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What Do the Facts Show?

By HAROLD GLUCK, Ph.D.

Writer analyzes definitions of a strike and contends it is type of warfare. Traces legal history of labor regulations and strikes from medieval times and shows that even in early 19th century strikes were regarded as unlawful conspiracies. Concludes strikes came to be regarded as legal provided the ends are legal. Maintains it is sheer nonsense to try to talk historically about right to strike.

Harold Gluck

In the realm of Science men have learned how to think clearly. The time has long since past when we suspected those who investigated the secrets of the unknown as being in league with the devil and kindred spirits of the underworld. Whether or not we like a particular scientific fact is totally immaterial. The recent smallpox scare is a perfect example of this situation. People from all classes of life, regardless of their outlooks, rushed to be vaccinated. We even accept as a fact that the world will be different in years to come because of the discoveries in the field of atomic research.

But the moment we get into so-

(Continued on page 40)

The Cost of Cheap Money

By CLAUDE L. BENNER*

Vice-President, Continental American Life Insurance Co., Wilmington, Del.

Mr. Benner refutes arguments presented by "cheap money" advocates and criticizes low interest rate pattern in war financing. Holds larger part of Treasury deficit could have been financed by public instead of the banks, and continuation of "cheap money in peacetime increases inflationary trend." Sees danger in excess money supply and bank deposits, and expresses doubt Federal Reserve can control inflation and distortion of price structure. Says large part of savings and liquid assets is "phony," and warns a high price in rising prices will be paid for cheap money.

The arguments advanced today for cheap money are mainly based upon the necessity to keep the interest costs of the Federal Debt low. The believers in the beneficial effects of lower and lower interest rates would have us think that their main concern in this matter is the welfare of the poor taxpayer. He must be protected at all costs against the rich bondholder and the avaricious banker.

Claude L. Benner

The argument for low interest rates was not always thus presented. There was a "cult of cheap money" well developed both here and in England during the early '30s when government debts were relatively low. The cult was based upon the three tenets: (1) That low interest rates would encourage borrowing, induce busi-

(Continued on page 28)

*An address by Mr. Benner before the Annual Convention of the Maryland Bankers Association, Atlantic City, N. J., May 16, 1947.

What Is the Money Picture?

By WALTER E. SPAHR*

Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr traces developments and manipulations leading to present monetary situation. Criticizes Federal Reserve policies and points out inflationary dangers. Holds monetary program, along with heavy Federal spending, borrowing, destructive taxation, and artificially low interest rates has been a campaign against savers, investors and capital accumulation. Contends monetary situation requires careful watching and advocates return to gold standard.

The monetary picture in the United States today is largely the result of a modernistic art of the last 15 years. It is, indeed, a peculiar patchwork. This product was built along striking lines. Practically all the fallacies known to modern monetary science were dug up, dusted off, and offered to the people of the United States as something new—as modern, progressive, enlightened principles of money. The well-tested principles of monetary science were derided and deplored by these modernists in a multitude of ways.

Walter E. Spahr

The reasons for this modernistic monetary art of the last 15 years

(Continued on page 20)

*An address by Dr. Spahr before the Connecticut Chamber of Commerce, Hartford, Conn., May 22, 1947.

Working Capital's Importance In Common Stock Valuation

By E. S. FERGUSON

Senior Analyst, E. F. Hutton & Co.

Mr. Ferguson notes a growing trend toward appraising stocks on earnings and ignoring asset position. Holds this is unsound in implying ability to forecast cycles. Mere discount from liquidating value is no guarantee of bargain, accompaniment of either sustained earning power or prospective early liquidation being also necessary.

E. S. Ferguson

Common stocks selling near or below their respective companies' net working capital should always interest those seeking undervalued securities particularly during periods of falling markets.

Net working capital may be looked on as representing the minimum liquidating value of a company. For, although actual liquidation might entail a shrinkage of the indicated inventory and accounts receivable figures, and hence of the indicated working capital figure, such shrinkage usually should be more than offset by the "windfall" realization of some values from fixed assets and from intangibles. An example of the latter would be the availability of a good distributing organization which had been handicapped through inefficient production, but could constitute a valuable asset to a mere producing concern. Hence the net work-

(Continued on page 37)

Investment Companies Liquidated in First Quarter

By HENRY ANSBACHER LONG

Analysis compiled by authority shows substantial selling by Trust managers provided investment companies with their largest cash reserves in several years. Predominant sales occurred in merchandising, amusement, railroad and rubber shares. Bought oils and electrical manufacturers.

Once again, at the end of a year, the disheartened investor in stocks will engage in that great consoling pastime of picking out for tax losses his securities whose prices have been the most severely slaughtered in the current bear market. Scarcely yet awakened to the simple fact of life that all war-inflated speculative booms must come to a very unhappy ending, he will cast his bleary eyes at you and ask challengingly, "Well, whom do you know that got out?" The answer can readily be given, for it is a fact that several investment company managers, after placing their portfolios in defensive positions during the third quarter of 1946 and maintaining a cautious attitude in the last quarter, liquidated additional security holdings and increased cash and governments extensively in the subsequent first three months of 1947.


Henry A. Long

Dispersion and Activity Increased

The table at the conclusion of this article shows that in this latter period, portfolio activity generally increased over the preceding 1946 quarter and sales of individual holdings were 25% greater. While there was evidence of a certain concentration in transactions, dispersion among many individual securities was more characteristic of both purchases and sales as was the case in the previous period. Selling was most pronounced in the merchandising, amusement, railroad, and rubber shares. Liquidation was also noticeable in the stocks of paper, textile, and tobacco companies. A tendency to lighten commitments in the building and construction industry was a new development reversing a previous trend favoring these companies. An outstanding exception was United States Gypsum which was purchased heavily. Concentration of buyers was focused on the oil group, while electrical equipment manufacturers also met with the approval of purchasers.

It is doubtful whether for years past investment companies increased their liquidity to the extent that they did in the recent quarter. State Street Investment Corporation increased cash and governments by $8⅓ million to a total of $10 million, or 15% of assets. Lehman Corporation added $5½ million of cash equivalents bringing this item to $19½ million, or 21% of gross holdings. Blue Ridge added $4 million, American Business Shares, $2 million. The Wellington Fund of Philadelphia also increased its holdings of cash and governments by over $2 million, making this item approximately $11½ million—29% of total net assets. With an additional 19% of its holdings in higher grade bonds and preferred stocks only 52% of its funds was invested in securities subject to more volatile price fluctuations.

Large Cash Increases

Besides Wellington, there were several other companies which, on March 31, had less than 65% of net assets in equities, or preferreds and bonds with similar characteristics of price instability. General Investors Trust had only 55½% of assets thus invested. Nation-

(Continued on page 24)

Master Market Cycles

By CHARLES J. COLLINS*

President, Investment Letters, Inc., Detroit
Chairman, Investment Counsel, Inc., Detroit

Market analyst calls attention to periodicity of booms and depressions during last two centuries and reviews theories as to their causes and remedies. Holds two influences emanate from time cycles, one positive or expansive, the other negative or contractive, and illustrates by a diagram. Notes certain special factors may lessen effects of major influences and concludes time cycles favorable to stock market rise or to decline may be modified though not completely altered by major economic forces.

Lawyers say that when a person is on the defensive it is always good strategy to ask questions rather than to answer them. Since any one who presumes to discuss the stock market should know that his guard must be up all the time I am going to start this discussion with a question. It is this: Just why does not the national wealth and income of progressive countries, such as Canada and the United States, uninterruptedly grow to larger and more bountiful proportions as the years unfold, rather than being subjected to alternate periods of expansion and contraction?


Charles J. Collins

Anyone who will examine the business history of the United States from 1775 to date will be struck by one fact above all others. This is the regularity with which, decade after decade, the line rises and falls over periods running from one to three years in length. That is, business activity will move up from one to three years, then it will move down over a somewhat similar period, and so the story goes in good weather and bad, in war and in peace, under Democrats and under Republicans. The exceptions to this rule are so few as to be counted on the fingers of one hand.

All economists recognize this undulation in the economic curve. They term it the "business cycle." Unanimity does not exist, however, as to what is the motivating force behind this repetition of so-called good and bad times. The weather, psychological conduct, the uncertainty that beclouds all plans that stretch into the future, the emotional aberrations to which business decisions are subject, the innovations characteristic of modern society, technological advances, the magnitude of savings, the construction of too much industrial equipment, the operations of banks, specialized overproduction, the flow of money incomes, the conduct of business for profit: each, according to Professor Wesley C. Mitchell, is among those factors to which a leading role in causing business cycles has been assigned by competent inquirers within recent years. The two most satisfactory remarks on the subject, to my mind, was that of Morton, who said that business cycles represent a series of compensating errors; and that attributed to Andrew Mellon to the effect that a depression is a period when property returns to its rightful owners.

Despite the diversity of opinion as to the cycle's cause businessmen, bankers, and investors,

(Continued on page 26)

*An address by Mr. Collins before the Association of Customers' Brokers, New York City, May 19, 1947.

INDEX

Articles and News

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Guaranteed Wage: Mirage or Reasonable Goal?

By EMERSON P. SCHMIDT*

Director, Economic Research Department, Chamber of Commerce, U. S. A.

Dr. Schmidt points out drive for guaranteed wage may have unfortunate effects by: (1) causing belief employers are negligent of duty to workers; and (2) diverting attention from real causes and remedies of unstable employment. Says guaranteed wage is liberalized version of unemployment compensation. Lists several unsettled questions that may arise under guaranteed employment, and warns success of guaranteed wage in one industry does not mean it is adaptable to all.

The search for security takes many forms, of which the demand for guaranteed wages is only one. If the other routes to security, such as personal thrift or social security programs, had brought about security, this drive for the guaranteed wage would not now confront American business.

Dr. E. P. Schmidt

The desire for security is legitimate and is as old as civilization itself. Our forefathers plied the wilderness with hunting and fishing equipment; they were armed to meet hostile beast and man. They sought security in their own ways.

A Nation of Wage Earners

Today, four out of five gainfully occupied persons are wage earners. We have become a nation of employees, whose survival, well-being and contentment rest on a steady flow of pay checks. We should not expect that the instruments of security adapted to an earlier age will be adequate for modern times.

We should not resist change, merely because of a nostalgia for the earlier ways of thinking and doing. Yet, we must examine critically the new, knowing that only a few of the new proposals have genuine survival value.

Nor should we rest at ease if the search for security becomes the exclusive goal of a people. If such be the case, we may lose

(Continued on page 34)

*Address by Dr. Schmidt before Controllers' Institute of America, Pittsburgh, May 19, 1947.

Unregistered Securities

By JAMES CORTNEY

SEC advocacy of legislation further controlling the over-the-counter market held unwarranted. Auction and over-the-counter markets contrasted—latter the product of trade custom. Attempt to increase scope of registration and proxy practices respecting unregistered securities disapproved. Parallel markets both serving useful purposes should remain undisturbed. Individual volition controlling factor. Curtailment of SEC powers urged.

The 1946 report to the Congress by the Securities and Exchange Commission under the heading "A Proposal to Safeguard Investors in Unregistered Securities," the bill introduced in the closing weeks of the last Congress as HR 7151 to implement that report, the comments of James J. Caffrey, Chairman of the Securities and Exchange Commission before the House Committee on Interstate and Foreign Commerce on March 12, 1947, dealing with the same subject matter—all these and the current activity of the SEC in furtherance of them lead us to the following analysis and observations:

The SEC report takes the position that there are gaps in the protective schemes provided for by the Securities Act, which gaps permit evils to flourish with respect to unregistered (unlisted) securities.

The SEC tells us that in some respects these evils are at least as bad as any of the other things which the Act was designated to eliminate, ergo "They point forcibly to the conclusion that the extension of the protective provisions of Section 12-13-14 and 16 to unregistered securities is necessary and desirable in the public interest and in the interest of investors, and the Commission so recommends."

To this report in Appendix A is attached a proposed

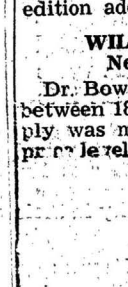
(Continued on page 50)

More Answers to the Question: 'Is the Money Supply Too Large?'

In the "Chronicle" of May 15, starting on page 3, we published a number of letters commenting on Howard R. Bowen's address, "Is the Money Supply Too Large?" which appeared in our issue of May 1 (cover page). Mr. Bowen, it will be recalled, expressed the opinion that the present money supply is not too large and set forth a number of reasons for his stand. Because of the broad interest in the subject, the "Chronicle" invited comments on the article in question and, as already stated, some of the responses already received appeared in last week's issue. We are able to accommodate in this edition additional letters as follows:

WILLFORD I. KING
New York, N. Y.

Dr. Bowen states that although, between 1880-1915, the money supply was multiplied by eight, the price level did not change. He infers that this shows something wrong with the quantity theory of money. He ignores the fact that, in that theory, the volume of trade is just as important as is the quantity of money.


Willford I. King

He also lays stress on the fact that the ratio between the money supply and the national income tends to be stable, but he ignores the equally important fact that, other things being equal, when the money supply doubles, the national income doubles because prices have doubled.

Most authorities on the subject hold that there is no necessary relationship between the quantity of money in circulation and the interest rate. Dr. Bowen states the reverse. Economists, generally, hold that interest rates may be kept down by continuing inflation. Apparently Dr. Bowen confuses the two ideas.

He states that the present "money supply was created almost entirely in response to the desires of the public to hold money." Obviously, "desires" had nothing to do with the matter. **Willingness** to buy bonds was present—otherwise the Government could not have sold its bonds.

Wise people knew during the inflation period that money was depreciating in commodity value. They also knew that government bonds were likewise depreciating. Whether they kept their money or bought bonds, they got the worst of the bargain. This is another point which Dr. Bowen forgets.

ALDEN A. POTTER
Bethesda, Md.

To chart figures on money supply for the 19th Century from a "base" year in the 20th, is to place in the same category with current monetary practices conditions which would not be comparable even if reliable statistics were available and even if it were not a notorious statistical error to chart percentage changes from a remote base. In the Bowen chart no changes at all are detectable in the "deposits and currency" line until their is an approach to the "base" in the 20th century. To try to draw valid conclusions from such an index as to the effect of money supply on price level is absurd and leads to glaring inconsistencies in argument. It seems to have been done in order to reduce recent, significant and reliable figures to a "secular trend" which conceals the facts regarding the influence of the money supply in the boom-bust cycle of business activity and depression with its concomitant price variations. Thus Bowen says that "the money supply has increased **steadily**," which begs the whole issue involved by deliberately ignoring variations. All this statistical "smoothing" eliminates the significant correlations, i. e., the actual fact of the positive correlation between money supply and price level — which is not quite concealed, however, even in the Bowen chart with its arbitrary coincidence of money supply and price lines in 1926 (the "base" chosen).


Alden A. Potter

The Bowen chart puts that burden of ridiculous argument on the

(Continued on page 38)

Salvation in Repeal of New Deal Policies

By WILLIAM S. BAREN

Writer lays economic and social difficulties to New Deal taxes which paralyze business; to fiat money; and to labor monopolies created and supported by law. Says New Deal has fostered class hatreds and bureaucracies, and unless "the cancer is cut out," a business depression will come.

On the street corners throughout the land, in the marts of trade, in the public forums, wherever men gather today, one question is asked, "Will America have a depression, and if so how serious will it be and how long will it last?" All shades of opinion are put forward concerning this subject by officials of government, academecians, editors and economists. The daily press and the radio has become a churning forum of conflicting opinion regarding what lies ahead for these United States.


Wm. S. Baren

In all this confusion there are strong indications that most of those who have been trying to find the answer to the problem have been dealing with EFFECTS rather than causes. It is true that high commodity prices, shortages of materials, labor unrest, penalizing taxation, unbalanced inventories, declining purchasing power and lack of public confidence are all straws in the wind which show the direction we may be taking in the future. But these things are not basic CAUSES of a depression in themselves. They are only evidence of deeper and more serious maladjustments in our way of life.

The following observations are based upon convictions that find their genesis in the evidence supplied by contemporary history that is familiar to most adult Americans:

Taxes and Venture Capital

Take the case of the present day paralysis of venture capital, why is there such a dearth of investor confidence in the future? Under Roosevelt did we not initiate taxes upon the earnings of corporations at the rate of 40%? Whenever the Federal Government takes 40% of the earnings of business, PROGRESS IS STIFLED. It is as simple as that! Under a socialistic income tax law the efficient among us are penalized in order to mollify and support the envious and the inefficient. Taxes upon individual incomes that now take 50% to as high as 90% of the earnings of our most industrious and able citizens, cancel out the incentive that is necessary to open the door for new job opportunities for the great masses of our people. Under Roosevelt we also initiated what is erroneously termed the "capital gains tax." But it is really a tax UPON CAPITAL NOW IN EXISTENCE. Even socialist England does not have such an unjust tax but here in Roosevelt's postwar, socialist America, risk-taking has become a "heads I win,

(Continued on page 37)

Price Outlook and Consumer Purchasing Power

By DR. JULIUS HIRSCH*

Economist forecasts increasing purchasing until Labor Day and a gradual decline thereafter, with spotty, but increasing unemployment. Asserts, with a decline of 10% in food prices, mass purchasing power will increase about $3½ billions. Says we will have a number of price increases, which together with lower exports, reduced output of investment goods, and lower corporate profits, will reduce purchasing power by about $4 billions, but this may be offset by tax reductions. Holds textile prices have passed peak, and predicts reduced sales of department stores. Concludes decreasing price tendency will ultimately prevail.

The great uneasiness which now disturbs our business life is caused by sharply contradictory elements in our economy affecting prices and the price outlook.


Julius Hirsch

This summer we will again reach last year's employment figure, the highest we have ever had. As predicted by the United States Employment Service, 58 million persons will be employed in July. That will be nine million more than we ever reached in pre-war times, even in the glorious prosperity year of 1929, and about four million more than at the peak of our wartime activity. Nevertheless, we shall have somewhat higher unemployment figures than we had in the past year and during the war.

In our economy as a whole we have now reached an all-time peak of production—now even exceeding the wartime peak—not only in dollars but also in physical volume. The volume of our gross national production now seems to be running about 56% above 1939.

Nevertheless, important sections of our business life are complaining about the drop in unit sales: department stores 8 to 10%, shoes considerably more, women's apparel, it seems, 15 to 20%, about the same in jewelry stores, and considerably sharper for entertainment enterprises and liquor, for example.

We have the highest payrolls ever reached in any nation at any time, not only in dollars, where they have almost doubled, but also in real wages, measured in purchasing power, which may be almost one-third higher than 1939.

And these payrolls, the greatest element of all production costs,

(Continued on page 40)

*An address by Dr. Hirsch before the Women's Apparel Chains Association, Inc., New York City, May 13, 1947.

Washington . . . And You

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

Fear is rising in Congress that President Truman's globalizing of the Monroe Doctrine may let the tail wag the dog—that U. S. foreign obligations may become so manifold as to dictate U. S. domestic economy. There'll be a Congressional effort to stop that, perhaps feeble this session, much more resolute next year.

Watch for important lawmakers to demand from the White House these projections: (1) how far the President intends to go in aiding foreign nations, (2) how much the President proposes to spend in planting—and defending—those "Communism Keep Out" placards on foreign ramparts. The President won't, can't answer now. Next session he'll have to.

* * *

Most immediate manifestation against this piece-meal foreign policy will be larger Congressional reluctance to lend and give away chunks of American wealth. This can't be very effective between now and July adjournment. The President will get money to finance his overseas commitments. But you can wager that next session Republicans will extract from the White House a foreign policy pattern in dollar terms before voting any more installments on our international collectivism.

House Banking Committee's vivisection of Federal credit creatures is to be painful for the Federal Reserve Board. The long-promised probe got going May 19, will concentrate mainly on four specifications: (1) continuation of RFC after June 30; (2) authorization of Federal Reserve banks to guarantee loans up to 90%; (3) perpetuation of instalment buying regulation W, and (4) what to do, if anything, about 75% margin requirement under regulation T.

* * *

Committee conclusions on the first three may be safely projected right now. The Committee will (1) favor RFC extension, (2) oppose Federal Reserve Bank loan guarantee as a substitute for RFC lending, and (3) decide not to legislate regulation W into statutory permanence. Whether the Committee will temper with regu-

(Continued on page 19)

Observations . . . .

By A. WILFRED MAY

THE WORLD BANK BOND—WHAT KIND OF SECURITY?
Prospective Buyers Must Be Educated

It can be taken for granted that the prospective public offering of the World Bank's debentures in the American market (probably in July) will be successfully consummated. But it seems to this columnist that while the Institution's initial, and probably subsequent, offerings can be readily disposed of to *institutional* buyers, the excellent current educational campaign will have to be even further widened, in order to bring the "hard-boiled" *individual* investor voluntarily within the fold.

A. Wilfred May

For there are a variety of confusions and outright affirmative doubts—some justified and some groundless—which are arising to trouble the prospective investor weighing the risk and income elements.

Basically there seems to be obfuscation whether the investing motivation is, on a statesmanlike plane, to follow the very crucial need for world rehabilitation or, on the other hand, self-interest. The Institution's official spokesmen have on several occasions colorfully compared the function of its prospective investors with those far-sighted "pioneers" who in the last century employed their capital to develop this great country and at the same time profit themselves. But this somewhat overlooks the controlling difference that the pioneering function of yore consisted of devoting risk capital to the purpose of amassing vast profits—as with the building of our railroad empire. A far cry (if less worthy) from now reconstructing Europe at the *rentier* return of 3%!

Stock Market Repercussion

A concurrent continuation of the bear stock market would likely have a dual influence on World Bank security buying. Some speculators, having become "burned" by the recent market conflagrations, will feel that a steady income return of around 3% provides a contrastingly welcome haven of refuge. On the other hand, many

(Continued on page 42)

Program Announced for Bond Club Field Day

For its annual Field Day to be held June 6 at the Sleepy Hollow Country Club, Scarborough, N. Y., the Bond Club of New York has arranged an elaborate program of sports for everybody—golf, tennis, soft ball and horseshoe pitching, it was announced by William G. Laemmel, Chairman of the Committee in charge of the event.

The program will be topped by an all-day golf tournament open to all members. This will be divided into three handicap classes and William H. Morton, W. H. Morton & Co, Chairman of the Golf Committee, announces that two courses will be available to accommodate the large number of golfers who will compete.

Wendell R. Erickson, Stone & Webster Securities Corp., Chairman of the Soft Ball Committee, says the diamond play will be punctuated by some artistic buffoonery on the coaching lines after the manner of Al Schacht, the famous former "clown prince" of the American League.

Tennis will be a big attraction for the younger and thinner "capitalists," according to Sumner B. Emerson, Morgan Stanley & Co., Chairman of the Tennis Committee. It will be one-day doubles tournament on an automatic handicap basis.

Alfred J. Ross, Dick & Merle-Smith, Chairman of the horseshoe pitching committee, has arranged two competitions for two-men teams.

There will be entertainment, too, for the Bond Club members who are not athletically inclined, provided in part by the Carnival and Side Show Committee, of which George K. Coggeshall, Schoellkopf, Hutton & Pomeroy, is Chairman.

Organized Labor and Economic Stabilization

By EDWIN G. NOURSE*

Chairman, Council of Economic Advisers, Executive Office of the President

Presidential adviser declares organized labor settlements must be the parent, not the child, of stabilization; restriction of production must be affirmatively opposed by organized labor; and scientific collective bargaining is indispensable to avoid authoritarian controls.

