any one of these who may protest angrily that he is only laboring for a freer, better, happier America, I would say—if that is your intention, in the light of what you are actually doing, the word may be shortened. You are something less than a "sapper." Let us say—just a "sap"!

U. F. E. Asks Collective Bargaining Rights at Drysdale & Co.

(Continued from page 7)

Mayor's Committee had announced that Mr. Schram had agreed to a continuation of the union's contract with the Exchange as though it had never been cancelled except that, at the union's own request, the 30-day cancellation clause was to be eliminated. The union consequently understood, it pointed out, that its contract with the Exchange had continued in force right along and no resignations from the union could be recognized. Through a serious omission, the Curb was not mentioned in the announcement of the settlement.

Reach Compromise

The compromise on this issue that was finally reached after four hours of wrangling was that the contracts were, in effect, inoperative for two days, that is, from Sunday midnight, April 20, to Tuesday night, April 22, when the settlement on the A. M. Kidder & Co. matter was reached and that any one who resigned from the union during this two-day period and notified the union to that effect would not now be expected to renew his membership in the union. The Mayor's Committee set May 10 as the final date for appeals on this matter, agreeing in substance to settle disputed cases of just who had resigned and who hadn't.

The union representatives and Mr. Truslow of the Curb signed the new agreement referring to this issue at once, but Mr. Schram and Mr. Coleman merely said they would recommend favorable action on the matter to the Board of Governors at a special meeting next morning. The board in due course did agree to the settlement. Martin Lacy, Jr., representing the Central Trades and Labor Council, AFL, was the chief spokesman for the union at the City Hall meeting. Just how many employees of the Exchanges are affected by the terms of the settlement is unknown. The New York Stock Exchange knows of only three possible resignations, but the union says that two of these have changed their minds. There were 50 or more resignations reported at the Curb, but the union says that many of them, too, have decided to come back. According to the union, an officer of the union is the one who sought the resignations of Curb employees although he did not himself resign.

UFE Files Petition

Meanwhile, it has become known that the UFE has filed with the New York State Labor Board a petition seeking recognition as sole collective bargaining agent for the employees of Drysdale & Co., stock and bond brokers of 71 Broadway. In effect, the filing of such a petition is tantamount to a request for an election among the employees of the firm. There will be no election if the firm should decide to recognize the jurisdiction of the union over its employees.

In an open letter to the UFE Tuesday, Peter Hawley, executive director of the Financial Employees Guild, CIO, asked for united action by both organizations against anti-labor bills now before Congress. He asked for a meeting with representatives of the UFE to "work out joint plans of action in which we can take part together and arouse all financial employees to the dangers we face."

Joins Bache Staff

Special to THE FINANCIAL CHRONICLE

COLUMBUS, OHIO—David C. Walker has been added to the staff of Bache & Co., 16 East Broad Street.

With R. S. Hays & Co.

Special to THE FINANCIAL CHRONICLE

DURHAM, N. C.—Samuel J. Burrow, Jr., is with R. S. Hays & Co., Inc., 111 Corcoran Street.

SITUATIONS WANTED

Trading Assistant

Experienced over-the-counter serviceman expert on teletype. Operated direct wire with out-of-town branch office. Small but growing retail following. Box F 418 Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

TRADER

Unlisted security trader and order clerk available. In "Street" since 1921, lately employed by New York Stock Exchange house. Box JB 424, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Unlisted Trader

Twenty years experience. Competent to manage New York office for out-of-town firm. Now connected. Salary, $75.00 per week. Have accounts. Box MC 430, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

SITUATIONS WANTED

Unlisted Trader

Experienced unlisted trader available immediately. Can furnish references. W 55, Commercial and Financial Chronicle, 25 Park Place, N. Y. 8, N. Y.

Unlisted Trader

Presently employed, desires change; numerous dealer contacts; capable handling Chicago Branch Office in all details. Salary and commission. Box VC 51, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

SITUATIONS WANTED

Secretary

Fifteen years Wall Street experience, capable assistant, available for over-the-counter house. Box B 417, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Trader — Order Clerk

Desires Position With N.Y.S.E. Firm

Can Produce listed business in excess of salary desired. Box R 52. Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

Assistant to Executive

Capable of making prompt and satisfactory decisions on important matters and is an excellent correspondent. By reason of long years of experience in corporate affairs and handling securities is fully capable of making satisfactory adjustments of stocks and bonds.

Has been Executive head of Transfer and Trust departments. Has had valuable experience as an administrator and coordinator and is advanced in modern business methods. Agreeable personality, with training and ability to handle difficult problems.

Write Box B 423, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

MANAGER

Investment Research & Underwriting Department. Security Analyst whose work has been widely syndicated. Editor of financial periodical. Convincing speaker with ability to service busy wire and voluminous correspondence.

Allow me five minutes to prove how my services can be especially valuable to you in this trying period.

Box S 416, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

HELP WANTED

WANTED 2 Bond Salesmen

Alert to possibilities in today's Markets. Leads from consistent, progressive advertising. A real opportunity for men with clients and willing to work, 50% commission. Security Adjustment Corporation, 16 Court St., Brooklyn 2, N. Y.

RELIABLE MAN

Experienced in much Stock Exchange procedure and practically all phases of over-the-counter business. Seeks good connection. Salary secondary consideration. Box L 53, Commercial and Financial Chronicle, 25 Park Place, New York 8, N. Y.

DIVIDEND NOTICES

AMERICAN RADIATOR & Standard Sanitary CORPORATION

New York Pittsburgh

PREFERRED DIVIDEND
COMMON DIVIDEND

A quarterly dividend of $1.75 per share on the Preferred Stock has been declared payable June 1, 1947, to stockholders of record at close of business May 23, 1947.

A dividend of twenty cents (20¢) per share on the Common Stock has been declared payable June 30, 1947, to stockholders of record at close of business May 23, 1947.

ROLLAND J. HAMILTON
Secretary and Treasurer

The American Tobacco Company
INCORPORATED

111 Fifth Avenue New York 3, N. Y.

167TH COMMON DIVIDEND

A regular dividend of Seventy-five Cents (75¢) per share has been declared upon the Common Stock and Common Stock B of THE AMERICAN TOBACCO COMPANY, payable in cash on June 2, 1947, to stockholders of record at the close of business May 9, 1947. Checks will be mailed.

EDMUND A. HARVEY, *Treasurer*

April 29, 1947

THE BUCKEYE PIPE LINE COMPANY

30 Broad Street

New York, April 29, 1947

The Board of Directors of this Company has this day declared a dividend of Twenty (20) Cents per share on the outstanding capital stock, payable June 14, 1947 to shareholders of record at the close of business May 16, 1947.

C. O. BELL, Secretary

Borden's

BORDEN'S 1857

DIVIDEND No. 149

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company*, payable June 2, 1947, to stockholders of record at the close of business May 12, 1947.

E. L. NOETZEL
April 29, 1947 *Treasurer*

COLUMBIAN CARBON COMPANY

One-Hundred and Second Consecutive Quarterly Dividend

A quarterly dividend of 50 cents per share will be paid June 10, 1947 to stockholders of record May 15, 1947, at 3 P. M.

GEORGE L. BUBB
Treasurer

DIVIDEND NOTICES

THE UNITED STATES LEATHER CO.

The Board of Directors at a meeting held April 30, 1947, declared a dividend of $1.00 per share on the Class A stock payable June 16, 1947, to stockholders of record May 15, 1947.

C. CAMERON, *Treasurer*

New York, April 30, 1947.

UGI

A dividend of 65 cents per share on the Capital Stock, par value $13.50 per share, has been declared, payable June 28, 1947, to stockholders of record May 29, 1947.

THE UNITED GAS IMPROVEMENT CO.

JOHNS HOPKINS, Treasurer

April 22, 1947 Philadelphia, Pa.

EATON MANUFACTURING COMPANY

Cleveland, Ohio

DIVIDEND NO. 89

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five Cents (75¢) per share on the outstanding common stock of the Company, payable May 26, 1947, to shareholders of record at the close of business May 6, 1947.

April 25, 1947

H. C. STUESSY
Secretary & Treasurer

IOWA SOUTHERN UTILITIES COMPANY of Delaware

Dividend Notice

The Board of Directors has declared a dividend of 25¢ a share on the Common Stock of the Company payable June 14, 1947 to stockholders of record June 2, 1947.

EDWARD L. SHUTTS,
President.

April 28, 1947.

NEW YORK STOCKS, INC.