When Mr. Harrison invited me to attend this Grand Lodge Convention of your Brotherhood, I accepted with genuine pleasure. I wrote him: "This is the first invitation from an international union that has been extended to any member of the Council of Economic Advisers. I shall therefore regard the meeting as an occasion for a major statement on behalf of the Council" as to how the policies and actions of organized labor fit into the objectives and means for obtaining them outlined in the Employment Act of 1946.

Dr. Edwin G. Nourse

That act proposed that the Federal Government shall "coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining conditions [of] maximum employment, production and purchasing power." This positive program for economic stabilization and the maintenance of sustained prosperity is to be carried out "in a manner calculated to promote and foster free competitive enterprise and the general welfare," thus recognizing our established system of corporate and union organization and of free collective bargaining between them. Furthermore, the Congress clearly states that this policy and program are to be carried out "with the assistance and cooperation of industry, agriculture, labor, and State and local governments." It suggests further

(Continued on page 22)

*An address by Dr. Nourse before the International Union Convention, Brotherhood of Railway and Steamship Clerks, Cincinnati, Ohio, May 14, 1947.

Menace of Expanding Government

By NATHAN L. MILLER*

Former Governor of New York
General Counsel, U. S. Steel Corp.

Prominent attorney traces growth of Federal power and expansion of public services. Holds development has led to impairment and deterioration of State and local governments and unsound methods of taxation. Pleads for retention and strengthening of State and local taxing powers and functions, but admits drastic reform of our taxing methods must await more propitous times.

Audit is one of the most important functions of government. It is indispensible to the executive of any important business, public or private. It is the complement of the Executive budget.

Nathan L. Miller

When I was State Comptroller, almost half a century ago, that officer was also a tax collector, although he should audit the collection as well as the expenditure of the public revenues. He was thus unable to concentrate all his thought and attention on the function of audit, which I fear was little more than a check to ascertain whether the expenditures were covered by appropriations.

That suited the spending agencies which, in my time, made excessive estimates and then usually spent all that was allowed them. They were apt to think that an auditor who looked into their expenditures further than to see whether they were authorized by appropriations was poking his nose into affairs that did not concern him.

An auditor must not only have an understanding of his functions, but must possess perseverance and intestinal fortitude as well. He should have no function not incidental to that of audit and I am glad to know that the department of which Comptroller Moore is now the head is truly a Department of Audit and Control.

Its importance increases in arithmetical progression with the increase in the cost of government. The Legislature that established it

(Continued on page 44)

*An address by former Governor Miller at the dinner to celebrate the 150th Anniversary of the establishment of the office of State Comptroller, Albany, N. Y., May 14, 1947.

John J. O'Brien & Co. Adds Frank J. Cook to Staff

CHICAGO, ILL.—John J. O'Brien & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges, announce that Frank J. Cook, formerly with Sincere & Co. has joined their organization as a registered representative.

The Inflationary Spiral and the Business Outlook

Alan H. Temple, Vice-President of National City Bank of New York takes optimistic view of readjustments without depressions. Sees permanent higher price level.

Speaking in Pittsburgh before the Midwestern Spring Conference of the Controllers Institute of America on May 20, Alan H. Temple, Vice-President of the National City Bank of New York, expressed an optimistic view on the outlook for 1947 and 1948, saying that the inflationary spiral, which has been in existence since 1940, has been halted, and although readjustments are in order, they will be accomplished "without real depression." According to Mr. Temple, "all wars end in inflation and all inflations end in reaction. For seven years counting from the first defense program after the fall of France in 1940, our economy has been dominated by inflationary influences. The average wholesale commodity price level has risen to almost double the prewar figure, and counting in rents and services of all kinds the rise in the cost of living has been somewhat more than 50%.

Alan H. Temple

"This inflationary spiral now appears to have reached its end. It is ending because, like every other spiral in history, it has created within itself the maladjustments which bring it to a halt. First, some prices are too high. They are too high in relation to the purchasing power of too many people who have to buy the product, or they are too high in relation to their cost of production. For both reasons they may be too high to equate supply and demand in the year ahead.

"Second, production costs are too high. They can be borne as long as demand is swollen by deferred needs, expenditure of liquid savings and consumer borrowing. But they are an obstacle to price correction when price correction becomes necessary as it is now.

"Third, inflation diminishes the rigors of competition and by the same token it is the father of waste, inefficiency and low productivity. It invites the incompetent and the inexperienced to start more than they can finish. When nearly everything is in demand and hardly anything in oversupply, the invaluable close touch between the producer and the consumer is lost. Mistakes and miscalculations thrive."

Continuing, Mr. Temple stated that "1947 must be a year of corrections of maladjustments, of cost reduction through increasing productivity and of realignment of production to meet consumers' preferences and of prices to meet consumers' pocketbooks. Unless 1947 is a year of correction it will be a year of spreading recession and 1948 will be a year of depression.

"I take an optimistic view as to the ability of the economy to make these corrections without real depression. We have not marched heedlessly up to this precipice. Beneficial adjustments, in inventory balancing, price reductions and gains in efficiency, are being made. The environment in which necessary corrections will be carried out is in many respects favorable. For manufacturers of automobiles, of utility, railway and farm equipment, of many other consumers' durables and capital goods, recession is still a long way off. A continuing large export surplus through 1947 is assured. The money supply is unlikely to shrink to any substantial extent and there is no strain on bank reserves.

"We need not feel that we must retrace our steps to the prices of 1939. Most of our problems come not because we have moved to a higher price level, but because the rise has been as always uneven and irregular, moving some prices and incomes far ahead, leaving others far behind. The problem now is to restore a balance of prices and costs on a new level, on which business can go ahead safely."

United States Responsibilities In Foreign Reconstruction

By HON. DEAN ACHESON*
Under Secretary of State

State Department spokesman points out effect on our foreign trade of disparities in U. S. and European production. Says our $16 billion of exports are double imports and requires $6 billions in relief and financial assistance abroad. Sees need for increased imports, and for rapid reconstruction in Germany and Japan to bring about international political and economic stability. Concludes our relief measures and emergency foreign financing are in national interest and advocates extension of export controls and transportation priorities.

When Secretary of State Marshall returned from the recent meeting of the Council of Foreign Ministers in Moscow he did not talk to us about ideologies or armies. He talked about food and fuel and their relation to industrial production, and the relation of industrial production to the organization of Europe, and the relation of the oragnization of Europe to the peace of the world.

Dean G. Acheson

The devastation of war has brought us back to elementals, to the point where we see clearly how short is the distance from food and fuel either to peace or to anarchy.

Here are some of the basic facts of life with which we are primarily concerned today in the conduct of foreign relations:

The first is that most of the countries of Europe and Asia are today in a state of physical destruction or economic dislocation, or both. Planned, scientific destruction of the enemy's resources carried out by both sides during the war has left factories destroyed, fields impoverished and without fertilizer or machinery to get them back in shape, transportation systems wrecked, populations scattered and on the borderline of starvation, and long-established business and trading connections disrupted.

Another grim fact of international life is that two of the greatest workshops of Europe and Asia—Germany and Japan—upon whose production Europe and Asia were to an important degree dependent before the war, have hardly been able even to begin the process of reconstruction because of the lack of a peace settlement. As we have seen, recent efforts at Moscow to make progress towards a settlement for Germany and Austria have ended with little accomplishment. Meanwhile, political instability in some

(Continued on page 36)

*Address by Under Secretary Acheson before the Delta Council at Cleveland, Miss., May 8, 1947.

Speculative Interest in Bonds of Enemy Countries Noted on Wall Street

By EDMOUR GERMAIN

Many dealers and investors would like to see immediate resumption of trading. Some bondholders, however, believe various countries and the corporations of those countries should start servicing those bonds before trading is permitted. SEC insisting on "full" disclosure of pertinent financial data by Italy before permitting old Italian bonds back on the market.

Speculative interest is high, though somewhat spotty, on Wall Street in the bonds of enemy countries despite the fact that tradnig in these securities has been suspended for the last five years, ever since the outbreak of the last war. Cooperating with the Securities and Exchange Commission, exchanges and dealers—here and elsewhere—have voluntarily agreed not to create or maintain markets in these bonds practically since Pearl Harbor. A kind of clandestine black market is suspected of having been in existence right along but for all intents and purposes, it is the general concensus of opinion, there has been no trading in these securities.

The interest in the bonds is probably keenest among some of the dealers who specialize in foreign securities. Holding large quantities of these securities themselves in some cases, they undoubtedly would like to see trading revived in them. Interest is not confined to the dealers, it is understood, however. The dealers say that their customers keep asking them when trading is to be resumed. Holders of the securities and investors who would like to purchase some of them read reports of trading in the enemy Sterling bonds in London and wonder why trading in the dollar bonds should be prohibited here.

Everyone who mentions the subject admits that any market in enemy bonds now would be a speculative one since all agree that until the various enemy countries and the corporations of those countries can start servicing those bonds it is difficult to place definite value upon them. It is pointed out all around, however, that it is Americans and not enemy nationals who are suffering or inconvenienced today—wherever such suffering or inconvenience exists—from the lack of a market in these securities. Enemy dollar bonds, for the most part, it is pointed out, are held by Americans.

Originally, one of the intents of the request for the voluntary suspension of trading was to prevent the accumulation of dollar balances in this country by enemy nationals. It was feared among other things that enemy nationals would try to convert looted securities into dollars here. The method chosen to prevent enemy nationals from disposing of their bonds—looted or otherwise—was one the least likely to succeed in achieving its purpose, some think, however. Though the Treasury Department, interested in the general question of the claims of American citizens on enemy property, did at the beginning of the war ask the bondholders to list

(Continued on page 50)

The Stock Exchange—A People's Market

By EMIL SCHRAM*

President, New York Stock Exchange

Mr. Schram stresses value of free markets in strong national economy and extols Stock Exchange as a people's market. Says it is indispensable instrument for broad marketability of securities, and defends speculation as essential to progress. Refutes idea Stock Exchange is an easy road to riches, and calls for work and production to make nation strong and thus assure peace.

I am going to talk to you briefly, about the New York Stock Exchange and some of the problems with which it is related. During the last war and shortly before the fall of the weakened and unhappy French nation, the outgoing Premier, Edouard Daladier, and the new Premier, Paul Reynaud, issued a joint statement which said:

Emil Schram

"Actually, that part of the French population which creates wealth, which creates for the future, is continually diminishing . . . while that part which, directly or indirectly, lives on the State, is constantly growing."

There stood the epitaph of a nation! Unknowing, unthinking, unaware, Jean Q. Frenchman forsook his nation's traditional precepts of hard work and thrift—followed, instead, the alluring will-o'-the-wisp that insisted it was possible, by some mysterious alchemy, for man to get more by producing less. He eschewed the sweat of work—only to be overtaken very shortly by personal and national tragedy.

Sweat or tears! The choice can be just as stark as that. Let us be thankful that we in America still have our choice between the two. The theory that there is some magical formula whereby men can produce less and get more has been, to some extent, exploded.

It needs more exploding.

In so doing—let us not overlook the contribution that our free markets can make and are making. If money is viewed in its proper light as a convenient means of exchanging work for goods, then our capital markets are simply facilities for stepping up the efficiency of this process of exchange on a mass scale, just as the machine enhances man's productive capacity when properly used.

Function of Stock Exchange

At the risk of being elementary, I would like to summarize briefly the function of the New York Stock Exchange in this process.

Industry, the country's prime work-maker and goods-producer, draws sinews for still greater productive capacity from that seg-

(Continued on page 35)

*A talk by Mr. Schram before Governors of the Association of Stock Exchange Firms at Washington, D. C., May 15, 1947.

Revision of SEC Proxy Rules

By HARRY A. McDONALD*

Commissioner, Securities and Exchange Commission

SEC spokesman analyzes purposes and accomplishments of proxy regulations and proxy solicitations. Says basic requirement is that proxy solicitation be accompanied by statement designed to inform stockolder of facts necessary for prudent judgment. Criticizes devices used to obtain stockholder's proxies, and recommends immediate publicity of applications for proxy solicitation. Asserts soliciting proxies frequently go beyond partisan comment into realm of misstatement.

Your Secretary has suggested that I talk to you this afternoon about the proxy rules administered by the Securities and Exchange Commission. The entire subject of proxies is one in which I am sure you have a keen interest. As corporate secretaries, you, along with the company's lawyers and accountants, have most to do with the preparation of your company's proxy materials. It is a subject in which I have long had a personal interest, both as a stockholder in various corporations and as an officer or director. In these various capacities I have had personal experience with the operation of the Commission's proxy rules. While I have been with the Commission only a short time and therefore cannot hope to be an expert in the detailed application and interpretation of the Rules, I can speak from practical experience with their operation.

I have gathered from various sources several of the more significant problems which currently confront the Commission, and you as well, under the proxy rules. It is of these problems that I should like to talk to you, in the hope that through an understanding of existing difficulties, corporations may assist the Commission in eliminating as many of them as is possible in connection with our planned proxy revision program.

The Commission's proxy powers are derived from Section 14 of the Securities Exchange Act of 1934, which authorizes the Commission to promulgate proxy rules and prohibits the solicitation of proxies in connection with securities listed on national securities exchanges in contravention of rules prescribed by the Commission. It is important to note that the Commission's proxy powers do not extend to unlisted securities. However, by other statutes, they now cover all securities of registered public utility holding companies and their subsidiaries, and securities of registered investment companies. About a year ago, after an extensive study, the

(Continued on page 44)

*An address by Commissioner McDonald before American Society of Corporate Secretaries, Inc., New York City, May 20, 1947.

COMING EVENTS

In Investment Field

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

May 24, 1947 (Houston, Tex.)
Houston Bond Club Annual Outing, 2:00 p.m., Earle North's Ranch, Westheimer Road.

May 29, 1947 (New York)
The "Topper's" Field Day and outing at Westchester Country Club, Rye N. Y.

May 30, 1947 (Atlanta, Ga.)
Georgia Security Dealers Association Annual Outing at Brookhaven Country Club, Atlanta, Ga.

May 30, 1947 (Dallas, Tex.)
Dallas Bond Club Field Day at the Dallas Country Club.

May 30, 1947 (New Orleans, La.)
Bond Club of New Orleans, annual field day, at the Metairie Country Club.

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 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 20, 1947 (New York)
Municipal Bond Club of New York 14th Annual Field Day at Sleepy Hollow Country Club, Scarborough - on - Hudson, New York.

June 20, 1947 (Toledo, Ohio)
Bond Club of Toledo 13th Annual Golf Outing at Inverness Country Club (note change of date from June 6)

June 20-22, 1947 (Los Angeles, Calif.)
Security Traders Asociation of Los Angeles annual spring party at the North Shore Tavern, Lake Arrowhead.

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

July 10, 1947 (Boston, Mass.)
Boston Securities Traders Association annual outing at the Woodland Golf Club, Newton, Mass.

July 22, 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 21 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.

The German Situation

By M. S. SZYMCZAK

Director, Economics Division, OMGUS

Director Szymczak asserts all Germany is suffering from smallness of inter-zonal trade, particularly because of specialization of economy. Points out following immediate steps necessary to reconstruction: (1) economic unification conforming to Potsdam; (2) currency reform; (3) decentralization; (4) equilibrium in international payments.

All zones in Germany have suffered because trade between them has been so small. The German economy was not built to function within artificial walls. A good example is furnished by the electric power producing industry. Power lines were built when Germany was an economic unit. Much of the power on which industries in Greater Hesse and Wuerttemberg - Baden, the two western states in the U. S. Zone, now depend comes from Austria over lines which traverse the French Zone. Branches of these same lines serve parts of the British Zone.

M. S. Szymczak

Power lines to the Frankfurt-Hoechst industrial area from the British Zone also go through the French Zone. In general, prior to the war, industrial products moved from the west to the east of Germany, and food products, particularly grain, were shipped from the rich agricultural sections of the east to the west. This free exchange made possible intensified food production in the area now occupied by the Soviets and the concentration of manufacturing enterprises in the western zones. Industries now located in the British, French and U. S. Zones were mutually interdependent for raw materials, machine parts, and semi-fabricated items. For example, the U. S. Zone depends on coal and steel from the British Zone; and on ammonia, tin plate and fine machinery and optics from the French Zone. In fact, the German economy is so specialized and its industrial establishments are so scattered that there are few, if any, major establishments in the U. S. Zone that are not dependent on other zones for basic raw materials. Because of this economic interdependence of plants in the different zones, Germany's export trade in industrial and consumer goods can be expanded only by increasing interzonal trade or by importing the essential raw materials. Unless there is this free exchange of services, resources and manufactured goods among the zones, Germany will continue to be a burden on the taxpayers of the occupying powers and the attainment of the level of industry agreed upon by them will be greatly retarded.

British-U. S. Merger Constructive

The formal economic merger of the British and U. S. Zones took place on Jan. 1 of this year. This was unquestionably one of the most constructive developments that has occurred since the occupation began. Trade between the two zones is now free from Military Government operational controls. German economic agencies, with both zones equally represented, are now responsible for the equitable distribution of all essential consumer commodities in the combined zones. Businessmen can travel without obtaining interzonal passes and goods move freely across the zonal boundary lines.

Indications are that the economic fusion of the two zones will be a decided stimulus to production and trade within the area comprising them. As mentioned earlier, all industries in the U. S. Zone are dependent upon coal, the major part of which must be secured from the Ruhr mines in the British Zone. Other important products obtained from the British Zone are steel, basic chemicals, and semi-finished goods. These are essential to industrial establishments in the U. S. Zone, and the export program cannot be carried out as planned, unless they are obtained. The British Zone secures important commodities such as machinery and machine spare parts, automobile spare parts, electrical products, ball bearings, iron ore, pit props, precision instruments, and textiles from the U. S. Zone.

The immediate effect of the

(Continued on page 31)

Public Utility Securities

Preferred Stockholders' Claims to Redemption Premiums

The question as to how much the senior security holders of utility holding companies are entitled to receive in dissolution has been a perennial problem of the SEC and the courts. In the early days of "death sentences" and preliminary plans, market conditions were bad and the dissolution formula usually provided for a division of assets on a simple ratio basis between senior and junior claimants, particularly where there were heavy preferred dividend arrears. In one of the early cases, that of United Light & Power, preferred stockholders received 94.52% and common stockholders 5.48% of the remaining asset (common stock of United Light & Railways), the SEC-approved plan being confirmed by the Supreme Court. Later, as stock market conditions became more favorable, the SEC modified its views and accorded senior security holders more of the priority rights to which they would normally be entitled, since in most cases this would still leave a reasonable equity for the junior interests.

In the later case of the Standard Gas & Electric Debenture bonds there was a "reverse angle." The SEC-approved plan provided for paying off bondholders with a bundle of stocks, instead of raising cash through sale of the stocks and redeeming the bonds. Due to the rising market, however, this bundle increased in value and stockholders put up a fight. Ultimately the bonds were paid off in cash largely through proceeds of a bank loan. In this case there was no particular issue over call premiums, which were small.

In its changing philosophy regarding call premius, the SEC in the past two or three years has tended to depart from adherence to utility charters, many of which provide for omission of call premiums in the event of "involuntary" dissolution. The question of whether the application of a "death sentence" under the Utility Act constitutes involuntary dissolution has remained a difficult legal problem. The Commission has set up such bases as "the bundle of rights" and "investment value."

In studying "investment value," the Commission or its utility staff has been inclined to stress present investment conditions rather than the past record over a period of years. In general the courts have followed the lead of the Commission. However, the recent decision of Federal Judge Leahy in the Engineers Public Service case was a notable exception. He held that, based on the company's charter and the historic record of the preferred stocks (which sold below par throughout the period 1931-43) they are not entitled to the call premiums. The dissolution plan was allowed to proceed by setting up an escrow fund for call premiums, in the event of a Supreme Court reversal.

The decision proved a surprise to holding company interests and will doubtless stiffen current fights against paying preferred premiums. Electric Bond and Share had already announced its decision to fight against payment of premiums on its two preferred issues, now represented by "stubs" (the par value having been paid off). The company stressed the fact that earnings in several recent years had been less than dividend requirements, although payments had been made regularly and liquidating value some time ago was estimated around $200 a share.

In the dissolution of Federal Light & Traction the company only a few days ago amended its plan so as to pay the preferred premiums, but as a result of the Engineers decision public holders of the common stock may perhaps raise some objection.

In the case of New England Public Service, the company has substantial cash and its three subsidiaries have minority public holders so that the value of assets can easily be estimated. There is a fight against paying premiums on the prior lien preferreds, complicated by a tax problem.

The New England Power Association has proposed to pay off preferred stockholders of the subholding company in shares of new common stock, but representatives of RIPS preferred claim the stock will have insufficient value to cover their claim, including the premium.

Commonwealth & Southern is trying to retire preferred stock through various exchanges, but the current plan has apparently not proved very successful. The question of call premiums is not yet an active issue.

Cities Service finally agreed to pay its call premiums but since the whole amount is being paid in Debenture 3s, which may currently be worth less than par, preferred stockholders may be giving up some of their claims.

American Water Works & Electric is expected to issue "stubs" for its preferred premiums after it sells the big issue of Water Works stock.

American Light & Traction and Public Service of New Jersey have non-callable preferreds. There has been a long fight over the amount of premium (if any) to be paid to the former's preferred stock. Public Service recently filed a plan for exchanges of its four preferred issues into a new stock, which would give holders considerable (though indefinite) premiums.

The management of United Corporation is hopeful of retiring the preferred stock at par ($50).

However, North American Company has proposed to pay the premium on public holdings of preferred stock of North American Power & Light.

In the case of American Power & Light, Electric Power & Light, Standard Gas & Electric, Niagara Hudson Power and International Hydro-Electric the issue over premiums is not yet clear-cut.

Jacques Coe Nominated By Produce Exchange

Jacques Coe, of Jacques Coe & Co., New York, has been nominated for the Presidency of the New York Produce Exchange, it was announced. Mr. Coe will succeed Charles B. Crofton of Leval & Co., who is retiring after serving six terms. The election is scheduled for June 2.

Jacques Coe

Other nominations were: W. C. Schilthuis, Continental Grain Co., Vice-President; and J. A. MacNair, of H. J. Greenbank Co., for re-election as Treasurer. Nominated to the board of managers to serve for two years were Charles J. S. Allan of Smith, Murphy Co., Inc.; John H. Blake, Moses Cohen of Atlantic Grain Co., Inc.; Laurel Duval, managing director, New York Produce Exchange; Axel Hansen of Isbrandtsen Co., Inc., and Isadore Usiskin.

Reynolds, Kuemmerling Elected by Cinti. Exch.

CINCINNATI, OHIO — Joseph B. Reynolds, Benj. D. Bartlett & Co., and Don D. Kuemmerling, were elected for three-year terms to the Board of Trustees of the Cincinnati Stock Exchange at the annual election. Mr. Reynolds was re-elected; Mr. Kuemmerling succeeds L. J. Nussloch of J. E. Madigan & Co.

Bernerd Tallman With Scott, Horner & Mason

LYNCHBURG, VA. — Bernerd Tallman has become associated with Scott, Horner & Mason, Inc., Law Building. Mr. Tallman for many years was with the New York office of John Nuveen & Co.

Which Version of UK's Finances Is Correct?

By HERBERT M. BRATTER

Concurrently with the growing sense of "inevitability" of another American loan to Britain, Mr. Bratter cites the various arguments which will make difficult a settlement of the "blocked sterling" with India and other creditors, and also early securing of dollars from the United States.