The following distributions have been declared on the Special Stock of the Company from Investment Income, payable May 26, 1947, to stockholders of record as of the close of business May 5, 1947.

Agricultural Series	$.07
Automobile Series	.07
Aviation Series	.06
Bank Stock Series	.07
Building Supply Series	.07
Chemical Series	.08
Electrical Equip. Series	.07
Food Series	.10
Government Bonds Series	.08
Insurance Stock Series	.09
Machinery Series	.08
Merchandising Series	.16
Metal Series	.09
Oil Series	.11
Public Utility Series	.01
Railroad Series	.08
Railroad Equip. Series	.08
Steel Series	.08
Tobacco Series	.16
Diversified Investment Fund	.18
Diversified Industries Shs.	.10

HUGH W. LONG & CO. INCORPORATED

CHICAGO LOS ANGELES

48 WALL STREET, NEW YORK 5, N. Y.

Introduces New RR. Reorganization Bill

Representative Reed of Illinois offers in House new measure to replace one vetoed by President Truman at end of last Congressional session.

Representative Chauncey W. Reed (R.-Ill.) on April 28 introduced a bill in the House of Representatives (H.R. 3237) which would permit the removal of pending railroad reorganizations from further proceedings under the Bankruptcy Act. A measure of this kind, commonly called the Wheeler Bill, because of its sponsorship by Sen. Burton K. Wheeler at the last session of Congress was vetoed by President Truman last Aug. 14 on grounds it failed to provide proper control after reorganization, and also failed to provide against forfeiture of securities and investments. The President also wanted lower interest rates fixed on new obligations and restrictions against excessive reorganization fees. Other provisions of the bill were passed by the President.

Congressman Reed's bill would require the courts to suspend bankruptcy proceedings under Section 77B of Bankruptcy Act if a carrier's earnings in the seven calendar years 1939-45, were sufficient to meet its total fixed charges. The bill lays down methods the court is to use in determining income and in the event income in any of the seven years was insufficient to meet fixed charges for those periods, the court would take into account any income reported for Federal income and excess profits taxes together with a credit which would be given for any amounts deducted from income reports to cover wartime amortization in excess of 20% of cost.

The new bill also provides the conditions under which a railroad would be turned back to its securities holders and the processes of improving the reorganized carriers' financial structure. There are also provisions in the bill for reorganization of companies in future as well as pending proceedings.

New York Bank Economist Says Business Trends Still Same as After World War I

(Continued from page 6)

last three weeks in the number of pairs of shoes manufactured in this country. Employment has been down for a month, too, not only in the textile industry but also in such luxury fields as jewelry and furs.

For two weeks now, too, the index of general business activity has remained steady. Likewise, prices in general have been holding steadily for three weeks. Holding steadily, however, does not mean a continuation of previous trends. It can be interpreted only as a very definite slowing up because the previous trends had been consistently over an extended period rather sharply upward. Ten days ago, prices of steel scrap, considered by some observers as a fairly reliable index of the general trend in business, dropped rather severely, something like $2 and more a ton.

As the economist reasons it all out, prices were forced up right after the war by the unwillingness of buyers to wait until scarce commodities had become plentiful before entering the market. Buyers in their impatience for goods thus literally bid up prices to fantastic levels all around. Buyers are not as desperate for goods today as they were, however, and more goods are to be found upon the shelves of the stores. The existence of the large money supply, resulting from the generous extension of credit by the banks to the Government to finance the war, is no evidence by itself, either, that it will be used, the economist feels, and so can not enter in positive fashion into the calculations leading to predictions of things to come.

The unsettled condition of the European markets will have a strong tendency to depress economic conditions in this country, the economist thinks. This factor was not present in the situation at this time after the last war. Hardly more than a year or so after the Armistice, for instance, Germany was already exporting a great volume of goods. Until the "Big Four" can reach agreement on what is to happen to Europe, the flow of American funds into potentially profitable investment abroad must be slower than it would otherwise be. With the exception of this European situation, and the fact that interest rates have been and are being kept at artificially low levels, the economist believes that underlying business conditions generally today are very similar to what they were after World War I and help to explain why business trends tend strongly to be the same.

It is not to be inferred from all that has been said above that the present evidence is absolutely conclusive that a depression is really upon us. Unfortunately as the economist insists, it can be only in retrospect that the fact of depression or the lack of it can be ascertained without the shadow of a doubt. Up to the present point, however, business trends since the war would seem to have followed paths practically identical to those over which business traveled after World War I.