Some writers in this country are getting quite worked up about the "inevitability" of the United States soon having to make another loan to the United Kingdom. And from the United Kingdom itself come indications that this opinion is held there, too. To an important extent the facts depend upon what settlement the UK makes with the owners of remaining "old" sterling balances, especially with India and Egypt. The latter two countries are firmly counting on spending a good part of the sterling they now own in the form of dollars in the United States.

Herbert M. Bratter

India alone counts heavily on the approximately $4.8 billions of sterling it holds in London, and this month is expected to sit down with the British Treasury experts and try to arrive at a settlement. At that meeting the British may be expected to point to the fact that they have drawn more heavily on the American loan than was expected as evidence that Britain is not making the comeback needed if it is to meet the Indians half-way on the "blocked balances." And the Indians in turn may be expected to argue that Britain has the capacity to make a settlement such as the Indians want, to point out that even while Britain is drawing down American money interest-free it is building up its gold and dollar holdings, and to bring in British witnesses to support the general Indian contention that Britain can pay.

India's argument that Britain can readily afford to pay off their wartime "indebtedness" to India and other countries may be anticipated to run as follows: Admittedly, the British cannot pay off at once in cash, but if the bulk of the balances is funded, it can comfortably be paid off in 25 annual instalments or so. To do this Britain must raise the level of its exports, as it has started to do. To clear off that part of the sterling balances not immediately converted into hard currency or not needed to be left in London as currency or trading reserves £125,000,000 ($500,000,000) yearly should be ample. To increase Britain's exports by 75 or 80% above prewar levels is no mean task, but — the Indians will contend—it can be done. And, in case Mr. Dalton appears to be "stumped," they will suggest how.

(Continued on page 39)

UFE Wins Election At Drysdale & Co. But Loses Labor Board Decision in Harris, Upham Case

Union obtains certification as collectvie bargaining agent for employees of Drysdale & Co. by 21-18 vote. In two-to-one decision, with Rev. William J. Kelley, Chairman, dissenting, State Labor Board overrules union's objections to election at Harris, Upham & Co. last summer and dismisses union's petition for certification as collective bargaining agent for employees of that firm.

The United Financial Employees, AFL, yesterday afternoon won an election, 21-18, certifying it as collective bargaining agent for the employees of Drysdale & Co., stock and bond brokers, at 71 Broadway. Balloting was conducted by the State Labor Board on the premises of the firm. The election was the second to be won by the union among the employees of brokerage houses in the Wall Street district. The UFE won its first election last fall at A. M. Kidder & Co. of 1 Wall Street.

The same union, however, was denied certification as collective bargaining agent for the employees of Harris, Upham & Co., in a two-to-one decision handed down by the State Labor Board last Friday. The dissenting opinion was given by Father William J. Kelly, O.M.I., Chairman of the Board, who would have called another election in view of circumstances surrounding the election.

The following statement was issued by Harris, Upham & Co. concerning the decision:

"The New York State Labor Relations Board has dismissed the petition of the United Financial Employees for certification as bargaining agent of our employees. In an election conducted by the Board last September a large majority of our employees voted to reject the union. The union filed objections to the election making many charges of coercion, threats, promises and interference. We are pleased that after hearing the evidence presented by the union, the Board has found every one of the charges to be without foundation and has sustained the firm's conduct in connection with the election in every respect. The Board's decision upholds the will of our employees as expressed in the election."

In view of the position taken by Father Kelly in the matter, the following comment by Maurice Mound of Rein, Mound & Cotton, attorneys for Harris, Upham & Co., is of interest:

"Because there are no decisions of the New York courts on the question presented, there was some doubt as to whether the State Board would follow the decisions of the Federal courts and the recently liberalized attitude of the National Board, or would take the more restrictive view of the employer's right of free speech which the National Board adopted in its early decisions. The Board's decision recognizes that if an election is to reflect the free choice of employees, they should be permitted to hear both sides of the issue."

Regarding a letter distributed by the firm to its employees around which the issue of the employer's right of free speech revolved, the majority opinion of the Board was as follows:

"The employer, by means of this letter, expressed its opinion

(Continued on page 50)

Farm Values and Farm Mortgages

C. W. Bailey tells Kansas bankers though farm credit situation now is better than after World War I, a desirable objective would be further reduction of farm land debt.

Addressing the Kansas Banking Association at Wichita, Kans., on May 16, C. W. Bailey, President of the American Bankers Association, and President of the First National Bank of Clarksville, Tenn., urged his audience to work toward a reduction of farm mortgage debt.

C. W. Bailey

"Here in Kansas," Mr. Bailey stated, "you have a land price problem similar in many respects to that prevailing in many other States. With 1912-14 as normal, or 100%, prices of farm lands advanced to 151 in 1920, then declined to 70 in 1933, turned upward to 76 in 1939, and then to 120 in 1946. Presently the figure is 140.

"However, there are certain important differences in our present situation and the condition we found ourselves in at the end of the first World War. The real estate mortgage debt of the farmers of the nation has been reduced from a high of $11 billion to $5¼ billion on Jan. 1. There is likewise a challenge that every ounce of influence be used to prevent an increase in this indebtedness such as that which followed World War I.

"Some of the small increase in the farm real estate mortgage indebtedness during the past year is attributable to the purchase of farm lands on long-term by servicemen under the so-called GI Act.

"After World War I, most current indebtedness was converted into long-term real estate mortgages. There was no large volume of this temporary credit outstanding after World War II. That is reassuring. But there is an element of danger in the purchase of lands on credit, or the pledging of lands now paid for to buy other lands nearby. Against this $5¼ billion indebtedness, the farmers of the nation own lands appraised at $55 billion. Then they have other property which brings the total of real and personal property holdings to $100 billion.

"Now while earnings are good, and there is a surplus, how splendid to get this debt paid in full, or have the amortizement payments made so far ahead that future maturities will not be embarrassing. Then if there are lean years ahead, there will not be any debt worries. The farmer is enjoying the independence of being out of debt. The debts that were made in pre-war years are now being paid with cheap dollars, perhaps 50-cent dollars. Debts that are made now, or that remain unpaid now, could very easily become much more difficult of settlement in the years that lie ahead. Dollars may not be so plentiful then.

"In the attainment of this highly desirable objective of farm land debt reduction, there is an open challenge to those who manage country banks; and if through the influence of bankers their farm customers should so thoroughly balance their budgets and pay their debts, they will be able to face any unfavorable farm product price trends with a feeling of full security."

Real Estate Prices Not Excessive

Morgan L. Fitch, President of National Association of Real Estate Boards says a house today is good value in comparison with other prices.

A house is a good value on today's market in comparison with the prices of other commodities, Morgan L. Fitch, Chicago, President of the National Association of Real Estate Boards, told the San Francisco Real Estate Board at a dinner meeting on April 26.

Morgan L. Fitch

According to government figures, he added, wages have increased 108% above the 1935-39 average, while the increase in the cost of a completed house is 68%.

"People who talk so glibly about high real estate prices do so without regard to other prices, without recognizing that the value of our dollar has shrunk to 52 cents since 1939, without considering the effect of increases in individual wages or in the national income," he said.

"Who is to say that the kind of house that sold for $10,000 in 1926, sold for $5,000 in 1939, and sells again for $10,000 in 1947 is priced too high, when we find the wholesale price index now fixed at 148% of the 1926 level, and when the index of price has advanced 37% within the last year?

"Who is to say that the price of real estate is too high when we find that shoes that once cost $6 now sell for $12, that an automobile that could have been bought in 1939 for $700 now sells for $1,200, that nickel magazines now sell for a dime, that it takes 75 cents to get in a movie that used to be 40 cents?

"We find men high in government places talking of the dangers of increased prices, and yet at the same time we are engaged in spending $80,000,000 a year to destroy a surplus potato crop while potatoes sell in the market at 60 cents a peck. We find the government buying oranges and grapefruit to rot on the ground in order to maintain the market price on oranges at 70 cents a dozen.

"As long as we continue to fan the fire of inflation with $35 billion tax bills, billion dollar foreign loans, and a million surplus payrollers, the price of improved real estate as it levels out in 1947 is not too high."

H. Weber With Livingstone

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harold I. Weber has become associated with Livingstone & Co., 639 South Spring Street. Mr. Weber was formerly with Wagenseller & Durst for a number of years.

With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Arthur Balzerini has been added to the staff of E. F. Hutton & Co., 623 South Spring Street.

Bond Club Exchange Issues Red Herring

Plans for trading on the Bond Club Stock Exchange, an important feature of the field day of the Bond Club of New York to be held at the Sleepy Hollow Country Club on June 6, are announced by Charles F. Hazelwood, E. H. Rollins & Sons, Inc., Chairman of the committee in charge of this event, in a special "prospectus."

The "red herring," which is being distributed to Bond Club members, invites "underwriting" participations for prizes on the basis of shares at $10, with each share also carrying a sweepstakes coupon. Each member of the Bond Club is entitled to subscribe for one share and subscriptions up to 10 shares will be made in order of receipt after orders of the one-share subscribers have been filled. Subscriptions in excess of 10 shares may be accepted at the discretion of the committee. The subscriptions close May 29 at noon.

Assisting Mr. Hazelwood in the operation of the Exchange will be: Harry C. Clifford, Kidder, Peabody & Co.; Robert H. Craft, Guaranty Trust Co.; W. H. R. Jarvis, First Boston Corp.; Grant Keehn, First National Bank of New York; Robert J. Lewis, Estabrook & Co.; William R. Rovensky, Hornblower & Weeks; and John M. Young, Morgan Stanley & Co.

George F. Rothschild With L. D. Sherman

George F. Rothschild, formerly a partner in the New York Stock Exchange firm of Duryea & Co., has returned to Wall Street and has become associated with L. D. Sherman & Co., 30 Pine Street, New York City. He will handle underwritings and mergers.

Geo. E. Parker With Brainard-Judd & Co.

HARTFORD, CONN. — George E. Parker has become associated with Brainard-Judd & Co., 75 Pearl Street. Mr. Parker from 1933 to 1943 was Executive Secretary and manager of the Honolulu Stock Exchange.

A. M. Peterson Director

LOS ANGELES, CALIF.—A. M. Peterson on May 12 was elected a director of Doak Aircraft Co. Mr. Peterson is publisher of "Between Dealers" and "Wants & Offerings."

With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Richard S. Freeman of Chesterton, Ind. has become associated with Harris, Upham & Co.

With Cannell, French, Copp

Special to THE FINANCIAL CHRONICLE

BOSTON, MASS.— Walter F. Zandi is now connected with Cannell, French & Copp, 49 Federal Street.

The Problem of Real Estate Forecasting

By ROBERT H. ARMSTRONG*

Editor, "Appraisal Journal"

New York real estate expert contends need is not so much for lower prices as for balance in cost-price and income relationships. Sees no indication of general fall in value of existing homes but warns dynamic character of real estate values may lead to price changes on individual or regional basis. Forecasts changes in retail areas arising from parking difficulties and concludes real estate suffers from a "cultural lag" more than other lines.

The problem of forecasting—and that is what all mortgage bankers, investors and appraisers must do—is today one of the most difficult in the entire economic field. We hear of consumer's and buyer's resistance. The decline of the stock market to the lowest point in several years would seem to augur an ill wind blowing from a direction that is as yet undermined and unknown. Our immediate problem is one of price v. value, which, expressed another way, means "am I getting my money's worth for the article that I buy?"

Robt. H. Armstrong

A large segment of the American public is looking for a drop, if not a crash, in the price level. Possibly that decrease may come—and then again, maybe it will not. But I feel absolutely safe in saying that no matter what happens, the price of all types of goods and commodities will not fall indiscriminately. But what we need is not simply lower prices, what we will require is a balance in the cost-price and income relationships.

It is a fact that no one can say that the price of homes — that is old homes — in today's market is out of line. Without question, many of the new homes that have been erected throughout the East are monstrosities, and not worth any buyer's consideration at any price. But I have pondered long and deeply if it may not be possible and even entirely probable that old homes will retain their present level in our price structure for many years to come. If there is but a grain of truth—but a grain of truth — in the predictions of the Twentieth Century Fund that the national income will increase greatly from its present level by 1960, and if the recent statement by Dr. Sumner Slichter of Harvard that the national gross product may be as high as $275 billion by 1960, then, gentlemen, the price level for homes erected prior to 1944 is not only about correct, but it may even be too low! In making this statement, I am not considering fluctuations that may exist on a month-to-month or year-to-year basis, but rather am I endeavoring to look upon the economic panorama with a broader vision.

There are questions that are confronting appraisers today that are more profound and more important than are the processes by which value is derived. Unless we are prepared to look farther than our own backyards and attempt to serve our clients on the level of economic statesmanship, I fear that we shall reap many of the thoughtless seeds that we so carelessly sow.

Industrial Real Estate

So far this evening I have devoted myself to a discussion of one side of the real estate problem—that of housing. Another element of deep concern to each one of us relates to the industrial, business, and retail centers of our urban communities in which more than 60% of the population of this nation now lives.

Since the end of the war, all business has directed its efforts toward satisfying the pent-up demand for goods and services of all types. But as supply comes into closer balance with demand, not only are manufacturers going

(Continued on page 39)

*Part of address of Mr. Armstrong at the graduation exercises of the Real Estate Appraisal Class of Philadelphia Chapter of American Institute of Real Estate Appraisers, Philadelphia, Pa., May 19, 1947.

Dealer-Broker Investment Recommendations and Literature

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

America's Needs and Resources—J. Frederick Dewhurst and Associates—a Twentieth Century Fund survey of our economy in all its fields—The Twentieth Century Fund, 330 West 42nd Street, New York 18, N. Y.—Price, $5.00.

Canada's Budget and International Position—Brochure covering revenues and expenditures, direct and guaranteed debt, international accounts 1935-1946, United States Dollars Position, Canadian Exchange rate, and discussion of business conditions in Canada—Wood, Gundy & Co., Inc., 14 Wall Street, New York 5, N. Y.

Code Book—1947 Edition—Code for use in teletypewriter communication—Hartley Rogers & Co., 120 Broadway, New York 5, N. Y.

Fire and Casualty Insurance Stocks Manual—1947 Edition—With Bank Stocks section—White & Co., Mississippi Valley Trust Building, St. Louis 1, Mo.

Also available is a reference table of insurance and bank stocks and a tabulated comparison and analysis of fire and casualty insurance stocks as of Dec. 31, 1946.

Insurance Earnings—Discussion of prospects for higher earnings in the current issue of "Bank and Insurance Stock Digest"—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

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

Security and Industry Survey—Analyzing each of the 74 industry groups and providing facts and opinions on over 300 individual securities; includes charts giving quick picture of how the stocks of the 74 industry groups compare over recent years with the market as a whole, represented by a composite of 540 stocks—Write to Department T-92, Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Stocks Selling Close to Net Quick Asset Value—Tabulation—Wineman, Weiss & Co., 40 Wall Street, New York 5, N. Y.

* * *

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

Also available are memoranda on **Lanova Corp.** and **Taylor Wharton Iron & Steel; Purolator Products; Upson Corp.; United Artists; Vacuum Concrete; Barcalo Mfg.**

Atlantic City Electric Co.—Memorandum—Bear, Stearns & Co., 135 South La Salle Street, Chicago 3, Ill.

Central Public Utility Corp.—Engineer's estimate of future earnings—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

Central Public Utility—Recent review—Fred W. Fairman & Co., 208 South La Salle Street, Chicago 4, Ill.

Dumont Electric Corp.—Bulletin—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Also available is a bulletin on **York Corrugating Co.**

Fashion Park, Inc.—Analysis—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Also available are analyses of **Tennessee Products** and **Consolidate Dearborn.**

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

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

Fleetwood-Airflow, Inc.—Memorandum—Amos Treat & Co., 40 Wall Street, New York 5, N. Y.

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.**

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

James Lees & Sons Co.—Common stock—Descriptive brochure—Graham, Parsons & Co., 14 Wall Street, New York 5, N. Y.

MacWhyte Co.—Analysis in "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Minneapolis Gas Co.—Which will emerge as the surviving operating company out of the reorganization of American Gas and Power Co.—Comprehensive survey—Model, Roland & Stone, 76 Beaver Street, New York 5, N. Y.

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

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

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

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

61 Broadway Corp.—Special study of capital stock—Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Southern Natural Gas Co.—Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Southwestern Public Service Co.—Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

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

Southwestern Public Service Co.—Memorandum in current "Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

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

Union Carbide & Carbon Corp.—Summary and opinion—E. F. Hutton & Co., 61 Broadway, New York 6, N. Y.

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

Virginia - Carolina Chemical Corp.—Memorandum on position and outlook—Pitman & Co., Inc., Alamo National Building, San Antonio 5, Texas.

"We Believe the Turn Is at Hand"—Analysis outlining factors which the firm believes make for a major recovery at this time—Herzfeld & Stern, 30 Broad Street, New York 4, N. Y.

Sees Chicago Stock Exchange Aiding Mid-West Financing

James E. Day, President of Chicago Stock Exchange, says drive has started for new listings and urges Mid-West Bankers cooperate.

Speaking at the 56th Convention of the Illinois Bankers Association on May 21, James E. Day, President of the Chicago Stock Exchange, called attention to the trend toward a more equitable distribution of financial markets and reported that the Chicago Stock Exchange has started a drive for new listings to aid in this movement. In this connection, Mr. Day stated:

"Your active participation in the development of Midwest financial markets should occupy a top spot on your program. By the term 'financial markets' we most certainly mean commercial banking, investment banking and market places for the buying and selling of securities.

"Commercial banking, investment banking and securities markets are the Siamese triplets of the Midwest prosperity. These triplets are bound together by interdependent financial ties. If any of this trio is undernourished, the evil effects are felt by the remaining members. Conversely, it is equally true that the vigor of any one member has beneficial effects on the remaining members.

"The trend toward a more equitable distribution of finance throughout our country is self-evident. In many instances in the past, the New York financial market has been able to offer greater financial and technical services. In our commercial banking field today, this is no longer true. Our commercial banks throughout the Midwest can offer every service New York can offer and, in my opinion, present material advantages to the direct needs of our own Midwest corporations.

"The Chicago Stock Exchange is making every effort to support this trend. This past year resulted in securities transactions in excess of 12 million shares, totaling more than 336 millions of dollars. It is noteworthy that today we have more active member firms serving the public than at any time in our history.

"Think what it would mean to all of us if the Midwest could expand its Midwest exchange to the point where it would be the natural market place for the listing of all qualified securities in this great industrial area. This would mean added deposits, added demands for bank loans, added transfer and registration fees, added underwriting profits, added clearings, added brokerage and added commissions. This prospect is a very real and tangible goal, but it requires the combined efforts of all concerned.

"The Chicago Stock Exchange has started a drive for new listings. You bankers here in the Midwest can play a very important part by suggesting to Midwest corporations that The Chicago Stock Exchange offers the best market place for their securities. In doing this, you will be making a real contribution to your own business and the over-all financial market of the Middle West."

NSTA Notes

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

The Security Traders Association of Los Angeles held a special luncheon on May 20 at which R. Victor Mosley, Stroud & Co., Inc., Philadelphia, President of the National Security Traders Association, Edward H. Welch, Sincere & Co., Chicago, Secretary of the Association, and Edward E. Parsons, Wm. J. Mericka & Co., Cleveland, member of the Executive Council and past President, were guests.

The Club will hold its annual spring party at the North Shore Tavern, Lake Arrowhead, June 20-22 inclusive. Cost to members will be $40. Since accommodations at the North Shore are limited to 70 persons, preference will be given as follows: (1) members; (2) out-of-town NSTA members; (3) local guests. Guest rates will be $50 American plan. Arrangements will be made at the Lodge in the Village for those who cannot be taken care of at the North Shore Tavern.

Reservations with payment must be received not later than June 5, so that the Committee may be able to handle guest accommodations properly.

Members of the Entertainment Committee are: Robert D. Diehl, Wm. R. Staats Co., Chairman; Roy Warnes, Hill, Richards & Co.; and Joseph Gallegos, Pacific Co. of California.

DALLAS BOND CLUB

The Dallas Bond Club will hold a field day on May 30 at the Dallas Country Club. Reservations should be made with William Waggener, Walker, Austin & Waggener, Republic Bank Building, Dallas.

BOND CLUB OF HOUSTON

The Bond Club of Houston will hold its annual outing on May 24 at Earle North's Ranch, Westheimer Road, at 2:00 p.m.

BOSTON SECURITIES TRADERS ASSOCIATION

The Twenty-Eighth Annual Outing of the Boston Securities Traders Association will be held Thursday, July 10, 1947, at the Woodland Golf Club, Newton, Mass.

World Bank—A Conservative Pioneer

By E. FLEETWOOD DUNSTAN*

Director of Marketing, International Bank for Reconstruction and Development

Spokesman asserts Institution is required to promote traditional system of private investment. Borrowers' willingness to make full productive use of their credits, the crux of its lending policy. Declares new French Loan will be paid off in production within reasonable time. State Bank essentially combines New England pioneering spirit with conservative safety.

If, after careful study, you are convinced the Bank merits your confidence, then I think you will see it as we do—as a necessary precursor to a dynamic world economy with rising living standards for all.

E. Fleetwood Dunstan

In describing the ultimate objective of the Bank, I use the words necessary and precursor deliberately—first, because so great have been the economic dislocations caused by war that some institution—international in concept, effort, management and ownership—is required to lead the way for our accepted and proved system of private investment and, second, because the Bank has no intention of staying on the scene once it has performed this function.

Why Is the Bank Necessary?

As to why the Bank is necessary, the answer lies all around us. Not only was our productive capacity unscathed by war, but it was actually greatly increased. 50% has been given as a conservative estimate. The United States, today, is the one great source to which the freedom-loving nations of the world must turn to find the necessary machinery and materials to restore their productive capacities and develop their resources. Until these vital tools are made available to them, their outlook is bleak indeed. They can produce little. They can contribute less to a healthy world economy.

Since we are the hope of the world in supplying the plowshares of peace—so the great immediate demand is for dollars to buy them.

Many of the member nations have used up their foreign exchange or were so denuded by the war and occupation forces that they came out of it with no foreign exchange and with no ability to acquire any except by the most rigid self-discipline, denial and will to work. These qualities

(Continued on page 32)

*An address by Mr. Dunstan before Massachusetts Bankers Association, Swampscott, May 16, 1947.

The International Bank

By CHESTER A. McLAIN*

General Counsel, International Bank for Reconstruction and Development

Official traces history of origin and organization of International Bank for Reconstruction and Development. Says actual available capital is approximately $1½ billions, of which more than half is not presently available for lending. Contends, in carrying out its purposes, Bank seeks to promote private international investment and will only lend when private sources are unavailable. Holds lending abroad is essential to maintain our export trade.

Introductory

My subject this morning is the International Bank for Reconstruction and Development. I shall not in the time at my disposal attempt to discuss in detail the organization and operation of the Bank. I shall confine myself to a few salient points as to which there appears to be some lack of understanding or even misunderstanding among the banking community and the public generally.

Chester A. McLain

The Reason for the International Bank

The first question which is frequently asked by those who are not thoroughly familiar with the history of the Bank is "Why an International Bank?" That question goes to the very heart of the subject.

Today we find ourselves in a nation which has the greatest productive capacity in the world and which is producing in record breaking quantities everything from food to steel and automobiles. Across the oceans east and west are nations starving for those goods, but without the foreign exchange resources with which to purchase them. They find themselves in that condition because of the ravages of war. They are suffering not only from the destruction of their industrial plant by bombs and shells and enemy sabotage, but also by reason of the deterioration of their economies because of lack of proper up-keep and maintenance during the war years and the exhaustion of their working stocks resulting from the war.

Peace is more than the mere aftermath of war. The restoration of peace, if it means anything, must mean the restoration of free international intercourse, the free exchange of goods and services between those who need them and those who can satisfy the need. In order to restore that free intercourse it is first necessary to create in the countries which need such goods and services the purchasing power with which to buy them, so that they may restore the normal function-

(Continued on page 32)

*An address by Mr. McLain at the Connecticut Trust Conference of the Connecticut Bankers Association, New Haven, Conn., May 13, 1947.

Cleveland Bond Club Anticipates Gala Party

CLEVELAND, OHIO.—The Bond Club of Cleveland expects a record attendance at its annual spring party and silver anniversary to be held Friday, June 13, according to Walter B. Carleton, Fahey, Clark & Co., President of the organization. A large number of acceptances have already been received from syndicate managers of the large national security firms who have been invited as guests.

The full day begins with breakfast at the Mid-Day Club and then switches to the Country Club for golf, tennis and swimming. Dinner in the evening will wind it up. Committee heads and members follow:

Arrangement and Entertainment—E. S. Warner, Hayden, Miller & Co., and B. R. Mitchell, C. F. Childs & Co., co-Chairmen; John D. Burge, Ball, Burge & Kraus; John S. Clark, Fahey, Clark & Co.; Paul J. Eakin, Hornblower & Weeks; Harold L. Emerson, H. L. Emerson & Co.; W. Yost Fulton, Maynard H. Murch & Co.; John Johnston, McDonald & Co.; Herman B. Joseph, Skall, Joseph & Miller; Emile A. Legros, First Cleveland Corp.; William J. Mericka, Wm. J. Mericka & Co.; Charles B. Merrill, Merrill, Turben & Co.; A. M. Newton, Hayden, Miller & Co.; Russell J. Olderman, Field, Richards & Co.; Robert O. Shepard, Hawley, Shepard & Co.

Dinner—Frank B. Reid, Maynard H. Murch & Co., Chairman; Norman V. Cole, Ledogar-Horner Co.; M. J. M. Cox, Curtiss, House & Co.; Harry G. Kraus, Ball, Burge & Kraus.

Golf—Jay L. Quigley, Quigley & Co., Chairman; Herbert H. Covington, Harriman Ripley & Co.; John A. Kruse, Otis & Co.

Special Event—William H. Clark, Merrill, Turben & Co., Chairman; Corwin L. Liston, Prescott & Co.; Wallis W. Wood, Wood, Gillis & Co.

Silver Anniversary—Orin E. Koeser, Blyth & Co., Chairman; David J. Barhyte, Hawley, Shepard & Co.; Harry Gawne, Merrill, Turben & Co.; Richard A. Gottron, Gottron, Russell & Co.; Herman J. Sheedy, McDonald & Co.

Prizes—Rudford K. Wilson, Curtiss, House & Co.; Burton T. Reid, Ball Burge & Kraus.

Friday the Thirteenth—John Hay, Merrill, Turben & Co., Chairman; C. M. Colyer, Central National Bank; Peter Hallaran, Merrill, Turben & Co.; Galen Miller, Hayden, Miller & Co.; William H. Watterson, Fahey, Clark & Co.

Dealer-Broker Code Book

Hartley Rogers & Co., 120 Broadway, New York City, specialists in over-the-counter securities markets, are mailing a 1947 edition of their Code Book to all dealers and brokers in the United States and Canada. This code book is designed to permit dealers to communicate with each other through a simplified code for the words most frequently employed in the securities business. The objective is to save time and expense for dealers in obtaining markets and executing orders by teletypewriter communication. About half of the symbols are for words selected on the basis of the frequency with which they are used in ordinary English. About 12 of these words have been found to constitute approximately 25% of all words used in samples of general English of reasonable length. The trading terms and phrases for which code symbols are given have been selected through surveys made over many years with securities trading communications.

This edition is a revised version of two previous editions issued several years ago.

Ohio Brevities

First Cleveland Corp. is underwriting a $300,000 stock issue for sale to the general public by Wooden Shoe Brewing Co. of Minster, Ohio, near Lima.

Proceeds will be used for recapitalization and expansion programs. The 30,000 shares being offered at $10 a share are the first to be sold to the public in the brewer's 78-year history.

Ulreh Vogt, Jr. of Chicago, is the present owner, having bought the brewery last August. Harold B. Frierott is the executive Vice-President and General Manager. There are no other management changes with the exception that three new directors have been added. They are: Emile Legros of First Cleveland Corp. and R. B. Dennis, also of Cleveland, and Marshall I. McMahon of Chicago. It is reported brewery capacity may be boosted from 35,000 to 40,000 barrels a year when the expansion is completed.

* * *

Gray Drug Stores, Inc., operators of a large chain of stores in Ohio, Pennsylvania and New York, has filed an application with the Cleveland Stock Exchange to list an additional 3,500 shares of its common stock.

The shares were recently authorized for sale to five officers at $19 a share with the purchasers having 10 years to pay for the shares. The buyers are four Vice-Presidents: C. W. Evans, Henry Gray, M. M. Neubauer and Mortimer Jacobs, and the advertising manager, Marvin Kahn. This will boost to 142,000, the number of shares listed on the Cleveland board.

* * *

Stranahan, Harris & Co. headed a group, including several Cleveland houses, which reoffered $2,750,000 of Warren, Ohio, City School District unlimited tax building 1¾% bonds at prices to yield 0.65 to 1.75% according to maturities ranging from 1948 to 1971. The group was awarded the issue on a high bid of 101.63, naming the 1¾% coupon.

Cleveland firms in the syndicate were Otis & Co., Field, Richards & Co., First Cleveland Corp., Ball, Burge & Kraus, Wm. J. Mericka & Co., Hayden, Miller & Co., Hawley, Shepard & Co and National City Bank of Cleveland.

* * *

Clarence D. Murray, assistant clerk of the Village of Brook Park, Cleveland suburb, announced the village was asking for tenders for the redemption of $30,000 refunding bonds.

Halsey, Stuart & Co. was high bidder for $15,000,000 Cudahy Packing Co. first mortgage sinking fund, series C, bonds and $11,090,000 Boston serial and sinking fund bonds.

The Cudahy issue with Halsey were Ball, Burge & Kraus, Otis & Co. and First Cleveland Corp. while Otis, McDonald & Co. and Fahey, Clark & Co. were in the City of Boston's. The bid was 98.521 for 2⅝% bonds of Cudahy while the Boston's were various purpose issues with 1½ and 1¾% coupons.

* * *

Robert W. Purcell, another one of Robert R. Young's "young" men, has stepped into the newly-created post of Vice-Chairman of Chesapeake & Ohio Railway.

Purcell, who is 35, will continue as Vice-President. He worked closely with Young in the latter's efforts to extend the C. & O.-Pere Marquette system. About two years ago, Purcell became a Vice-President, the youngest man ever to hold a Vice-Presidency on either road.

* * *

Thirty-eight-year-old Raymond F. Evans of Mentor, O., is the new President of Diamond Alkali Co., second largest producer of alkalies and allied chemicals in its field with the main plant at Painesville, east of Cleveland.

Evans succeeds John T. Richards who announced he was retiring from the Presidency and Chairmanship after 30 years of service.

Evans had been Executive Vice-President and directed the company's huge national expansion program. He is a director of Diamond Alkali and the Mellon National Bank & Trust Co. of Pittsburgh. Richards spent much of his time in Cleveland although his home always has been in Pittsburgh.

* * *

Shareholders of AllianceWare Inc., Alliance Ohio, voted to split the common shares two-for-one and increase the number of authorized shares from 150,000 of $1 par to 300,000 shares of 50-cent par, President C. J. Rodman announced. He added the split would become effective within the next two weeks.

Edward W. Seaman, Secretary of American Savings Bank of Cleveland, will be installed tomorrow (Friday) as President of the Cleveland Conference, National Association of Bank Auditors & Controllers, at the annual golf party and banquet at Ridgewood Country Club. Carl F. Ehninger, auditor of the Federal Bank, is the outgoing President.

Other new oficers are Sylvester J. Hodous of Central National Bank, first Vice-President; Richard W. Baird, auditor of Society for Savings, second Vice-President, and Franklin W. Aust of Cleveland Trust Co., renamed Secretary-Treasurer.

* * *

Other New Faces in High Places—**Edward S. Reddig**, elected Vice-President of **White Motor Co.** and remaining in his former post of controller. **Alfred D. Edgerton**, Secretary of the engineering department, now Assistant Secretary of the company. . . . **Edward L. Carpenter**, former commercial loan department officer, chosen Vice-President of **Central National Bank**. . . **Robert T. Killian** now manager of market development and research for **Bryant Heater Co.**, Cleveland. . . . **W. R. Elliot** promoted to general superintendent of **Otis Works of Jones & Laughlin Steel Corp.**

Mutual Funds

By HENRY HUNT

The Cost

Each month we will try to select the best piece of writing in the mutual fund sales literature that reaches our desk. This month's award goes to the **Keystone Company of Boston** for its able handling of a difficult subject, the cost of mutual funds, which is more often left buried in the prospectus.

"The spread between sales price and liquidation value in a mutual fund, unlike that which exists in all individual securities, includes commission costs and taxes. It is wider than that in many active listed securities, but it is no more and frequently is less than that in other listed and many unlisted issues. In many instances, the 'cost' of buying and selling a mutual fund is less than the cost of buying and selling individual securities of the same class, particularly where odd lot purchase is contemplated.

"But there is a much more important consideration in connection with 'cost.' A mutual fund, with the advantages of selection, diversification, supervision and multiple-source return, is logically a more conservative investment than is any individual security in its portfolio. To match the quality characteristics of any mutual fund with an individual security, we must select this security from a higher class, and even then we cannot match all of the characteristics. And, when we have selected this individual security, we find that its cost is materially higher, the return is lower, and the possibility of appreciation in rising markets is less.

"Make your own appraisal of the quality characteristics of any mutual fund. Select an individual security that in your opinion matches this quality. Then compare the two on the basis of (1) first cost, (2) rate of return and (3) appreciation possibilities."

It is up to the investor to decide whether or not the many advantages of mutual funds outweigh their cost.

The American Way—An Egg a Day

America's appetite appears to have grown with its income during the past seven years with per capita consumption of eggs amounting to 400 a year (prewar average 298), while 150 pounds of meat are consumed as compared with 126 before the war. Per capita consumption of other food stuffs advanced as follows:

Cheese	25%
Milk and cream	25%
Canned vegetables	46%
Breakfast foods	35%
Chickens	26%
Turkeys	70%
Canned Fruit Juice	271%

It is interesting to note that the biggest percentage gains are in items which have shown the smallest advance in price. The above is based on an article in the "Wall Street Journal" quoted by **Selected Investments Company of Chicago** in "These Things Seemed Important."

Investors Generally Bearish At the Bottom

Hugh W. Long's current "New York Letter" comments on the market outlook as follows:

"A deep feeling of concern exists in the security markets; most people who are not bearish at least have an emotional urge to be cautious. However, this alone is no guide for investment policy. Low points in the market ordinarily are made when the largest proportion of individual investors are bearish. It is probably accurate to state that never before has a depression developed in the face of such wide advance advertising. It would be only natural to believe that the stock market is largely or fully adjusted to the unfavorable possibilities so generally predicted and fearfully expected. We believe that these factors reduce the downside risk. Meanwhile stock prices are abnormally low relative to earnings, and the yield on selected securities is unusually high."

Incorporated Investors Optimistic

The **Parker Corporation**, sponsor of Incorporated Investors, in its "General Investment Survey" concludes as follows:

"It is our belief, then, that the general business situation is sound and that an important general business decline is not likely to occur during 1947 and probably not during 1948. We believe there might be a temporary recession in business activity at any time, running a few months, but nothing more important than the decline in the Summer of 1925 or that in the early part of 1939. If this is the way the situation works out one would think that investors would soon recover their confidence. It is also probable that the situation will look better to everyone in 1948."

The Average Investor Defined

We like **Keystone's** definition of an average investor which follows:

"If you are the average investor, you are the proud owner of a little more than one house and you drive a little more than one car. You have a fractional wife, and part of one of your children is missing.

"The average investor is a non-existent monstrosity — the mathematical average of thousands of very real **individuals**, with individual problems and individual objectives."

Notes

During the first quarter of 1947, the **George Putnam Fund of Boston** made the following new additions to its portfolio; Kingdom of Norway 3½s; New England Gas & Elec. 4½%; Commercial Solvents Corp.—common; Homestake Mining—common; New England Gas & Elec.—common.

As of March 31, 1947, the assets of **Nation-Wide Securities** were distributed as follows: Cash 9%; Bonds 27%; Preferred Stocks 20%; Common Stocks 44%.

Fidelity Fund of Boston reported total assets at the year-end of $12,325,000 divided as follows: Bonds 13.4%; Preferred Stocks 24.7%; Common Stocks 61.9%. More than two-thirds of the common stocks were in industrial issues.

Distributors Group has available for distribution reprints of "A Forecast of Business Prospects" by F. D. Newbury of Westinghouse Electric Corporation.

Hare's Ltd. have a new folder on Institutional Shares Ltd.

World Bank Becoming Activated

Mr. Black reveals current processing of additional loan applications, and plans for early marketing of Institution's own securities.

The International Bank for Reconstruction and Development is getting into full swing in both its lending and borrowing operations, it was revealed by American executive director Eugene R. Black in a press conference in New York on May 19.

Eugene R. Black

Ten nations have indicated their application either through a preliminary "notice of intent" or actual application, for loans, Mr. Black revealed. Among these are Mexico, which has asked for $208 million. The three countries whose loan processing is nearest completion, are Holland for $535 million, Denmark for $50 million, and Luxembourg for $20 million. The Dutch credit would be for a three-year economic reconstruction program, with the money advanced in annual installments over that period.

It is impossible to predict definitely when the processing of any particular loan will be finally completed, because of the various steps, including a searching economic survey, which must be undertaken. It takes at least one month to process a loan application. Mr. Black expressed himself as being extremely desirous of making a few additional "likely looking" loans before marketing the Institution's own securities to the public here.

Flotation Likely in July

While the exact timing of such debenture offering is still somewhat uncertain, Mr. Black indicated this would probably occur in July and the total would be $250 million. There may, however, be some further delay because of technical details to be met in their registration with the SEC. The Bank does not expect that extraordinary voluminous registration statements will be required, beyond a mere recital of the loan agreements specifying the borrowing countries, and the inclusion of copies of the articles of agreement.

The interest rate to be paid on the Bank's own securities is still not determined, but will be set in accordance with both the market conditions at the time of their offering. This rate will strongly influence the interest charged to the borrowers. The marketing will be done on a commission agency basis and not by underwriting, with the cost to be under ½ of 1%.

Permissive Situation Satisfactory

Mr. Black revealed that while the number of States whose banks, insurance companies and other institutional investors may purchase the Bank's forthcoming securities is not unanimous, the situation is "satisfactory." Massachusetts is the main State which is now creating concern among the Institution's officials. New Jersey is expected to fall in line momentarily. The situation in some other States is "fluid," Mr. Black explained, the bills being in various stages of completion, right up to the Governor's desk.

Mr. Black emphasized his cognizance of the educational job to be done among the potential buyers of the Institution's securities; and to this end he and President McCloy departed May 20 on an extended trip to "sell" the Bank to banks, insurance companies, and dealers, in French Lick, Chicago, and Milwaukee.

With Mitchum, Tully Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Joseph A. Erickson, Jr. has become affiliated with Mitchum, Tully & Co., 650 South Spring Street.

With Capital Securities

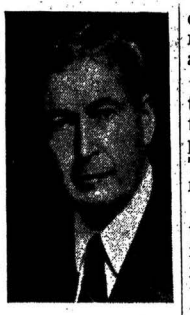
(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Fred A. Baker is with Capital Securities Co., 2038 Broadway.

Distribution of World Bank Bonds Important Job Ahead: Hopkinson

President of IBA also favors reduction in tax burden and use of budget surplus for Federal debt reduction. Wants reduction in capital gains levies.

The distribution of the first issue of about $250,000,000 of World Bank debentures, which is slated for sometime in June or July, is the most important job ahead for investment bankers and security dealers in the coming months, Edward Hopkinson, Jr., President of the Investment Bankers Association of America, told the Association of Stock Exchange Firms' Board of Governors at the Wardman Park Hotel at Washington on May 15. He also stated that tax-reduction and an over-all revision of the tax laws are imperative.



E. Hopkinson, Jr.

In the course of his talk, Mr. Hopkinson said that he considered the World Bank to be an important long-term factor in easing the international tensions that now exist, and that under its present leadership the Bank is beginning to make encouraging progress in its dual role of lender and borrower. He said that he understood the World Bank, which he termed "potentially the largest single borrower other than the U. S. Treasury ever to enter U. S. capital markets," presently plans to place full reliance on investment bankers and dealers to distribute its securities, that he is convinced Bank officials are realistically making every effort to issue a security that will be acceptable to American investors, and that he thinks that investment bankers likewise will make every effort, consistent with their individual appraisals of the Bank's securities, to distribute them.

In stating his views on taxation he said that he does not agree with the view that all budgetary surplus for this year should be used for reduction of the Federal debt or that any present reduction in the Federal tax burden is inflationary. On the contrary, he believes that a substantial part of the budgetary surplus should be immediately used for Federal tax reduction as contemplated by the tax bills recently passed by the Senate and House. He agrees that further reduction in the debt should also be made now and that the substantial debt reduction that has already taken place was sound in that it reduced the amount of short-term bank-held obligations. He stated, however, that if tax reduction does not take place now, the total tax burden on business and individuals, directly or indirectly, will actually be increased because the states and communities, faced with present high costs of goods and services, must raise more money to operate their governments and pay decent wages to their civil servants, not to mention the funds needed for delayed improvements, veterans' benefits, etc.

He said that investment bankers are looking forward with great interest to the hearings before the House Ways and Means Committee which will begin May 19 on the subject of over-all tax revision and that the IBA has been developing a tax program which will be submitted to its Board of Governors when it convenes for its 128th meeting at French Lick Springs, Indiana, next week. Key points in the program would be:

(1) A 50% limit on surtax rates, as well as substantial earned income credits, for the purpose of restoring incentive to individuals and to unincorporated business.

(2) A reduction in the long-term capital gains tax from 25% to 12½% which he said would produce more dollars for the Treasury and lead to freer and more active securities markets.

(3) Elimination of the double tax on corporate income by allowing the individual a credit on dividends received, at least equal to the initial rate of normal and surtax combined.

He indicated that if the IBA adopts this program it will seek support for its objectives from other sections of the financial and business community.

Our Reporter's Report

A confused situation prevailed in the investment market this week with business slowing down pretty much to a walk. A smattering of small new obligations came up for bids with the largest of these comprising $8,700,000 of equipment trust certificates of Missouri Pacific Railroad Co.

Several sizable stock offerings, growing out of divestment proceedings by public utility holding companies under the operation of the Public Utility Holding Company Act, were on schedule, but market conditions dictated postponement of the larger of these projects.

In one instance, where the Holding Company Act was not involved, the parent company stepped in to take up 200,000 shares of new common of South Carolina Power Co. common stock at $12 a share, when bankers failed to put in a bid for the issue.

In the case of East Coast Electric Corp., which planned the sale of 60,000 shares of $10 par common, together with $1,300,000 of 30-year mortgage bonds, the equity issue was shelved temporarily when it developed that bankers were not disposed to seek the stock.

Reluctance of investment bankers to take on these share underwritings needed no more explanation than was to be found in the disappointing behavior of the season share market. Efforts at rally after last week's rather severe decline were not of a nature to prompt bankers to become venturesome.

Koppers Stock in Demand

Quite in contrast with the general situation were the circumstances surrounding the public offering of a block of 200,000 shares of new common stock for Koppers Co.

Not a large deal, involving only about $5,150,000 gross at the fixed price of $25.75 a share, this offering nevertheless attracted considerable attention considering the prevailing conditions.

Brought out on Wednesday dealers reported investors displaying decidedly strong interest with every indication that the entire offering would be taken down in a manner which could only be viewed as making it an "out-the-window" deal.

Making Things Tougher

Union Pacific Railroad's decision to redeem its July 1 maturity for cash, even though it had been widely anticipated because of the road's strong cash position, doubtless drew anything but plaudits from institutional investors.

Taking $100,000,000 of highly regarded bonds out of the investment market these days only makes the burden that much heavier on large-scale investors who must dig around to fill the void caused by this huge redemption.

Meanwhile reports indicate that Southern Pacific's recent offering of $22,500,000 San Francisco Terminal mortgage bonds is about two-thirds sold but moving out steadily.

Amer. Tel. & Tel. Pushes On

Driving steadily ahead to catch up on the enormous backlog of deferred maintenance and new construction piled up during the war years, American Telephone & Telegraph Co. is preparing to seek another $200,000,000 of new capital in the near-term future.

The groundwork is pretty well along on this undertaking which probably will see the country's investment banking industry lined up in two competing groups when the issue comes up for bids.

Proceeds will permit American Telephone & Telegraph to make available to subsidiary and affiliated companies funds needed for improvements and additions to existing plants as well as to its own facilities.

R. G. Munro New World Bank Director

Replaces Grigg for United Kingdom.

WASHINGTON, May 19—Sir James Grigg has vacated the appointment of the United Kingdom's Executive Director of the International Bank for Reconstruction and Development, it was announced here today. The Chancellor of the Exchequer has appointed Mr. R. Gordon Munro to be the UK Executive Director and alternate Governor of the International Bank for Reconstruction and Development as from May 19th. At the request of the Chancellor, Mr. Munro has agreed to continue to act as His Majesty's British representative in the United States and His Majesty's Minister "Finance" at the British Embassy in Washington.

Mr. R. Gordon Munro, C. M. G., M. C. is at present U. K. Treasury Representative in the United States, and H. M. Minister (Finance) at the British Embassy in Washington. He was born in London, England, June 20, 1895, and educated at Wellington College, 1909-1912, and Royal Military College, Sandhurst, 1913. He was commissioned in the 4th Dragoon Guards, 1914. He served in France and Belgium in World War I (1914-18) as Captain and Adjutant, Staff Officer in 2nd Cavalry Brigade. Received M. C. He joined Helbert Wagg and Company, Threadneedle Street, London, Investment Banker 1923, was Managing Director from 1934-46, and resigned from the company in 1946. He was Deputy Director of the Prisoners of War Department of the British Red Cross and St. John's Ambulance Joint War Organization at St. James' Palace in 1940. He was Financial Adviser to the U. K. High Commissioner for Canada at Ottawa, 1941-46. He was appointed as U. K. Treasury Representative in the United States and Minister (Finance) at the British Embassy, Washington, May 9, 1946.

How Can U.S. Contribute To Better World?

By MARCUS NADLER*

Professor of Finance, New York University

Asserting U. S. is only great nation adhering to private enterprise and political democracy, Dr. Nadler says we can aid world conditions: (1) by alleviating foreign suffering and aiding devastated nations; and (2) by adopting internal measures to prevent inflation and deflation, booms and depressions, over-employment and large scale unemployment. Urges speeding up Bretton Woods institutions and legislation establishing sound human relations. Concludes our success in maintaining economic stability will make whole world better place to live in.