Vernon E. Kimball Is Now With J. Barth Co.

Special to THE FINANCIAL CHRONICLE

SAN FRANCISCO, CALIF. — Vernon E. Kimball has become associated with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges. Mr. Kimball was formerly manager of the municipal department for Weeden & Co.

Our Reporter's Report

In point of volume the current week will go down in the records as one of the largest in underwriting history. This, however, is not because of any sudden rush in the number of new issues coming out, but rather reflects the unusual proportions of offerings coming on the market.

More than half a billion in new securities reached the public offering stage during the week, with the largest, by far, involving the sale of $300,000,000 of State of Illinois Soldier Bonus bonds.

That issue, of itself, except for financing done by the U. S. Treasury, was the largest single piece of business ever undertaken by a single source, being half again as large as the $200,000,000 issue floated by the State of Michigan a few weeks ago.

It was the type of issue, however, that had limited appeal, that is it was pointed definitely at banks, trusts and other instiutions, where tax exemption is an important factor.

Meanwhile bankers were called upon to undertake the marketing of two large industrial issues, that of Consolidated Edison Co. of New York for $100,000,000 of first mortgage bonds, and 750,000 shares of new no par value preferred stock sold for the E. I. du Pont de Nemours & Co.

The Consolidated Edison offering was the second step in its refinancing program while the du Pont offering was designed to provide needed additional capital for expansion purposes.

Two Issues Today

With the du Pont financing expected on the market today it was a question of just how much of the 1,000,000 shares of the new stock registered with the Securities and Exchange Commission would be involved.

The company had already made it clear that a part of the issue would be taken by the employee's pension fund, and that the amount for public offering would run between 700,000 and 750,000 shares.

Meanwhile another group of bankers was scheduled to bring out $17,00,0000 of 20-year debentures plus $2,500,000 of serial debentures, due 1948-52 for Fairbanks, Morse & Co. Proceeds here would go for retirement of bank loans, purchase of certain properties and to increase working capital.

Southern Pacific

It will be interesting to note the outcome of the current call by Southern Pacific Co., for bids to be submitted by May 13, on a projected issue of $22,500,000 of San Francisco Terminal first mortgage bonds series A, maturing in 28 years.

The call for bids contains the proviso that no bid for less than 98% of the principal amount of the issue, plus accrued interest, will be considered. The last time a company fixed such a provision there were no bidders, it was recalled.

Competing groups also must specify the interest rate as well as the price for the bonds which will carry a sinking fund and be callable at any time by the company in whole or part on at least 45 days printed notice.

Union Pacific Maturity

Railroad bond circles are pretty well satisfied that it is the intention of the Union Pacific Railroad to retire its July 1 maturity of $100,000,000 of first 4% land grant bonds, by using treasury funds.

It is pointed out that the Interstate Commerce Commission has made it plain, that where possible, carriers should provide for maturing debts without recourse to new borrowing.

Union Pacific, it is noted, is strong in cash and equivalent, showing $71,400,000 cash and $139,400,000 in U. S. securities at the end of February.

Should the road use its cash resources to take up the approaching maturity, it is assumed that later in the year it will finance its large program of improvement and equipment buying through the sale of new securities.

Direct to Buyer

A sizable piece of new financing, $40,000,000 of 3% sinking fund debentures due in 10 years, was placed direct with investors this week by Remington Rand Inc.

The first direct placement of such large proportions in some time, it put the company in funds to retire $20,370,000 of outstanding debentures due 1960, and also to pay off promissory notes, due serially to October, 1953.

With F. L. Putnam & Co.

Special to THE FINANCIAL CHRONICLE

BOSTON, MASS.—George F. Hinchcliffe is now connected with F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange. Mr. Hinchcliffe in the past was with Russell Dean & Co.

With Gill Associates

Special to THE FINANCIAL CHRONICLE

TOLEDO, OHIO—Gill Associates, Inc., Secor Hotel, have added Arthur W. Amsler to their staff.

Joins Vance Sanders Staff

Special to THE FINANCIAL CHRONICLE

BOSTON, MASS. — Rollin E. Morton has been added to the staff of Vance, Sanders & Company, 111 Devonshire Street.