The world at large is suffering from the aftermath of one of the greatest wars in history. It is confronted with the task of rebuilding what was destroyed during the war and of setting up new organizations to prevent a repetition of such a catastrophe. Great Britain is impoverished and must rebuild her international economic position, increase her exports and restore the standard of living of her people to the prewar level. The Continent of Europe is to a considerable extent in ruin. Germany has, for all practical purposes, ceased to exist as an economic unit, her foreign trade has disappeared and this has an important bearing on the economies of neighboring countries. Many parts of the world are suffering from want and from lack of basic necessities. Economically, the world is suffering from inadequate production, lack of raw materials, disruption of international trade, currency inflation, accompanied by high prices, and maladjustments of the balance of payments of a number of nations.

Dr. Marcus Nadler

Political conditions are strained. There is a great ideological conflict between the adherents of political democracy on the one hand and those who favor the totalitarian form of government on the other. The former stands for the system of private enterprise, free institutions and free men. The other stands for the complete ownership by the government of the means of production and for an all-powerful state in which the individual is an insignificant cog in the wheel.

World Looks to U. S.

The struggle so far has been in favor of statism. Despite the fact that the American economy has contributed so much to relieve human suffering during the last two years and has demonstrated its merits, statism is growing. In many parts of the world the principal means of production are being taken over by the government while in others the system which

(Continued on page 18)

*An address by Dr. Nadler before the Maryland Bankers Association Atlantic City, N. J., May 15, 1947

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

The recent decision of Aetna Insurance directors to increase capital from $7,500,000 to $10,000,000 created a mild flurry of excitement in the insurance stock market. It naturally raised the question, in view of the large increase in underwriting volume during the past few years, of whether other companies might not follow suit.

Aetna's capital has not been increased since December 1928, at which time it was raised from $5,000,000 to $7,500,000 by the issuance of $2,500,000 new stock. Since then the company's annual premium volume has expanded from $26,842,000 in 1928 to $46,369,000 in 1946. In 1927 Aetna's capital and surplus totaled $22,188,000 against a premium volume of $26,204,000; in 1928, after the capital increase, capital funds were $28,942,000 and premium volume was $26,842,000. In 1946 total capital funds amounted to $33,160,000 against a premium volume of $46,369,000.

The twin questions of adequate surplus and adequate capital have been interestingly discussed by the editors of Best's Insurance News: Fire & Casualty Edition, in the issues of October, 1946 and April 1947. From the latter the following paragraph is quoted:

"The proper relationship between capital funds and premium volume has become of paramount interest to managements facing the squeeze on surplus and much thought has been given to just how much farther potential liability may be safely increased. Averages of the business are not a satisfactory guide because variations among even large units in the industry range all the way from the ultraconservative practice of maintaining surplus funds at three or four times the annual writings to some which write annual premiums of as much as three or four times their surplus to policyholders."

It might be well at this point to remind ourselves that policyholders, on an experience basis, are fully protected by the unearned premium reserves, and that after these there remains a policyholder's margin of safety, usually termed "policyholders' surplus," which is composed of the capital and surplus of the company. Thus, policyholder's surplus, capital and surplus, and capital funds are generally synonymous terms.

Best's editorial concludes that some units within the industry may need to seek additional capital funds. No indication as to which those may be, however, is hinted.

"The Spectator Financial and Underwriting Analysis of Fire Insurance Companies" makes the following comments on the question in general: "The writing of a net premium volume out of proportion to a company's surplus to policyholders may be prejudicial to the best interest of policyholders." With regard to unearned premium reserves and policyholder's surplus, it comments as follows:

"A company with a combined capital and surplus equivalent to or greater than the unearned premium reserve is in a stronger position to secure a larger volume of new premiums, or to reinsure its risks on an equitable basis with another insurance company, than a company with a capital and surplus less than the unearned premium reserve."

Bearing in mind these comments on the situation by Best and The Spectator, it is now of interest to examine the 1946 year-end position of a group of 30 representative stock fire companies, as set forth in the following table:

30 Fire Insurance Companies

	Cap. & Surp. 12-31-46 ($000)	Net Prems. Written '46 ($000)	Unearned Prem. Reserves 12-31-46 ($000)	Cap. & Surp. per $ of Net Prems.	Cap. & Surp. per $ of Unearned Prem. Res.
Aetna Insurance	33,160	43,369	39,687	.76	.84
Agricultural Ins.	7,878	12,808	10,803	.62	.73
Ameri. Equitable	6,386	13,305	13,621	.48	.47
Bankers & Shippers	3,561	4,557	4,458	.78	.80
Boston Insurance	19,751	9,837	8,915	2.01	2.22
Continental Ins.	112,596	37,220	34,168	3.03	3.30
Fidelity-Phenix	93,694	30,251	26,775	3.10	3.50
Fire Association	13,580	16,451	14,796	.83	.92
Fireman's Fund	43,360	41,314	28,353	1.05	1.53
Firemen's Insurance	18,989	28,446	26,875	.67	.71
Franklin Fire	13,008	12,757	11,015	1.02	1.18
Glens Falls	13,852	18,815	15,797	.74	.88
Great American	43,234	29,204	24,709	1.48	1.75
Hanover Fire	12,268	13,871	11,416	.88	1.07
Hartford Fire	100,896	81,135	67,172	1.24	1.50
Home Insurance	73,690	95,039	77,236	.78	.95
Ins. Co. of N. Am.	132,906	49,708	40,245	2.67	3.30
National Fire	29,868	28,831	28,746	1.04	1.04
National Liberty	13,681	11,679	10,595	1.17	1.29
New Brunswick	2,820	3,190	2,847	.88	1.00
New Hampshire	9,827	10,793	10,707	.91	.92
New York	3,442	5,543	5,675	.62	.61
North River	20,405	11,632	10,282	1.75	1.98
Paul Revere	2,702	1,911	1,699	1.41	1.59
Phoenix	60,027	19,108	16,858	3.14	3.56
Prov. Washington	11,666	13,835	10,151	.84	1.15
St. Paul F. & M.	41,316	27,714	20,105	1.49	2.06
Security Insurance	7,777	10,318	9,188	.75	.85
Springfield F. & M.	20,638	28,502	25,254	.72	.82
U. S. Fire	29,859	19,777	18,685	1.51	1.60
Average				1.28	1.47

A glance at this table speedily confirms the accuracy of Best's comment on the wide variations which exist among companies and of how useless as a guide is an average of the industry. For example, the average amount of capital and surplus per dollar of net premiums written by the 30 companies in 1946 is $1.28. But the range is all the way from the ultra-conservative $3.14 of Phoenix to the opposite extreme of American Equitable's 48¢. Nearest to the average of $1.28 is Hartford with $1.24. Aetna, it will be noted had 76¢ of capital funds per dollar of premium volume.

With regard to unearned premium reserves, the average amount of capital and surplus per dollar for the 30 companies is $1.47. Here again, Phoenix is ultra-conservative with $3.56, while American Equitable has only 47¢ of capital funds. Hartford, again, is nearest to average with $1.50.

If the most desirable ratio is $1.00 for $1.00, then half of the companies are candidates for capital increases; and by the same token, a number of companies are in position to write a substantially larger volume of business than they already do.

This discussion, unfortunately, leads us to no definite conclusion. However, it does serve to point out which companies follow an ultra-conservative policy, which are middle-of-the-road, and which go to the other extreme.

Joseph B. Ryan Pres. Of Knies & Co., Inc.

Joseph B. Ryan has resigned as Vice-President of the Chase National Bank to become President of Knies & Co., Inc., private investors, with offices located at 115 Broadway, New York City. Mr. Ryan, who has been associated with the Chase bank for over 20 years, is a director of Grayson-Robinson Stores, Inc., Merchants & Manufacturers Fire Insurance Co. and of C. W. H. Carter, manufacturers of lithographic varnish.

Joseph B. Ryan

Stewart Lee Admits

Lewis P. Stillman has been admitted to partnership in the firm of Stewart J. Lee & Company, 60 Wall Street, New York City. Mr. Stillman in the past was with Charles Hughes & Co. and J. Arthur Warner & Co.

The National Debt—Bank Problem No. 1

By MORRIS M. TOWNSEND*

Director, Banking and Investments
U. S. Savings Bonds Division, U. S. Treasury

Treasury spokesman, asserting key to management of Federal debt lies in its ownership and distribution, reports net gain in Savings Bonds sales. Holds through proper management of debt, economic stabilization can be aided and urges banks to encourage savings bonds purchases as being in their own interest.

My subject is "The National Debt, Your Number One Problem." I have been surprised to find that ever so many people are still thinking of our postwar debt in prewar terms. The debt today is $258 billion or about five times the size of the debt when the Series E Savings Bonds program was inaugurated in May of 1941. It has changed in more ways than in size.

Morris M. Townsend

As Secretary Snyder recently pointed out, the Federal debt today is greater than the combined amount of all other indebtedness in the United States. The size of the debt makes it an economic problem of prime importance to every citizen. We need not be overwhelmed by its magnitude, he said, but neither can we underestimate its far reaching effect upon the entire national economy. And I might add, upon world economy. That which affects the economy of this Nation will also bear heavily on the economy of most of the nations of the world. We cannot escape that responsibility.

It is a very easy thing for bankers and others to say that the national debt is not their problem, but ignoring a problem does not remove it. As you bankers well know, for years to come the management of this debt will affect the life of every American. It will affect prices, employment, wages and salaries, how much people can buy and what their earnings and savings will be worth. It will directly affect the welfare of your depositors and your bank's earnings.

What every banker, every thinking American wants is **not** cycles of boom and bust, but steady business, stable prices, high-level production and high national income without dangerous inflation, wide distribution of goods and services to consumers, fair profits and fair rewards for the creative and inventive talents of our people.

Wide management of the debt will help level off the peaks and valleys in the national economy

(Continued on page 38)

*An address by Mr. Townsend before New Jersey Bankers Association Convention, Atlantic City, N. J., May 17, 1947.

Secretary Snyder's Press Conference

Reveals Treasury's particpation in world study, Reports on conference with savings bankers.

WASHINGTON, May 31 (Special to the "Chronicle")—Secretary Snyder at his press conference today stated that the Treasury Department will nave a hand in the State Department's review of World conditions: "The National Advisory Council will work right along with them on that," he said. Other governments naturally wil be consulted in that review.

Mr. Snyder refused to elaborate on Monday's statement regarding taxes.

Regarding the conference with savings bankers he said, "It was just one of our series of meetings. As you know, we gave them our presentation of the present condition of the fiscal situation here in the Government, and then listened to their comments on their money supply and costs of operation, and the general outlook. That was about the extent of it. They had no specific recommendations to make at this time. That completes the series of meetings and the Treasury will probably start over again," Mr. Snyder said. "It is very helpful to me to get the views of all these different groups because they are rather frank in telling me about their conditions," he continued, "and then it is interesting to them to be brought up to date on the fiscal condition of the Government."

Asked whether the bankers wanted a long-term issue, Snyder said: "They made no recommendation." Under-Secretary Wiggins thereupon chimed in: "There was just discussion; there was no specific recommendation."

Australia's Election To Fund Imminent

Autralia's election to the International Monetary Fund is expected to be completed this week. It appears that Australia will have no formal representation on the Board of Directors before the London meeting next September. The World Bank is still split regarding the election of its 13th Executive Director.

World Bank Research Director in Europe

(Special to THE FINANCIAL CHRONICLE)

WASHINGTON, May 21—This World Bank announces that Leonard Rist, Research Director, is visiting various European countries, including Switzerland, to discuss research problems with bankers and Government officials. It will be recalled that Bank for International Settlements' President Frere and General Manager Auboin recently visited the World Bank and that the latter already has made some use of the facilities of the Basel Institution. Possibly the latter's information-gathering facilities will assist the World Bank in watching developments in France and elsewhere.

William J. Davis Dead

William J. Davis, retired partner in Speyer & Co., New York City, until its dissolution seven years ago, died at the age of 73.

A Sound Tax System

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

Secretary Snyder proposes as essentials of sound tax systems: (1) production of adequate revenue; (2) equitable treatment of different groups; (3) absence of interference with incentives to work and to invest; (4) maintenance of high-level of production and employment; (5) simplicity of administration and compliance; and (6) flexibility without destruction of basic stability. Urges joint thorough study by Congress and Treasury of tax revision "with an open mind."

I am glad to have this opportunity to appear before the Ways and Means Committee in connection with its proposed examination of the whole tax system. This approach to the tax problem is in accord with the recommendation for comprehensive study which I made in my recent appearance before this Committee and again before the Senate Finance Committee. Only by looking at the tax system as a whole is it possible to lay a sound foundation for future legislative action. The task confronting us is one of the greatest importance, because a soundly conceived and well-balanced tax system can make a significant contribution to the maintenance of prosperity.


John W Snyder

The first requisite of such a tax system is that it should produce adequate revenue to balance the budget and to provide a substantial payment on the public debt, in order to sustain the confidence of the public in the integrity of the government's obligations and its financial strength. As Secretary of the Treasury, I am responsible for the management of the public debt and I am keenly aware that the Federal Government's securities are an important part of the assets of banks, insurance companies, and other financial institutions that serve the public as the repositories of its savings. Moreover, tens of millions of persons are direct owners of Federal securities. We have a great responsibility to build a tax system which will preserve the fundamental soundness of our financial system.

As a first step towards the development of a postwar tax system, facts and evidence should be assembled for the consideration of both the executive and legislative branches of the government. This information will come from the hearings that are being initiated today and also from the continuing technical research work of the tax staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation. Later, when this necessary information is at hand a sound tax program can be developed.

By beginning early, as the Committee has, we shall have time to make a thoroughgoing study of the present tax system, and to consider carefully a large number of possible revisions, and to work out a well-balanced program. A program can be outlined first in broad terms and the final details worked out as the budgetary and economic situation grows clearer. When the time comes to draft legislation, measures already agreed upon can be taken up in the order of their priority. It is highly unlikely that the fiscal and economic situation will warrant enactment of all the ultimately desirable revisions at the same time. But advance planning and study will make it possible to proceed in an orderly fashion without prejudicing any necessary part of the program and without the danger of reducing the revenues too rapidly.

With your permission, I should like to restate the principles that I believe should guide our studies and to call attention to a number of tax problems that need careful consideration. It is not my intention today to make recommendations on any specific tax question.

I believe that a sound tax system should meet the following essential tests. The tax system should produce adequate revenue. It should be equitable in its treatment of different groups. It should interefere as little as possible with incentives to work and to invest. It should help maintain the broad consumer markets that are essential for high-level production and employment. Taxes should be as simple to administer and as easy to comply with as possible. While the tax system should be flexible and change with changing economic conditions, it should be possible to achieve this flexibility without frequent revisions of the basic tax structure. A stable tax structure, with necessary flexibility confined largely to changes in tax rates and exemptions, will make it easier for business and government to plan for the future.

Before going on to mention the areas that I believe need special study, I should like to repeat my firm conviction that at this time we have a unique opportunity to modernize the Federal tax system. We are nearing lower peacetime levels of government expenditures and continuing high levels of national income and production. A period of tax reduction is approaching. But in order to take full advantage of our opportunity to modernize the tax system we must make careful use of the available margins of surplus. The surplus must be divided judiciously between debt retirement and tax reduction. The tax reductions should be allocated carefully among rate reductions and a large number of structural revisions. The development of a modern tax system that will serve America best will require the cooperation of the legislative and executive branches of the government and of the taxpayers and the public generally. We need also to enlist, and I am sure we shall get, the wholehearted cooperation of the States and localities.

In my appearances before your Committee and the Senate Finance Committee, I indicated that the technical staff of the Treasury Department has under way studies on some twenty major matters that will require attention in any comprehensive revision of the tax system. These include studies on business taxes, individual income taxes, excise taxes, estate and gift taxes, and social security taxes. If the Committee should so desire, I will submit these studies to it as they are completed. I again offer your Committee the cooperation of the entire tax staff of the Treasury Department in connection with the important task of developing a sound tax system that will make

(Continued on page 42)

*Statement by Secretary Snyder before the Ways and Means Committee of the House of Representatives, Washington, D. C., May 19, 1947.

Congress Must Economize: Sundstrom

In an address before the New Jersey Bankers Association at Atlantic City on May 17, Congressman Frank L. Sundstrom (R.-N. J.) expressed the view that in solving the most important problem of securing a stable economy, Congress must be economy-minded and cut down the national expenditures as well as reduce taxes.


Frank L. Sundstrom

"By far the most important problem, in my opinion, facing the Congress of the United States," Representative Sunstrom said, "is to see that we have a stable economy and this involves our future treatment of our debt; balancing the budget and our entire tax structure. As I have previously stated, all efforts must be made to economize. We must take the 'me' out of economy. Too often I have seen legislators economy-minded until it came to their own particular pet project or district. In order to cut down our expenditures substantially every member of Congress must, and I'm sure will in most cases, vote for these economies which will be for the best interest of our country, regardless of their own interests. If this is accomplished, we will be well on the road to balancing the budget. With better relations between management and labor; with high production figures; with a large deferred demand for all sort of goods and materials and with a huge accumulation of money as a result of the war, it becomes imperative that the differential between our total income and total expenditures should be much greater than has been provided for by the Administration. If we can reduce our previous expenditures it will mean just that much more that can be applied toward debt reduction at this time.

"It is important that we do this now for it is possible that some time within the next decade, the United States may find itself facing another national emergency and we must at that time be in a sound financial position. Balancing the budget, reducing debt and putting ourselves in a strong economic position is as important to our national defense as our armed forces. By reducing debt, we also are putting the brakes upon inflation. At the same time, I would like to see a greater proportion of our Government bonds in the hands of individuals instead of in the portfolios of the banks of our country. As bankers, you know the danger of increasing our money supplies, adding to the spiral or inflation if large amounts of these bonds are held by banking institutions. In addition the greater number of individuals holding Government bonds will mean the more people will be interested to see that reckless spending is curbed to protect their investments. Individual holders of Government bonds suddenly become budget minded.

"Just as important as cutting our expenditures is the problem of collecting revenues. Our tax laws at the present are no longer revenue-raising measures, but instead have become methods of redistributing the wealth. Wartime taxes should be reduced in an effort to restore incentive and productivity; the best weapon against inflation is production, and the many measures and ideas learned as a result of the war should increase our production potential to a peak never known before, provided equity is written into our tax laws in an effort to arouse and release these powers. The Ways and Means Committee of the House have already reported one bill giving tax reductions of 30%, 20% and 10%. The Senate should take action on their tax bill sometime within the next week or ten days. There has been considerable discussion as to just when the tax relief should take effect.

"When we reduce individual income taxes by 20% it does not necessarily follow we are reducing our receipts by 20%. In the first place, individual income taxes are not the only taxes collected, and secondly, our experience following the last war, during the time Andrew Mellon was Secretary of Treasury, taxes were reduced several times, and each time they were reduced our revenues increased.

"During the war, I believe we reached a point of diminishing returns in our tax structure. It is time we were willing to reward a person for his hard work, productivity, ingenuity or creative ability. The only solution is to see that some tax relief is written into our laws."

Railroad Securities

Even the perennial bears on railroads and railroad securities have been confounded by the recent market action of this group. Except for a few short periods there has not been any notably heavy selling. On the other hand, to say that there has been little buying interest would be to err on the side of understatement. On the buy side of the market conditions have been little short of chaotic. Modest offerings of speculative issues have found no bidders and if actively pressed for sale have resulted in large percentage declines between sales. Bonds of the upper middle grade have done little better than the purely speculative issues in recent weeks.

Baltimore & Ohio senior mortgage bonds, which even as recently as early 1947 were considered by many rail men as candidates for refunding, broke six to ten points on small volume last week. The junior bonds of Southern Pacific sank seven or eight points in the face of an advantageous refunding operation early in the week. Southern Railway issues were just about as bad and Northern Pacific liens were off three to six points. Some of the new 1st Mortgage bonds of roads recently reorganized such as Denver & Rio Grande Western and St. Louis-San Francisco gave up five or six points. It is some years since the financial community has witnessed a performance similar to that of the recent rail market.

It is evident that speculators and many investors are just as disinclined to retain their holdings of fundamentally sound rail securities today as they were to dispose of their holdings in fundamentally unsound situations a short year ago. With a market so dominated by psychological considerations rather than by reason, prices are not a factor. By the same token those stampeded into following a psychological market of this short have rarely, if ever, been proven correct over any reasonable period. With earnings improving sharply month by month and the traffic outlook highly favorable it is odd that there is so much resistance to buying rail securities. In the spring of 1946 with earnings deteriorating sharply it was just as odd to find so much resistance to liquidating rail securities.

With few if any exceptions the better grade rails had earnings last year sufficient to justify continuation of the going dividend distributions. These dividends afford income returns running to and above, 10%. Earnings reports for the first quarter of 1947 were generally well above the results of a year earlier. Year-to-year comparisons for April and May will certainly show even more dynamic improvement. Obviously the recent bearishness towards railroad securities can not then be based on recent and early prospective earnings. There seems to be just as little cause for bearishness in the traffic and earnings outlook for the second half.

There is considerable talk of an industrial recession in the last half of the year. It is difficult to see just how this is to eventuate. However, even granting that the long heralded recession is just around the corner it certainly does not mean a collapse in railroad traffic or earnings. Present railroad traffic is not sufficiently high to handle the present level of industrial production. The shortage of freight cars has been widely publicized. The inescapable conclusion is that to a considerable extent the high inventories that worry many economists are plant inventories. If there is an industrial recession and a consequent decline in demand for freight cars there will be a considerable backlog of freight to be moved represented by these present industrial inventories.

Another factor is the prospect for a particularly heavy movement of farm and food products this year. Recent estimates place the winter wheat crop at the highest level in history. Other crop reports are also fairly generally favorable. With most of Europe and Asia starving it is natural to expect that the movement of farm crops by railroads this year will be limited only by the supply of cars. It is felt by most rail men that eventually the highly satisfactory earnings so far in 1947 and the favorable second half traffic prospects must necessarily be reflected in a change for the better in sentiment towards railroad stocks.

Milton C. Asher With John Nuveen in N. Y.

Milton C. Asher has become associated with the New York office of John Nuveen & Co., 40 Wall Street. In the past Mr. Asher was with the Municipal Bond Corp. of Chicago, Lansford & Co. and in the past with the Central Republic Company.

Chirurg Co. in Boston

BOSTON, MASS.—John Thomas Chirurg Co. is engaging in the securities business from offices in the Park Square Building. Prescott Winkley is with the firm.

Rosalie Nave in Syracuse

SYRACUSE, N. Y. — Rosalie Nave is engaging in the securities business from offices at 404 North State Street.

New Curb Exchange ¼ Century Club Member

Bernard T. Supple, in charge of the central comparison department of the New York Curb Exchange Securities Clearing Corp., on May 15 joined the Curb Exchange Quarter Century Club. Presentation of a pin signifying membership was made by Fred C. Moffatt, President of the Exchange Clearing Corp., and he was welcomed as a member by club President Henry H. Badenberger, director of the Curb department of outside supervision.

Mr. Supple becomes the fifteenth member of the club, which will be one year old on June 27. Three of his 25 years on the Curb staff were spent in a leave status on duty with the U. S. Navy as chief Petty officer during the war.

New York Stock Exchange Weekly Firm Changes

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

Frederick R. Tuerk, John B. Dunbar, and James H. Murphy will retire from partnership in Cruttenden & Co., Chicago, on May 31st. Fay T. Cruttenden will be admitted to the firm as a limited partner as of June 1st.

Interest of the late John A. Hance in Jesup & Lamont, New York, ceased as of Feb. 22nd, on which date the estate of Mr. Hance was admitted as a limited partner.

Robert A. Lovett retired from partnership in Brown Brothers Harriman & Co., New York City of May 15th.

Josephine Brinton Grimm, limited partner in Grimm & Co., New York City, died on May 9th.

Russians Believed to Have Issued 12 Billion Military Marks

One subject hidden behind the iron curtain has been the amount of Allied military marks issued in Germany by the Russians, who printed them from plates supplied by the United States.

What is probably the first official estimate thereof to appear in print is reported in the April 29 issue of the "Financial Times," London. The figures, labelled as guesswork, are in the story attributed to the Financial Department of OMGUS (Germany) in February. The estimates are that approximately 12 billion Allied military marks had been issued by the Russians, compared with two billion by Britain and less than one billion by the United States and France combined.

New Cgo. Exch. Member

CHICAGO, ILL.—Albert E. Surprise, Secretary of King, Olson, Surprise & Co., of Rockford, Illinois, has been elected to membership in the Chicago Stock Exchange by the Executive Committee.

J. G. White Installs Wire To Garrett in Baltimore

J. G. White & Co., Inc., 37 Wall Street, New York City, announce the installation of a direct private wire to the offices of Robert Garrett & Sons in Baltimore.

Now Incorporated

Carret, Gammons & Co., 120 Broadway, New York City, is now doing business as a corporation. Officers are Paul A. Gammons, President; Philip L. Carret, Vice-President; Clifton N. Bradley, Treasurer and Vice-President; and Luke L. Benz, Vice-President and Secretary.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market rally indicated by temporary oversold position. When corrected expect lower prices again.

* * *

Now that the market has lived up to its promise of two weeks ago it has everybody doing back-flips. Two weeks ago when I indicated the minor rally was over, the tape still showed signs of latent strength. Underneath this strength, however, there were disturbing influences which pointed to a reversal in trend. True, these signs weren't glaring. Had they been, it wouldn't have required any brilliance to point them out.

I realize that last sentence sounds patronizing and boastful. I assure you it isn't meant to be. For if there is anything so humbling as the stock market, I don't know it. A case in point is the fact that last week, even though I was walking on eggs, I repeated my recommendations to buy certain stocks, though I warned they should be protected by stop points.

Well, you know what happened. The stocks under discussion got low enough to buy but in the succeeding days violated their critical levels. Sum total of the maneuver, therefore, was a loss. So you can readily see there is little to point to with pride. It was a case where I was right on the market but wrong on stocks.

The major question uppermost now in most traders' and investors' minds, is what will happen from here on. Will they stop here? Will they get dull, or will they start down all over again?

To find some conclusions we have to go back to the market itself. Every time there is a decline the blue feelings turn indigo. That is normal. It is what happens when this sentiment becomes so deeply bearish that counts. What I have seen during these periods in the past few days shows a large volume of short selling. Ordinarily short selling is good for the market. It maintains a balance that helps keep a stable position. But the kind of selling that has come in recently doesn't make for any stability. It makes for the opposite.

So the partial answer to "will they stop here?" is that they will, and they will go up. This in turn brings up the other question, "Will they start down all over again?"

A quick answer would be yes. But this has to be qualified by the preceding answer. A temporary oversold position will bring about a rally based on nothing more than an unbalance. But as soon as this is corrected the basic movement, interrupted by the day to day changes, will again take over.

There is some argument about the basic trend. I'm not concerned with arguments or academic discussions. Some months ago when the averages refused to go through 180 the directional change was signalled. Nothing has happened to change it since then. Strong days and weak days may give a different hue to day to day market pictures. The frame work, however, remained basically the same. I might point out in passing, that these intra-day movements are quite profitable for the agile trader. The man who can catch these four to eight point swings can frequently make more than the amount of the swings. Stocks frequently move wider than the averages, and a couple of moves like that is enough to cover the possible dividends a stock pays for the entire year.

Summing it up, what is potentially ahead looks something like this: A rally to start from around present levels, leveling off into dullness followed by another decline. How long this process will take, and what the stopping points are likely to be, I can't determine at this writing. Meanwhile hold your money until the clouds clear a little more.

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.]

Letter to the Editor:

U. S. Must Join the Sterling Area

We must also scrap Bretton Woods, British correspondent declares.

Editor, "Commercial and Financial Chronicle":

If the U. S. A., influenced by pride, will not voluntarily join the sterling area, President Truman's policy will eventually result in a repetition of the world crisis of 1931, but in a more intensified form. The only effective way of removing the present, and as we now see it the future, scarcity of dollars is for the U. S. A. to become a willing buyer in world markets. This becomes even more important now that the U. S. A. very properly in the interests of world peace has accepted a broader basis for her foreign policy. The important thing to bear in mind is that there will be no period of indefinite world peace unless the U. S. A. and the British Commonwealth keep absolutely and completely in step. I know the position is difficult in your country in this connection because, unfortunately, a vast percentage of your people, for reasons which I have never been able to understand, are very anti-British. This is quite contrary to the conditions prevailing in this country. I can honestly say that I never come across anybody in this country who is anti-American. We have no such things as chauvenistic newspapers and if any of our leading daily papers adopted an anti-American policy public opinion would very quickly mark it out for destruction. The people of this country have always had a very high regard for the people of the U. S. A. Even the "man in the street" is aware that the vast system of defence which this country has maintained for generations has enabled the U. S. A. to spend the minimum amount upon its defences, the British Navy having been the bulwark of the U.S.A. from time immemorial. But he does now expect, in view of the world re-shaping itself, that America should bring herself into line with the system of defence of the British Commonwealth. And the "man in the street" is now conscious that the U. S. A. is moving in this direction, which is all to the good. The general feeling here is that the broader basis of your foreign policy is not to supersede the policy of the British Commonwealth, but is to be complementary to it. This, I believe, is the right understanding that there should be between our two countries.

I conclude by stressing the advisability of the U. S. A. winding up the Bretton Woods plan and joining the sterling area. In view of sterling financing an increasing volume of international commerce the urgency of this step becomes more apparent and would result in consolidating the economy of the U. S. A. and the British Commonwealth, bringing it more into line with the principle involved in the new foreign policy of the U. S. A., and creating a strength of unity and power which would inevitably establish the strongest factor for assured peace that there has ever been in world history.

W. CRAVEN-ELLIS

Estate House,
Dover St.,
London, W. 1., April 30, 1947.

Britain Moving Toward Fascism

By G. J. HARRIS*
Chairman, Rowntree & Co. Ltd.

English industrialist leader charges government's nationalization policies are worsening postwar economic conditions and leading to Corporate State. Declares people's savings are being rapidly drained away, ruining individual incentive and nation's democratic strength.

No government in power after the war could escape being faced with the gravest political and economic problems that have faced this country in this century. Even so, there are trends in policy in tackling post-war problems that would appear to some of us likely to worsen rather than improve our economic condition. While shortages and consequent controls last, it is an administrative necessity of the Government to deal with industrial problems at industry level rather than company level, but there are signs, such as the powers taken in the Industrial Organization Bill, of perpetuating controls over a wide field which (whether intended to do so or not) lead in the direction of the Corporate State. Trade associations, either as such or acting as wartime associations, have greatly extended their membership during the war, because Government departments have settled policy at industry level; and therefore membership of the employers' negotiating body was practically a necessity, if only to keep informed on matters of supply and price of the industries' products. The basic principle of operation was to allocate ingredients according to usage during the year preceding the outbreak of war, and equity between manufacturers was thus maintained in a rough and ready way. Similarly, prices were on a basis that at least retained all the manufacturers in membership.

As regards consumer goods, I confess an ignorance of how it is possible to secure full employment at rates satisfactory to the unions with, at the same time, profits satisfactory to all trade association members, and margins satisfactory to all distributors, without the grave risk of arriving at a quality and price for products unacceptable to the mass of consumers. This condition can be masked for a time by overall shortages making a sellers' market, by Government subsidies on food amounting to £364,000,000, and by living on the United States-Canadian loan, but these devices only defer a settlement and do not provide a solution of our problem.

The National Problem and Government Plans

The Government has outlined the national problem in its White Paper and elsewhere and it is not to repeat what has already been said that I make these remarks. It is aspects of Government policy in tackling our problems that seem to require closer analysis by the public and to which I will refer.

(1) In respect of industries nationalized or to be nationalized, Government policy appears to be concentrated on industrial relations first, management problems second, and user interest (in terms

(Continued on page 35)

*From the Chairman's statement at the 40th annual meeting of Rowntree & Co., Ltd., York, England, May 2, 1947.

First Boston Group Offers Koppers Common

An underwriting group headed by The First Boston Corp. on May 21 made a public offering of a new issue of 200,000 shares of common stock (par $10) of Koppers Co., Inc. at $25.75 per share.

The company contemplates the use of the proceeds from the sale of the stock, together with treasury funds if necessary, to defray expenditures aggregating approximately $7,000,000 for the construction of ethylene and polystyrene plants at Kobuta, Pa., at a cost of approximately $4,750,000; for the conversion of a refinery at Oil City, Pa., into a synthetic organic chemical plant at a cost of approximately $1,250,000; and for the completion of facilities for the purification of coke oven gas, the recovery of hydrogen sulfide and hydrogen cyanide and the production of sulfuric acid at Kearny, New Jersey, at a cost of approximately $1,000,000.

Changes may be made in this program if the business of the company and prevailing economic conditions indicate such changes are advisable, the prospectus states. The amounts stated as the estimated cost of completing the various projects are also subject to change.

The company is studying the advisability of expanding its facilities beyond the scope of the program outlined above and may expend substantial sums in the future for such additional expansion, it is stated.

After completion of the present financing, capitalization of the company will consist of 1,115,550 shares of common stock (par $10) and 150,000 shares of cumulative preferred stock ($100 par), 4% series. Funded debt consists of $23,000,000 first mortgage bonds 3% series due Oct. 1, 1964, $7,500,000 serial bank notes, dated June 11, 1946, $10,000,000 of notes under bank credit agreement dated June 11, 1946, and a $950,000 purchase money mortgage bond dated April 1, 1947.

A. Cushman Partner In Rowles Co., Houston

HOUSTON, TEXAS — Allerton Cushman has resigned from Morgan Stanley & Co., New York City to become a partner in Rowles & Co., Bankers Mortgage Building.

Mr. Cushman began his business career with Field, Glore & Co. in 1930. Subsequently, he was associated with W. E. Hutton & Co., where he was head of the Statistical Department. In 1937, he joined Morgan Stanley & Co. From 1940 to 1946, he was in the Army, commanding a tank destroyer battalion and attaining the rank of Colonel.

Rowles & Co. was formed in 1946, and is engaged in the general securities business in Houston. Mr. Cushman will specialize in the underwriting activities of the firm.

Carver Opens in Maplewood

MAPLEWOOD, N. J.—Harry E. Carver is conducting a securities business from offices at 150 Wyoming Avenue.

Gish & Co. in Passaic

PASSAIC, N. J.—John Naylor Gish is conducting a securities business from offices at 663 Main Avenue under the firm name of Gish & Co.

Joseph Infeld Opens

Joseph Infeld is engaging in the securities business from offices at 157 West 79th Street, New York City.

Securities Salesman's Corner

By JOHN DUTTON

This column is being written after the close of the market Friday, May 16. This has been a day when the volume of trading on the New York Stock Exchange increased sharply to over 1,430,000 shares as discouraged investors and speculators rushed to offer their stocks at prices far below what they could have received for them last year at this time. The Dow-Jones industrial averages closed this day at 164.96 as compared with their high of 212.50 reached May 29 of last year.

The reason these unpleasant facts are being related here is that while I was returning to my office about 4:30 in the evening of this same day, I met another security salesman. We spoke for a moment and I asked, "What do you think of the market?" "What market?" said he. "Haven't you heard about the market today, it fell out of bed," said I. "Is that so, you know **I was so busy I didn't even notice what happened.** I was out making calls and didn't phone the office until after one o'clock—everything was quiet then. I picked up a couple of orders from old customers I hadn't seen in a long while. They think yields are pretty good now and are buying on a scale. You know, I've found out the less I watch the ticker the better it is. And I'm doing some business."

Here was a fellow that was too busy to worry about the market. People are sitting around watching stock prices go down and some of the watchers don't even own securities, but if you listen to their conversation you'd think that apple selling was here again. If it is, there is one sure way that you and your customers can get to a choice corner first. Walk around with a gloomy face. Don't work and don't think constructively. Spread all the pessimism that you can think of. Tell your customers that they are right when they refuse to consider buying some of the best corporate securities in the world at prices to yield over 5%, compared with government bonds that average only around 2%. Agree that this is a propitious time to sell good securities instead of holding them. Commiserate with a lot of other disconsolate security salesmen who are sitting around in their offices thinking of ways of getting into another business where they imagine there are fewer headaches and greater rewards. Do these things and both you and your customers will be headed straight for only one reward—you can't miss—you're going to be deep in "the red ink," and no foolin'.

No one can buy at the absolute bottom except through sheer luck. Anybody that tries to do it will discover what many others have learned before them. That is a sure way to miss the best opportunities in any market. The United States is going through a complete reversal of the unsound, abnormal seller's markets of the war years. Competition and solid business effort is once again taking the place of an artificial war boom. During this present period the get-rich-quick boys are being cut down to their normal size, inefficient management is losing out, weak companies are passing on, and the hue and cry of "those who never had it in the first place" is mistaken by some to mean that another serious economic collapse is upon us. The pessimism of the public always runs to an extreme. STOCK PRICES MAY GO MUCH LOWER, BUT ONE THING IS CERTAIN: SOUND STOCKS WILL COME BACK, WILL PAY GOOD DIVIDENDS IN THE FUTURE, AND THE U. S. A. WILL BE DOING BUSINESS JUST AS IT HAS IN THE PAST, BUT UNSOUND MANAGEMENTS AND WEAK FINANCIAL STRUCTURES WILL GO INTO THE ASH HEAP.

The securities firm that wants to help its clients and hold its own business knows that this is no time to sell good stocks, but it is a good time to dispose of securities that haven't yet become entirely worthless (providing their outlook today indicates that such may be their fate). Take tax losses. REMEMBER, YOU CAN ESTABLISH $5,000 OF LOSSES AND CARRY FORWARD DEDUCTIONS OF A THOUSAND DOLLARS A YEAR FOR THE NEXT FIVE YEARS BY SELLING THE MORE DUBIOUS STOCKS NOW. The **best time** to switch from weak situations into stronger ones is in a declining market. Most amateurs don't know this. The best stocks always rally first and reach the highest levels in a recovery. The "dogs" sometimes never recover.

Cruttenden & Co.

CHICAGO, ILL. — Cruttenden & Co., 209 South La Salle Street, members of the New York Stock Exchange and other exchanges, announce that as of May 31 the following general partners are retiring from the firm: Frederick R. Tuerk, John B. Dunbar, and James H. Murphy.

Walter W. Cruttenden and Conrad Tuerk, general partners, will continue the firm of Cruttenden & Co. with offices in Omaha and Lincoln, Neb. and Chicago, Ill.

Gardner Chiles Visits N. Y.

Gardner Chiles of Denault & Co., San Francisco, is in New York City at the Commodore Hotel for two weeks' stay. He will be calling on the bankers and dealers and will visit Detroit and St. Louis dealers on his return to San Francisco.

Brennan in Brooklyn

BROOKLYN, N Y.—Hubert Brennan is engaging in the securities business from offices at 102 Chestnut Street.

Canadian Securities

By WILLIAM J. McKAY

The general state of world commerce and finance, at no time since the cessation of hostilities, offered an adequately firm foundation for the erection of the grandiose structure constituted by the Bretton Woods currency scheme. It has long been apparent that instead of proceeding on the basis of an overall universal plan it was necessary at first to build gradually on a practical foundation.

Without the assistance of the theoretical global planners practical business and finance would have evolved a scheme based on the existing working systems represented by the U. S. dollar and sterling currency areas. Moreover with the Canadian dollar as the connecting link the "Key Currency" plan is still the only practical angle from which the world's currency problem can be approached.

There are already indications of a growing realization of this fact. Little is heard of the achievement of real progress at the international trade conference at Geneva. More discussion is directed to possible subsequent bilateral meetings between this country, Britain and Canada. It is also generally appreciated that the establishment of fixed parties for all the currencies represented in the International Monetary Fund have no practical meaning until arrangements are made to stabilize the U. S. dollar, the pound, and the Canadian dollar on a working basis.

Even in the absence of any universal plan, operations in these three currencies account for the bulk of the foreign exchange transacted at the present time. What is now necessary is to devise means whereby the interconvertibility of these currencies would be at all times assured. Before the war the Tripartite currency arrangement, despite its imperfections, did much to maintain universal currency stability. Formidable as are Britain's economic problems it is nevertheless not beyond the capacity of this country and Canada to sustain this essential working partner during the difficult initial stage of operations.

It is to be anticipated therefore that in order to enable the International Monetary Fund to operate in a practical fashion, the U. S. A., Britain and Canada will take early steps to strengthen the tripartite financial and economic cooperation. As far as Canada is concerned it is likely that a long term arrangement will be formulated along the lines of the wartime Hyde Park Agreement whereby the Dominion's normal U. S. dollar deficit would be eliminated. By thus increasing imports from Canada, this country would enable the Dominion to avoid the re-imposition of wartime import controls. As a further result impetus would be given to the expansion instead of contraction of world trade, and Canada's overall favorable foreign trade balance could be employed to assist in the rehabilitation of the economies of Britain and the world at large.

Canada's external trade figures for the first quarter of 1947 alone provide sufficient evidence of the growing stature of the Dominion in the world economy. The overall total of $1,164,000,000 representing a 26% increase over the similar period in 1946, is indicative of the part played by the Dominion in world commerce, and further demonstrates the importance of the Canadian link in the "Key Currency" approach to the solution of the world's currency problem.

During the week the external section of the market continued dull and inactive. There was steady demand for Dominion internals and prices again advanced slightly. Since the change in the F. E. C. B. regulations which divorced the market for these bonds from the influence of the stock markets there has been a noticeable improvement in their standing. On the other hand the resultant weakness of the stock arbitrage rate places Canadian stocks at an attractive purchase level. Free funds continued steady at 8% discount and as the tourist season advances further support should be forthcoming for the unofficial Canadian dollar.

Drake to Manage New Dept. for Mabon Co.

Mabon & Co., 115 Broadway, New York City, members of the New York Stock Exchange, announce the opening of a municipal bond brokerage department under the direction of Clifford Drake.

Mr. Drake was formerly in the municipal department of Blair & Co., Inc. and prior thereto with the New York office of H. M. Byllesby and Co., Inc.

G. F. Hulsebosch Co. Formed in New York

Formation of G. F. Hulsebosch & Co., with offices at 62 William Street, was announced May 19. This was effected following dissolution of the brokerage firm of Maher & Hulsebosch.

How Can U. S. Contribute to Better World?

(Continued from page 13)

prevails in the Soviet Union is being adopted by gradual stages. The Soviet ideology is gaining ground and making new converts primarily because the economic ground is fertile for it. Hunger and want are the greatest propaganda agents for that form of government. The inflation which wiped out the middle class in many lands has added new recruits to this ideology. Totalitarian governments have nothing to offer but promises which have not been fulfilled. In an uprooted world, however, many people are willing to sell their birthright for a mere promise.

A great many people abroad, particularly in the Western world, look to the United States for guidance and assistance. They hope that the United States will demonstrate by practical results the superiority of free institutions, that it can operate effectively, can eliminate periods of boom and bust, and afford its people the highest degree of economic security and at the same time preserve the liberties of the individual. A demonstration by the United States that free men can manage their affairs much better than those whose every movement is dictated by government is the greatest aid that the United States can render to a confused and impoverished world.

What can the United States do to contribute to a better world? This question may be divided into two parts: (1) What measures can the United States take now to alleviate the suffering that prevails in many parts of the world and to help in the restoration of their economies, thereby removing some of the principal causes of economic and political unrest? (2) What internal measures should the United States take to prevent booms and depressions, inflations and deflations, over-employment and large-scale unemployment?

Now is the time to give careful thought to these problems. Economic and political conditions are still in a state of flux in many countries. No definite economic pattern has been adopted and therefore it can still be molded. Furthermore, in many countries the people have not yet been deprived of their liberties. They still have the power to forge their own destinies and future. If we are to render assistance to the rest of the world, time is of the essence. Next year or two years from today may be too late. Measures may have been taken by then by some nations which would set a definite pattern of their economic and political structure and which could not be changed.

As regards measures to be taken at home, fortunately there is no need for hasty ill-advised measures. Economic conditions in the United States at present are such that we have time to formulate our plans and make our decisions. While the business pattern is marked by uncertainty, yet the broad outlines are clear. A decline in prices, notably of food, and in the cost of construction, will set in motion a strong business revival. A decline in the cost of construction will make possible the fulfillment of many accumulated housing demands. The demand for durable goods, machinery and equipment, home furnishings and public works, is very great. The accumulated savings in the hands of the people, while unevenly distributed, are very large. The productive capacity of the country is great and productivity of labor and machinery is increasing. After the present business readjustment is over, therefore, the United States will in all probability enjoy a prolonged period of good business. Then will be the time to lay plans for the future to prevent a sharp decline in business activity accompanied by large-scale unemployment. Upon the measures taken by the United States in the immediate future as well as in the next few years will to a very considerable extent depend the outcome of the ideological struggle which is raging at the present time.

A Sound Foreign Trade Policy

It is of the utmost importance that the United States adopt a foreign trade policy which favors both imports and exports. A foreign trade policy which merely favors exports and at the same time restricts imports through high tariffs, is obviously unsound. Loans and gifts, however large are only a temporary palliative. In the long run foreign trade must be based on an interchange of commodities. During the last two years exports from the United States have increased materially but imports have lagged behind and the excess of exports was financed through substantial loans and grants made by the United States Government. To be sure, a lowering of tariffs in order to make possible imports from abroad is bound to hurt some industries which will suffer from foreign competition in the future. However, what we must consider is not so much the welfare of an individual industry but rather that of the country as a whole. A sound foreign trade policy can be adopted without damage to American industry. The United States will be a much larger importer of raw materials in the future than ever before. During the war we exhausted a considerable portion of our natural resources and it would be highly desirable to rely more on imported raw materials in the future than on domestic output. This applies to such vital commodities as oil, non-ferrous metals, lumber, etc. Foreign trade based on subsidies is obviously unsound. Hence, if we wish to maintain foreign markets for our agricultural products we must give careful thought to this problem now, while the demand for these products throughout the world is very great.

The establishment of a sound foreign trade policy by the United States will indicate to the rest of the world that this country is willing to cooperate with like-minded nations in order to restore sound international trade throughout the world.

Speeding Up the Operation of the International Financial Institutions

The International Bank for Reconstruction and Development and the International Monetary Fund are cooperative ventures of a great many countries. They were established for the purpose of restoring international trade and facilitating the reconstruction and development of the world. While these institutions must of necessity adopt sound business practices, yet their standards need not be as rigid as those adopted by private institutions in granting loans. The institutions are cooperative ventures, their shares are owned by the member governments and this assures the servicing of the obligations that will be offered by the International Bank. Furthermore, one may take it for granted that the weaker countries are even more interested in the success of the Bretton Woods institutions than the stronger ones since the institutions were established primarily for the benefit of the former. Several applications for loans have been received by the International Bank. The sooner they are granted, the sooner will the applicants obtain the necessary dollar exchange and be in a position to rehabilitate their countries. The International Bank will soon offer securities in the American market. These will be sound obligations for their security will rest on individual economic projects, the paid-in capital resources of the Bank and on the good faith and credit of 44 nations. It is unthinkable that debt service should be suspended on securities of such an institution.

If need be, the resources of the Export-Import Bank should be increased in order to facilitate the interchange of commodities between the United States and the rest of the world. While the functions of the Export-Import Bank are limited yet it has the advantage over the International Bank for Reconstruction and Development in that its decisions can be expedited and through its action foreign nations can be placed in a position not merely to obtain much-needed American goods but also to increase their own exports.

This country should endeavor as far as possible to make food available to starving nations and to alleviate their sufferings. The United States should render technical assistance to foreign nations to widen their skills and techniques. In the long run industrialization stimulates international trade. This was conclusively proven in the relations between the United States and Canada.

Sacrifice at Expense of Taxpayers

The above suggestions will undoubtedly entail sacrifices on the part of the people of the United States. The taxpayers will have to bear the cost of the grants made to foreign nations. This country will have to share with other nations commodities which are still scarce at home. Large exports of farm products and of foods will keep prices of these commodities high and, therefore, prevent a downward readjustment in the cost of living. Some direct loans made by the United States Government in all probability will not be repaid. The people of the United States must bear in mind, however, that leadership is always costly and the United States must assume it because nobody else can.

Should these sacrifices be made indiscriminately? The answer is defintely in the negative but this does not mean that we should not apply charity where human suffering can be alleviated. There is no reason why the United States should render assistance to nations which sneer at our institutions and which secretly hope for a collapse of our economy, thus demonstrating the weakness of our system and the merits of their own. There is no reason to ship large quantities of goods and services to nations which endeavor to undermine our institutions. The principal task of the United States should be to help those nations which have the will and the possibility to maintain free institutions and to protect the rights of individuals. If the United States is to carry the principal burden of reconstruction—and the burdens are great—it should be done for those nations which will utilize this assistance for the greatest good of the greatest number and for the purpose of removing economic distress which breeds political and social discontent. Prompt assistance by the United States to many countries at the present time will strengthen the democratic elements in these countries and a rapid economic recovery will remove economic and social unrest.

Measures to Be Taken at Home

Leadership must inspire confidence if it is to succeed. Hence it is the duty of the people of the United States to demonstrate to the rest of the world that our economic system can work satisfactorily and that we can eliminate periods of serious depression and large-scale unemployment. During the last few months the opinion has been expressed in some democratic countries of Europe that it is not advisable that their

economies be tied to that of the United States because of the instability of the American economy which is headed for a serious depression. Instead many leaders advocate close economic relations with the Soviet Union and others which have planned economies and are, therefore, in a position to prevent depressions. These views were expressed by prominent economists and business leaders in Sweden, by a number of members of Great Britain's Parliament and, more recently, at the Geneva Conference.

Business conditions in the United States are, on the whole, sound. It is evident, however, that a mild recession is gradually developing. This, however, could readily be checked by lower prices, particularly of foods, and by a decrease in the cost of construction. However, it may be stated that the peak of commodity prices has already been reached and that the recession will in itself correct some of the evils which have arisen during the last few years. As soon as prices have receded and productivity is increased, based on the accumulated demand for housing, all kinds of durable goods, machinery and equipment, home furnishings and on the demand for our products from abroad, this country is assured of a prolonged period of good business with satisfactory employment and a high national income. This is the period during which careful study should be given to the prevention of the wide swings in the business cycle and large-scale unemployment.

The measures that should be taken may briefly be summarized as follows:

(1) The adoption of a sound system of taxation and debt management. (2) Sound labor legislation which would impose on labor the same responsibilities as on business. (3) Sound public works planning, adapted to the swings of the business cycle. (4) As far as possible, the prevention of overexpansion by private industry, through the better utilization of available information and statistics. (5) Careful monetary and credit policies which would be guided primarily by the economic needs of the country and are not subordinated to the needs of the Treasury.

The main problem that the country must solve during the coming years of good business activity is to prevent large-scale unemployment in the future when the pent-up demand has been met and we have to live on the current demand. If this is achieved the people in the United States will enjoy a high degree of economic security unrivalled and unmatched in the world. While it may be impossible in the foreseeable future to remove entirely the operation of the business cycle, the peaks and valleys must be removed. This country simply cannot afford another serious and prolonged depression with consequent large-scale unemployment. Should one arise again it could endanger the free institutions of the United States.

The Establishment of Sound Human Relations

Not only is it important to establish a sound economic foundation but also the United States must stand in the forefront in defending human rights and human dignity. It is a sad commentary when the United States insists on political equality in foreign countries yet does not practice it in many parts of this country. Racial and religious intolerance have no place in our system and those who practice it not only violate the spirit of our Constitution but also serve the forces which endeavor to undermine our institutions. Above all, we must learn to live together and realize that basically there is no conflict between capital and labor, that the welfare of each is intertwined. Economic legislation must not be motivated by desires or actions of pressure groups. It must be based entirely on the needs of the country as a whole irrespective of its effects on individuals. The United States certainly has a lot to teach the rest of the world but we must first relearn the principles on which this country was founded.

Conclusion

The United States is the last of the line of great nations where the systems of private enterprise and political democracy still prevail. Some countries of Europe have adopted State capitalism or State socialism. In others the principal means of production have already been nationalized and other industries may become the property of the government in the not distant future. The idea of planned economies is widening. The question has arisen as to whether an economy can remain mixed or whether the pressure of government on privately-owned enterprise will be so great that even the latter segment will give way and be absorbed by the government.

The other question which has arisen is whether private enterprise in one country can co-exist with planned economies in others. These are vital questions which are being carefully studied and considered all over the world. The answers are not easy but they depend to a considerable degree on the extent to which this country will be willing to render assistance to other nations struggling to maintain at least a modicum of economic and political freedom. In this respect it may be said that the United States Government and people have already done a great deal and that everything possible will be done to strengthen the remaining democratic forces abroad. The fact that the foreign policy of the United States has the full backing of both leading political parties has not only strengthened the position of our State Department but has also enhanced the prestige of our foreign policy.

The question of the ability of our system to survive in a world where most countries are adopting planned economies will depend upon the ability of the United States to demonstrate that the system which has made this country the foremost industrial nation in the world can work satisfactorily, that it can offer to those willing and able to work a high degree of economic security, can eliminate the peaks and valleys of the business cycle, establish harmony between employees and employers based on a sound foundation of law, and that it adheres to the principle enunciated in our Bill of Rights that all people are equal in the eyes of the law. If during the next few years we strengthen that democratic forces in the rest of the world, and particularly if we demonstrate to those who doubt but are willing to be convinced, that our system of government and business is by far superior to anything that the other systems have to offer, we may feel sure that we will have contributed more than our share to make this world a better one in which to live.

Washington and You

(Continued from page 5)

lation T can't be foreseen, but an informal recommendation that the margin be whittled to 50% wouldn't surprise us.

* * *

Says Committee Chairman Wolcott . . . "I haven't heard from anybody who wants regulation T completely abolished. Mainly, the urge is for a lower margin."

* * *

Committee decision to haul regulation W aloft for review recalls Federal Reserve Board Governor Eccles' promise that he would recommend Presidential scuttling of W unless Congress endowed it with legislative legitimacy.

* * *

There's a chance the Senate may OK Reserve Bank 90% loan guarantee. The bill is already on the calendar with a favorable Senate Banking Committee report. But it can't be maneuvered through the House before adjournment.

* * *

Want to know "What the International Bank Means to You?" Write the Bank's Public Relations Office, 1818 H St., N. W., Washington, D. C., for free copy of a booklet blaring that title in large white letters on a navy blue background. Handsomely illustrated in the same color, the pamphlet's obvious mission is to sell the bank to the tax-paying — and security buying — public.

* * *

Top-drawer Government and investment people have the word from IBA President Edward Hopkinson, Jr., that the International Bank "plans to place full reliance on investment bankers and dealers to distribute its securities." That doesn't surprise anybody much.

* * *

Congress wants to toss some sort of a life raft to the aviation industry and can be expected to make preliminary gestures this session. First step may be passage of a bill by Maine's Senator Brewster creating a temporary National Air Policy Board. The Board would be directed to fashion a plan for averting gradual disintegration of plane and engine plants. Cabinet officers and Congressmen would be members, would (1) propose emergency measures, and (2) later engineer permanent machinery for maintaining the U. S. as the prime air power.

* * *

Here are reasons why Washington vitamins are to be prescribed for the air industry: (1) no other industrial group has been hit by such a sharp postwar recession; (2) plane and engine factories now operate around 60 million square feet of floor space as against 175 million square feet at the war effort peak; (3) employment declined from 2 million to 170,000 currently, and (4) last year's plane output was less than one-half the absolute minimum held essential for national security.

* * *

Our international air lines are in fine financial condition and are expected to register a 135% gain in passenger traffic in the next two years, Civil Aeronautics Board Chairman James M. Landis tells the House Commerce Committee.

* * *

And concerning the domestic air transport industry at large, Chairman Landis adds . . . "Any attempt to paint a picture of industrywide financial debilitation must fail since, with few exceptions, the air transportation industry is in sound financial condition and, where it is suffering setbacks, is experiencing them only to the same extent as other segments of American industry which are being affected by, among other things, increased labor and material costs."

* * *

What price bubble gum! C. Ray Smith of Philadelphia has registered with Congress as lobbyist for Bowman Gum, Inc., bubble gum makers. His salary — $18,000 annually plus $200 monthly expenses.

* * *

Bulging warehouses don't mean additional sugar for industrial users soon. It's unlikely the U. S. will get more than the 6,800,000 tons allocated under International Emergency Food Committee agreement. The warehouse backlog does (1) reflect reduced industrial and home consumer buying, and (2) presage a transportation squeeze when heavy sugar demand and bumper farm crops hit the rails about the same time. Agriculture Department hopes by relaxing inventory controls to encourage wider distribution now, avoid competition for boxcars later.

A noble gesture but a futile one! That's the way Shakespeare might have eulogized Illinois Congressman Dirksen's proposal that Federal lending agencies sell their loan papers to banks and other private lenders. Congress isn't ready to goose step with Dirksen yet, maybe next session.

* * *

Last issue of the monthly report by the Census Bureau on canned fruits, vegetables, juices and baby food shipments by packers, wholesalers and warehouses of retail stores has been distributed. The study has been ended because of appropriation slashes. Hereafter, such statistics will be available to lenders only through trade groups.

* * *

Clayton Act amendment prohibiting one company from acquiring the assets of another has traveled the first — and easiest — leg of its trip through Congress. It has been OK'd by a House Judiciary subcommittee. You can still rely on earlier forecasts the bill won't be enacted this session.

* * *

Office machine purchases by the Government are to shrink temporarily. Bureau buying agents have been told tersely by the House Appropriations Committee to draw fully on surplus appliances before paying out cash for new ones. That irks newly-appointed public servants who all appear infested with the impulse to requisition spic-and-span equipment for themselves and staff.

* * *

Outlook for legislation curbing Federal Power Commission controls over natural gas has become misty. Industry lobbyists still predict passage before adjournment, but the going looks slow.

Slate for Nominating Committee for Curb

At a primary election held on the trading floor of the New York Curb Exchange, Walter E. Kimm, Sr. of Kimm & Co.; James A. McDermott; Charles M. Finn of Adriance & Finn; Joseph F. Reilly; Sterling Nordhouse; Mark J. Stuart of Cowen & Co.; William J. Halpern of Diamond, Turk & Co.; and A. Philip Megna of Francis I. duPont & Co. have been selected to be Class A candidates for election to membership on the exchange nominating committee.

Marshall S. Foster of Gammack & Co.; Conrad H. Liebenfrost of Stern, Lauer & Co.; and Albert G. Redpath of Auchincloss, Parker & Redpath have been nominated by petition as Class B candidates for membership on the committee.

The final election will be held Tuesday, June 10, at which time four Class A and three Class B members are to be elected to the committee to serve for the ensuing year.

The nominating committee reports to the exchange at least five weeks prior to the annual election in February nominees for members of the board of governors, Chairman of the board, and trustees of the exchange gratuity fund.

John F. Coleman, Donald Caldwell Portser and Alexander Reich were tellers for the primary election.

What Is the Money Picture?

(Continued from first page)

rested chiefly on the notion that by monetary manipulation our Federal government could raise this country out of the depression, place it on a road to prosperity, and thereafter keep it on that course. The confusion by the money manipulators of effect with cause, the naivete of their notions as to causes of the business recession and depression of the 1930's, and what should have been adequate evidence as to the fallacies and dangers in this program of monetary manipulation were all pointed out by those in a position to speak with some scientific authority.

But the program was pursued despite these protests and evidence, and today we have part of the product of those 15 years of playing with practically every monetary fallacy known to the scientists in the field of monetary economics.

Constructing the Monetary Picture

This program involved the following principal features, most of which in some degree constitute parts of the monetary picture today:

(1) In March, 1933, our Federal government cut the people of this country loose from the gold standard. As a consequence, our government was freed from the restraining influences, in its management of our monetary and fiscal affairs, which a gold standard exercises. At the same time, the people of this country were deprived of the direct control over the public purse which a gold-coin standard provides.

This suspension of gold redemption was a fundamental step in the direction of a so-called "managed" currency; and such a currency is an integral part of a system of governmentally-managed economy. Every government that wishes to embark upon a governmentally-managed economy, with freedom to spend the people's money as the managers see fit, must free itself from this automatic brake on the misuse of the public purse which the gold standard places in the hands of every individual. Practically every government dictator initiates his coup or proposed managed economy by suspending gold or other specie payments.

Every adult person knows something of what the spending orgy in this country has been like since the gold standard was replaced by a so-called governmentally-managed currency. The helplessness of each individual, deprived of his power to exercise any direct control over the management of the public purse, should be obvious.

(2) In the Thomas Inflation Act of May 12, 1933, provisions were made for greenbackism or fiat money—that is, for the issuance of unsecured, inconvertible paper money. The authors of that law went back to the fiat money practices of our Civil War days for their principles according to which at least part of our money should be managed.

(3) In May and June, 1933, Congress made all our money full legal tender. This is a device resorted to by governments when they have some doubts about the public's reception of some of the money which the government is issuing or is proposing to issue.

(4) During the year 1933, steps were taken to depreciate our dollar in terms of gold, and, on Jan. 31, 1941, our gold dollar was devalued 41%. In other words, the price of an ounce of fine gold was written up 69%. At the time that this was done, voices in this country and abroad were saying that paper money was superior to gold, that gold was outmoded, was losing its value, and was a relic of barbarism.

(5) Partly as another means of increasing the volume of our currency and partly because of the government's willingness to make concessions to the silver subsidy bloc, the Administration and Congress by proclamations and by statutes began to provide subsidy prices for silver and to expand the issuance of silver certificates against an over-valued silver.

(6) Beginning in December, 1942, the Treasury and the Federal Reserve authorities, operating together in violation of our monetary laws, began to pump $660,000,000 of so-called "National Currency" notes into circulation. These were a fiat money and were issued outside any authority in law—that is, they were not issued under the particular authority granted by the Thomas Inflation Act of May 12, 1933, but by a manipulation, involving a sleight-of-hand performance, engineered jointly by certain Treasury and the Federal Reserve officials. By this manipulation, the Treasury obtained $660,000,000 of deposits on the books of the Federal Reserve banks to which it was not entitled, and the Federal Reserve banks converted what should have been a liability—that is, what should have been properly issued Federal Reserve bank notes, and a liability—into a reserve asset. In those days, all Treasury currency could be counted as part of the reserves of the Federal Reserve banks against their deposits; and, as issued, these Federal Reserve bank notes, or "National Currency" notes, as they were then known, became Treasury currency because they were issued by the Treasury rather than by the Federal Reserve banks.

This sorry episode provides an excellent example of what monetary management can be like when the controls exercised by a gold standard have been removed and when the management of a currency rests in the hands of men who are willing to manipulate it as they see fit.

One of the disconcerting things about this surreptitious injection of $660,000,000 of fiat money into our currency structure is the fact that after the nature of the transaction became known to Congress and to people who are supposed to understand something about our monetary affairs there was no great adverse reaction. This was the situation despite the fact that this one issuance of fiat money was 50% greater than the total issuance of greenbacks during the period of the Civil War. In short, our standards of ethics, or our understanding, or our apathy, as the case may have been, regarding our government's management of the people's currency had reached such a level that an illegal injection of $660,000,000 of fiat paper money into the reserves of our Federal Reserve banks with a power to support $9,900,000,000 of additional deposits in our banking system, at the reserve ratios then prevailing was in general treated as a matter of no particular importance.

(7) In March, 1942, the Reserve authorities were able to drive through Congress a bill which authorized them to dump $5,000,000,000 of government securities into the Federal Reserve banks. The Reserve authorities at that time asked for authority to dump an unlimited amount of government securities into these banks. Next to the direct issuance of fiat money, that would have been the easiest way to monetize the Federal deficit. That was the road followed by Germany, for example, during and after the first World War. It is, next to the issuance of fiat money, the most dangerous course known to monetary science.

Nevertheless that was the power desired and asked for by our Reserve authorities in 1942. It was only after a strenuous fight, led by Senator Taft, that a 5,000,000,000 limitation was placed upon such a procedure.

That authority expired on March 31, 1947, and, unfortunately for this country, our Congress has just recently renewed this power for another three years. In this case, Senator Taft was the only Senator on record against the renewal of that power. And in the House only two or three members registered their disapproval of this old and dangerous device for monetizing the national debt. But what is a mere $5,000,000,000 among government officials, many of whom apparently still believe that economic ills can be counteracted or cured by manipulation of a nation's money?

This $5,000,000,000 is not all that is involved. Under the Thomas Amendment of May 12, 1933, another $3,000,000,000 of government securities can be purchased directly from the Treasury by the Federal Reserve banks.

(8) When the Spring months of 1945 were reached, deposits and Federal Reserve notes in our banking structure had expanded to such an extent that on June 12, 1945, Congress found it necessary to lower the Reserve requirements for our Federal Reserve banks from 35% against deposits and 40% against Federal Reserve notes to 25% against each of these liabilities. This enabled a dollar of reserves in the Federal Reserve banks to support as much as $40. of deposits in the banking system, as compared with the previous $28.50, if we use a 10% minimum ratio against demand deposits for the member banks of the Federal Reserve system. Still further, from April 13, 1943, to June 30, 1947, no reserves have been required against War loan deposit accounts in the member banks of this country.

(9) When the minimum reserve requirements of the Federal Reserve banks against Federal Reserve notes and deposits were reduced to 25% on June 12, 1945, the Reserve authorities persuaded Congress to count gold certificates alone as lawful money in reserves against deposits. All other money was made non-lawful for reserves. The net result of this law is that the reserves in the Federal Reserve banks against their deposits is composed of a money that can not be paid out or used domestically. And none of the other money of this nation that can be paid out by Federal Reserve banks, aside from Federal Reserve notes which are Reserve bank liabilities, can be counted as reserves against deposits. In other words, this law made the reserves of the Federal Reserve banks nothing more than a bookkeeping item in so far as domestic use of these reserves is concerned.

Reserve Board Confusion

Congress was thoroughly confused on this matter and its members received no help from the Reserve authorities who are supposed to have a staff competent in matters of this sort. It would appear, therefore, that the Reserve authorities either intended to sterilize the reserves of the Federal Reserve system or they did not understand what they were recommending to Congress. The latter seems to have been the case, since the Reserve authorities were interested in more, not less, surplus reserves in the Federal Reserve banks.

The Board's recommendation to Congress in effect was that such Treasury currency as silver, silver certificates, and United States notes are not good money for reserves in the Federal Reserve banks. The answer to that is that if money issued by the Treasury under authority of laws of Congress is not good enough to serve as reserves in the Federal Reserve banks against their deposits it would seem difficult to demonstrate any legitimate grounds on which such money could nevertheless properly be issued by the Treasury to the people of this country.

This was not a case of confusing the liabilities of Federal Reserve banks with their assets as was done when, by the "National Currency" manipulation of 1942, the Reserve banks were permitted to convert what should have been a liability into a reserve asset.

Results of Monetary Manipulation

Stated briefly, these various acts—that is, laws, proclamations, and manipulations—have given us a suspension of gold payments, a devaluation of our standard gold unit, some fiat money, artificially high prices for silver and an excessive expansion of silver certificates against a huge hoard of over-valued silver, monetization of a large portion of our Federal debt through a great expansion of Federal Reserve notes and deposits, a government sleight-of-hand manipulation in the issuance of what were supposed to be Federal Reserve bank notes, a reduction in, and sterilization of, the reserves of our Federal Reserve banks—all a part of so-called currency management by a politically-operated government that promised in 1932 to give this country a sound currency if elected to office.

As a consequence of these laws and other devices, the picture today is, somewhat more specifically, as follows:

(1) We have, in our international relations, a restricted international gold bullion monetary standard, with the price of gold fixed at $35. per fine ounce.

(2) Domestically, we have a system of indirect conversion of our domestic currency into gold. Only silver certificates are directly convertible into a metallic money, and that is an over-valued silver. Although this system of indirect conversion of our domestic currency into gold has maintained the parity of our currency with gold since the devaluation of March 13, 1934, such a system deprives the people of the United States of the direct control over the public purse that they would have if this nation were on a gold-coin standard.

(3) We have on our statute books, for another three years, provisions under which the Federal Reserve authorities can dump $5,000,000,000 of Federal securities into Federal Reserve banks and to that extent immediately monetize the Federal deficit. This is in addition to the $3,000,000,000 of government securities that can be purchased directly from the Treasury by the Federal Reserve banks under authority of the Thomas Inflation Act of May 12, 1933.

(4) The reserves in our Federal Reserve banks cannot be used domestically; they can only be utilized to obtain gold for purposes of export, with minor exceptions.

(5) Our basic reserve requirements in the Federal Reserve system will now permit each dollar of reserve in the Federal Reserve banks to support a much greater expansion of deposit credit in our banking structure than was possible prior to the reduction of reserve requirements of Federal Reserve banks on June 12, 1945.

(6) We have, as a diluting factor in our monetary structure, $435,000,000 of "National Currency"—fiat money—out of the $660,000,000 issued, beginning Dec. 12, 1942. On June 12, 1945, Congress very wisely repealed the authority of the Administration to issue fiat money under the terms of the Thomas Inflation Act of May 12, 1933. At the same time, Congress wisely prohibited any further issuance, under the emergency provisions of the Federal Reserve Act, of Federal Reserve bank notes. In other words, Congress locked the door on June 12, 1945, after the horse, in the form of Federal Reserve bank notes (that is, "National Currency" notes), had been stolen on Dec. 12, 1942.

(7) On May 7, 1947, the gold stock of this country had expanded to $20,811,000,000. In May, 1920, when our price level was at the highest point in our history—167% of the 1926 level—our gold supply was only $2,865,000,000.

(8) On May 7, 1947, we had $28,197,000,000 of money in circulation. This compares with $5,451,646,000 in circulation in May, 1920. Of this $28,197,000,000 now in circulation, the chief item is Federal Reserve notes, which on that date amounted to $24,071,000,000. Next in importance came silver certificates which on that date probably amounted to approximately $2,228,000,000 (the amount outstanding as liabilities of the Treasury).

(9) As of Dec. 31, 1946, the total deposits of all banks in the United States amounted to $155,150,000,000. In June, 1920, total deposits amounted to only $37,721,000,000.

(10) As of May 10, 1947, the wholesale price level in the United States stood at 146.7% of the 1926 base of 100%.

(11) The annual rate of turnover or velocity of total bank deposits (except interbank) in 333 reporting centers outside New York City, as of February, 1947, was only 11.5 times per year. That is, a billion dollars was doing less than twelve billion dollars of business per year at that rate of turnover. This rate was below that reached in July, 1932, at the lowest point of the depression. At that time the rate of turnover of net demand plus time deposits of reporting member banks in 141 leading cities was 16 times per year. In 1929, the annual rate was 45 times per year. Although these figures are not strictly comparable—a good continuous series since 1919 is not available—they probably give us a reasonably accurate picture of the behavior of bank deposits. The lowest point on record (for the 333 reporting centers) was the annual rate of 8.2 of August, 1945.

The velocity of deposits is probably the best single item available in revealing the practices of the people in their use of their deposit currency. In peace times, velocity of deposits is probably the best single bit of evidence we have as to the psychology of the people regarding the spending of their funds. A rising velocity may reveal optimism as to future business prospects, or it may reveal a fear of the future value of money in respect to particular things or things in general.

During most of the 1930's, the velocity of deposits remained very low, rarely rising above the level of July, 1932, revealing widespread economic stagnation and a general spirit of discouragement despite the great volume of money and deposits being pumped into circulation.

The unusually low velocities of the war period may be ascribed to the nature of a war economy—to the fact that the government short-circuited a large proportion of the usual channels of trade by purchasing directly from the original or near-original producers.

Inflationary Danger

But the important point today is that the velocity of deposit currency is still relatively low and that this fact of lowness points to a great potential danger for this nation. Considering the huge volume of money and deposits available in this country, it does not require much thinking to imagine what the situation might be if, either because of a restoration of confidence or because of the de-

velopment of a widespread fear regarding the future value of our currency, the velocity of deposits were to rise from the present 12 times per year to the 45 of 1929.

The antidote for this great danger lies not in discouragement of the spirit of confidence, which would tend to increase the velocity of our currency, but in the encouragement of a great expansion of productive activity and a squeezing out of our money and deposits, to the best of our ability, the currency resting upon the monetization of the Federal debt.

Perhaps a few additional words should be said about the relationship, or rather lack of relationship, of our huge supply of money and deposits to prices in general as these are revealed in our indexes of prices at wholesale.

People are prone to relate the volume of money and deposits directly to the price level. They seem to forget about, or perhaps not to understand, the importance of velocity which at times is a much more important factor, than is a change in the volume of money and deposits, in affecting prices. And then there are all the other forces affecting prices of which the volume of goods and services sold is, of course, of major importance.

In May of 1920, our price level stood at 167% of the 1926 base of 100. Deposits (as of June 30) and the money in circulation combined amounted to $43,173,000,000.

In June, 1939, the index of wholesale prices stood at 76% of the 100 of 1926. The total amount of money in circulation ($7,047,000,000) and deposits adjusted ($54,938,000,000) at that time was approximately $62,000,000,000. In short, while the index of wholesale prices in June, 1939, was only about 45% of that of May-June, 1920, the volume of money and deposits in circulation was approximately 43% greater than in 1920.

As of May 7, 1947, the money in circulation ($28,197,000,000) and the bank deposits as of Feb. 26, 1947 ($139,100,000,000) amounted to $167,297,000,000.[1]

In other words, although today the volume of money in circulation is over five times that of May, 1920, and deposits approximately four times those of June, 1920, the wholesale price level is not quite 90% of that of May-June, 1920.

It should be clear from these figures that there is no direct relationship between the volume of money and deposits on the one hand and the price level on the other — a fact that seems to run counter to popular notions regarding this matter.

What Money Program Has Done

Much of our monetary program, along with those involving heavy Federal spending, borrowing, destructive taxation, and artificially low interest rates, has been a campaign against the savers, investors, and capital accumulators in this country.

The dangers in this situation have been and are very great. Essentially, this movement has been one of political demagoguery; it has not rested upon good economis principles nor upon the lessons of economic history. This country, in the face of this demagogic onslaught, has struggled hard against its devastating effects. The fact that our country has stood up as well as it has in the face of this abuse, would seem to demonstrate rather well the strength and health inherent in a system based largely upon the institutions of private property, freedom of contract, freedom of exchange, and freedom of enterprise.

But we seem to forget, or we fail to understand, what capital accumulation has meant to the people of this nation during the last 158 years.

Today, we are doing other foolish things where money and our economic well-being are involved. We have been indulging in the practice of measuring our economic well-being in terms of spending, much of which has been that of our government. It is common today to measure our well-being in terms of national income, although these income figures are nothing but some manifestations of some of our expenditures. In short, we have been confusing monetary measures of some of our activities with the situation that would be revealed if our measurements were in terms of commodities and services produced, saved, and consumed.

We look at our spending and national income figures and forget our huge mortgage, in the form of our Federal debt, on our future incomes. We also forget what we have been doing with, and to, our real wealth. We look at our currently large national income figures, which are in large degree, the result of profligate waste and spending on the part of the government, and we regard these as proof of our prosperity and economic well-being.

Beneath these monetary figures lie some very important facts: We have been destroying goods at an appalling rate. We have been restricting and impairing production. We have been creating scarcities in both commodities and personal services. We have even destroyed goods to raise or to maintain prices. We have boondoggled away our money and wealth and much of our valuable time. We have been exporting national wealth at a frightful rate and creating domestic debt in return. We have been destroying by taxation. We have been wasting our tax receipts. In short, we have been frittering away our national patrimony in a manner probably never before equalled in the history of the world.

All these and similar things, such as our monetary program, have been part of our notions as to what is proper in monetary "management" and in a governmentally-managed economy.

Our artificially low interest rates have had devastating effects on individual savers and on our greatest and finest savings and investing institutions. These low rates have also had the bad effect of making it easier than otherwise would have been the case for our government to pursue its course in profligate waste. And now we see the evils of this low-interest rate policy magnified by the relatively rapid rise in wholesale prices and in the cost of living since 1939, with the reciprocal depreciation of our dollar, in terms of goods and services, for the people as a whole.

Is Money Supply Excessive?

The thinking on these matters today, particularly the confusion of monetary measurements with real economic well-being, has reached into circles from which one would seem to have the right to expect something better. As an example, and many more might be cited, the economist from a trust company of New York City, in a recent article said that he questioned whether the present money supply is excessive. His reason for this remarkable conclusion was, he said, that "The present supply of money bears about a normal relation to national income when long term trends are considered." One would suppose that all that need be said about relating the supply of a nation's money to the national income figures, also expressed in terms of money, is that the huge expansion of money in Germany during and after the last World War was not too great because the national income figures also in terms of money kept close company with this great expansion of the depreciating currency!

Today the monetary situation in this country requires careful watching. Thus far the new Congress has been so busy with other matters that it has not given any particular attention to a re-vamping of our monetary structure and to a thorough overhauling of our monetary structure and procedures. Just what this Congress may do is presumably a matter of guessing. There are, however, in this Congress many men who are determined to do all they can to put this country back on the right path.

In February of this year, a relatively large group of monetary economists presented "Two Programs For Monetary Reform" for the consideration of Congress and the President of the United States, the purpose being to provide all possible aid to them. Another purpose was to help to change the trend from one moving toward the type of controls and management which characterize totalitarian governments to one moving in the direction of an objective monetary standard with the type of management associated with a republican form of government and an economic and political democracy.

The confusion in current discussion in this country regarding the nature and virtues of a gold standard is a remarkable thing to contemplate. We read articles by people who insist that gold is useless and is a relic of the past, and that it is absurd for us to buy it and to hoard it, as they describe it, at Fort Knox, Kentucky.

It is unfortunate that such people cannot stop to look at a few very important facts: one is that gold is not useless; it has a value of $35 per fine ounce. In fact our government attached more importance to it in 1933-1934 and up to date than had any Federal Administration over a period of 141 years (that is, from 1792 to 1933). It attached so much importance to it that it wrote up the dollar value of an ounce of gold 69%—that is, from $20.67 to $35.

Another important fact for these deplorers of gold to consider is that of the $20,811,000,000 of gold held by our Treasury, $19,[illegible],000,000 are covered by gold certificates held by the Federal Reserve banks. And it should not be forgotten that these gold certificates are reserves against the Federal Reserve notes and deposits in our Federal Reserve banks. There are still other claims that can be exercised against much of the remainder of the Treasury-held gold, with the result that the Treasury has a negligible amount of gold against which there are not claims outstanding.

The Treasury gold, held chiefly in trust for those having claims against it, is properly put in great safe-deposit vaults for safekeeping. It is a valuable commodity worth $35. per fine ounce, it belongs chiefly to others, and it performs various vital functions unfortunately not widely understood today. Our country's gold stock is not being hoarded by the government in the sense commonly alleged.

At the same time that we read or hear discourses on the uselessness and undesirability of gold, we can read articles to the effect that the price of gold, as specified in our international gold bullion standard, is not high enough. Because some of these writers see gold quoted at $60. or $70. per ounce in various foreign countries in terms of their depreciated currencies, they think it is good reason why our government should change the weight in our gold dollar.

The answer to that is that if we must depreciate our dollar every time we find a currency abroad that is more depreciated than our dollar then we have indeed found a new principle in money. It is that the proper currency is the one most depreciated, and that all better currencies should pursue the cheapest one in its downward course. The worst currency becomes the best, and the best the worst!

This confused and conflicting opinion is rather good evidence of the high degree of economic illiteracy in this country regarding monetary matters. For this reason, we can find little assurance that our monetary problems will be handled in an intelligent and competent manner, or that intelligent leadership will get adequate popular support. It is therefore very important that experienced monetary scientists be constantly on guard in this country in behalf of the general welfare to aid and to warn in every manner possible. And these scientists need all the help they can get.

It seems reasonably clear that the great mass of people have no clear perceptions of the relationship between the gold standard and their ability to exercise effective control over the government's management of the people's monetary and fiscal affairs. The mass of people seem to confuse the convenience of paper money with the vitally important functions performed by gold in the settlement of adverse balances of trade, in the maintenance of a monetary standard in which the people can have confidence, and in providing a storehouse for the accumulation and perpetuation of values.

It is probably accurate to say that the gold standard does as much as, if not more than, any economic institution known to man to maintain high standards of integrity in business and personal relationships in which money and contracts are involved.

Contracts payable in paper are no better than the promise lying behind it. The record of such promises has been notoriously bad. Gold, on the other hand, supplies a complete and final answer in itself. The weakness of human promises is not involved when gold passes in the fulfillment of contracts. Gold is an exacting master. Its standard of integrity is 100%.

It is for this reason, among others, that advocates of a managed economy and a so-called "managed" currency wish to rid themselves of such a master as a gold-coin standard. These managers have their own opinions as to the standards of morals and ethics that they wish to employ. In general, they wish to replace the objective standards of the free competitive markets and of gold by their own (subjective) standards. When this subsitution is made, as it has been rather generally throughout the world, and, to a large degree, in this country, objective standards are replaced by caprice, slogans, demagoguery, waste, social degeneration, and the impairment of the freedom and importance of the individual.

The 158 years of our history teach us lessons that are very different from those that the advocates of managed currencies and managed economics have pretended in recent years are the principles to be followed. Our people need to study history more closely. We need to fight harder for the restoration of the standards of integrity which are necessary it a nation is to progress. And as this battle is renewed and carried forward it should not be forgotten that one of the greatest symbols of social integrity that the world has ever produced is the gold standard.

[1] The peak amount of our bank deposits was $148,911,000,000 in December, 1945; that of money in circulation was $28,997,000,000, reached in December, 1946.

Officials of Bank And World Fund

THOMAS BASYN

Alternate Executive Director of The Bank

Mr. Thomas Basyn, a Belgian, is alternate executive director of the World Bank, being the selection of Mr. Franz de Voghel, who as executive director represents not only Belgium, but also Norway, Luxemburg and Iceland on that institution. Since 1941, until his appointment to the World Bank post, Mr. Basyn had been acting secretary general of the Banque Nationale de Belgique, the central bank of Belgium.

Thomas Basyn

Born in Bruges in 1898, Mr. Basyn graduated in law at Louvain University in 1922 and from that time until 1929 was barrister in the Brussels Court of Appeals. During 1926 he was in the United States, studying economic and financial matters

From 1930 to 1936 Mr. Basyn was on the staff of the Brussels branch of the National City Bank of New York. Later he served as assistant manager of the government agency set up in Belgium for the liquidation of state-guaranteed credits granted during the 1935 crisis to private concerns and banks. This post Mr. Basyn occupied from 1936 to 1940, during which period he also was correspondent of the Journal de Geneve, Switzerland. For about a decade he was professor of money and credit at a Brussels high school.

Bond Club of New Orl'ns Annual Field Day

NEW ORLEANS, LA.—The Bond Club of New Orleans announces that it will hold its annual field day on Friday, May 30 at the Metairie Country Club. Reservations are $3.00 and checks should be sent to John Kerrigan, Newman, Brown & Co.

Ford T. Hardy, Merrill Lynch, Pierce, Fenner & Beane, chairman of the Field Day, announces the following events, and the committee chairman in charge:

Golf—Joseph Minetree, Steiner, Rouse & Co., chairman; as in the past the club is paying all charges except green fees.

Horse Shoe Pitching—John Zollinger, chairman.

Swimming — Alvin Howard, Howard, Labouisse, Friedrichs & Co., chairman.

Luncheon—Claude Derbes, Couturier & Derbes, chairman.

Liquid Entertainment—Jackson A. Hawley, Equitable Securities Corp., Chairman.

Dinner will be served at 6:30 p. m., followed by the annual business meeting and election of officers for the coming year.

A. C. Lewis Is With E. H. Rollins & Sons

E. H. Rollins & Sons Inc., 40 Wall Street, New York City, announce that Arthur C. Lewis is now associated with them.

Mr. Lewis was formerly municipal trader for Lebenthal & Co. Prior thereto he was manager of the municipal department for L. D. Sherman & Co.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities markets are still under the influence of action by the money managers, which has kept price fluctuations within narrow limits on light volume. . . . When quotations of certain issues are marked up, the authorities for their own account or that of government trust funds and agencies, are sellers of the obligations that appear to be headed for higher levels because of the improved demand. . . . So far the powers that be have been able to keep the market on an even keel, by a combination of direct and indirect action. . . . The limiting of the credit base, through the weekly retirement of Treasury bills, plus open market sales of securities, have prevented the market from getting too enthusiastic on the up side. . . .

IMPACT OF GOLD INFLOW

Although the redemption of bills is the most important credit factor at the moment, it has not been as satisfactory as had been hoped for, because of the tremendous inflow of gold, which may approach record levels before the end of the year. . . .

Whether the changed conditions brought about by the return of the yellow metal to the United States will result in new measures being adopted will depend to a considerable extent upon the trend of business, which, to say the least, appears to be very much confused at this time. . . .

Nevertheless it is reported that important consideration is being given to means and methods of handling the gold inflow without influencing too greatly the trend of economic conditions. . . .

BILL REDEMPTIONS

The authorities as well as investors are well aware that business activity is declining, business loans are decreasing because of inventory liquidation and more cautious buying policies, while commodity prices have passed their high points. In other words, the inflationary trend appears to have been reversed, and this would ordinarily call for a change in tactics on the part of the monetary powers. It is believed in some quarters that the redemption of only $100,000,000 of Treasury bills instead of $200,000,000 is the result of the declining trends in the economic picture. . . . They also hold to the opinion that as business conditions continue to deteriorate the redemption of bills will be eliminated entirely. . . .

Others argue that changes in credit policy will be dependent upon: (a) whether or not the authorities believe that the transition will be mild, orderly and of short duration. . . . If a depression were threatened there would have to be an immediate reversal in the credit program. . . . (b) Upon the ability of the powers that be, to keep prices of Treasury obligations within recent trading ranges. . . . While there is still a very much divided opinion as to defrosting of short-term rates, the feeling now among some is that it may have to take place to keep government security prices in line, and not for the purpose of stopping the upward trend of loans and commodity prices, both of which have turned down. . . .

INVESTORS CAUTIOUS

Investors have definitey turned cautious, and are interested now in only the most riskless obligations, which accounts in part for the demand and trend of government securities. . . . Prices would be much more pronounced on the up side if it were not for interference by the money managers to keep them down. . . . This is in sharp contrast to the equity markets, which have been moving into new low ground. . . .

However, the importance of the down-trend in stock prices cannot be ignored by the authorities, as an indicator of economic conditions because of the effects that periods of uncertainty have upon government fiscal policy and finances. . . .

The movement of funds into the highest grade obligations, because of the lack of other suitable investments, particularly in the building industry, is creating a demand for government securities that may not be so easy to control. . . .

SALES BY RESERVE BANKS

For the first time since the Victory Loan, back near the end of 1945, the Federal Reserve banks last week were sellers of long-term Treasury bonds. . . . For the week ended May 14, the Central banks sold $14,000,000 of bonds due in more than five years. . . .

Although there have been changes in bond holdings of the Federal Reserve banks since the last public loan drive, these have been the results principally of redemptions. . . .

It is indicated that the Central banks are determined to keep prices in line, even if they have to sell their own obligations as well as those of the agencies and trust funds. . . .

INTERMEDIATES FAVORED

While there is a fair demand for the longest eligible obligations, it seems as though the deposit banks are now looking with greater favor on the intermediate-term issues, especially the 1952 maturities. . . . Although these bonds have shown no important price changes, there has been and still is quiet accumulation of these securities. . . . The fact that many of the restricted bonds become eligible for purchase by the commercial banks in 1952 has been responsible in no small way for the purchase of the 1952 maturities of the bank obligations. . . .

WORLD BANK BONDS

The educational as well as the publicity campaign is on, to familiarize investors with the World Bank bonds, which should be reaching the market in the next month or six weeks. . . . The Bank recently made its first loan to France ($250,000,000) and with others to be made soon, there will be need to replenish loanable funds. . . .

The short-term obligations due in 10 years will probably carry a coupon of 2¼% or 2½%. . . . The demand for these bonds is large. . . . The longer-term bonds due in 25 years will have a coupon rate not in excess of 3% and will appeal to insurance companies and savings banks. . . .

The government is very anxious to have the bonds meet with a favorable reception, so it is indicated that they will be priced to go well. . . . It is assumed that the money markets will be kept in good condition to insure the quick disposal of the World Bank obligations. . . .

CERTIFICATE PAYMENT

The redemption of one billion of the June certificates continues the pattern of debt reduction although it had been expected in some quarters that a somewhat larger amount would be paid off on that date.

Organized Labor and Economic Stabilization

(Continued from page 5)

that the Council of Economic Advisers to the President shall consult with such representatives of industry, labor, agriculture, and consumers as it deems advisable.

Consultative Conferences Held

We promptly decided that it was advisable for the three members of the Council and those of our top staff who were particularly concerned with labor matters to sit down with representatives of the principal labor organizations, at least quarterly, for a frank exchange of views. We have also met with management, agriculture, and consumers. As a matter of record, the first such consultative conference that we held, soon after our work got under way and before we made our first report to the President, was with Mr. Harrison, Mr. Lyon, and five other representatives designated by the Rialway Labor Executives Association. I am glad now to broaden my acquaintance with your membership and to consider with you the principles under which we both must work in promoting the economic welfare of our great country.

The Employment Act Declares Responsibility

Now there is one point about the policy set forth in the Employment Act of 1946 and the working relations and program of the Council of Economic Advisers which I think it is most important that everybody have clearly in mind at all times. The Employment Act recognizes and underscores the responsibility of existing and long-established organizations in the field of private business; but, at the same time, it accepts and clarifies a reciprocal or complementary responsibility of the Federal Government for promoting high and continuous use of our country's productive resources.

I undertook to drive this point home in the first formal address that I made as Chairman of the Council of Economic Advisers. This was on Dec. 6 last, when I was invited to address the National Association of Manufacturers assembled in their 51st Congress of American Industry. A single paragraph will give you the point of view from which I urged them, and I now urge you, to approach this great new development in our institutions of free government. I said:

"It now devolves upon each of us, whether in the executive or legislative branch of the Government to see that, in carrying out the purposes of this law, we study wisely and with due counsel as well as acting decisively and promptly when occasion demands. To this end, we of the Council sincerely hope that you of the House of Business no less than those of the House of Labor and the House of Agriculture will join actively and sincerely in our studies of causes that impede the attainment of maximum production, employment, and purchasing power and in the making of recommendations which would operate effectively toward the removal of these impediments."

All this simply reflects my general economic philosophy and understanding of how an economic system works and can be made to work more efficiently and steadily through the guidance of intelligent men who occupy official or administrative positions in economic organizations, private or public. It reflects the view that in these relationships we are dealing with a very delicate and complicated piece of machinery and that we cannot safely operate as special interest groups or fighting our sheer weight or fighting strength to force an economic adjustment merely to our arbitrary will or to our short-run or apparent advantage. Instead of such a militant or brute-force means of settling economic problems, we must, with the responsibilities that lie in our hands, turn to what I like to refer to as the engineering approach to problems of economic adjustment under free enterprise and collective bargaining. We cannot be content merely to be clever negotiators or ruthless fighters. We must acquire a basic understanding of the broad repercussions and long-run cause-and-result relationships involved in our business actions. Both the corporation and the union must be skillful in working out these relations when they set wage rates and working rules. Manufacturers and merchants must deal skillfully with these relationships when they mark price tickets and set service charges. Both individuals and corporate managers must deal intelligently with these relationships when they determine on their savings accumulations and their spending behavior. Public officials as well as citizens must show themselves economically literate when they decide on tax levies and public works expenditures.

Economics is really a particular species of engineering — wealth engineering. Your union officials and likewise corporation officials and Government officials must, if they are to be successful in the long run, bring scientific analysis to bear upon the study of business forces, market values, and high real incomes, much as the mechanical, electrical, or chemical engineer brings scientific methods to bear in dealing with the forces and materials of nature. Like these other engineers, they seek to find what is wrong with the mechanisms and practices through which we are currently utilizing these forces and materials. And they should contribute to their more effective utilization.

This engineering approach to your business and the Nation's business comes to a sharp focus today. We stand at the end of a war of unprecedented magnitude and severity, in which swift, skillful, and massive industrial production has been a decisive factor. It was a great engineering or technological achievement. But it was not a great business or economic achievement or a demonstration of our ability to run an industrial system at high efficiency in peacetime. It was a highly artificial episode of industrial production, in which motives of patriotism or even fear largely supplanted ordinary motivation and in which Government orders were financed out of a national deficit and we rolled up a gigantic debt. The basic problem of reconversion is to keep the momentum of this high-level economic activity but convert it to orderly market transactions on a self-sustaining basis. To stabilize such high-level production and consumption is the basic purpose of the Employment Act of 1946.

In the world of normal bargaining relations to which we have now returned, several goals have to be jointly attained. The consumer has to be satisfied that he is getting proper value for his dollar. The capitalist or saver has to be satisfied that he has enough prospect of interest or dividends and certainly enough safety for principal so that he keeps investment flowing in at the rate needed for efficient equipping of labor and for necessary growth. Labor has to be satisfied that wages correspond reasonably to actual productivity and that special skills or extra effort can win financial recognition and lead to advancement.

Businessmen are fond of saying that it is the task of management to do all these things. For myself, I think they cannot really be accomplished unless other parties to the processes of business intelligently and conscientiously play their part also. I am not here to talk about management's responsibilities or the means by which they can be most fully met. Nor am I here to claim that they have been or are being met as fully as is necessary if we are to demonstrate the superior efficiency of the private enterprise system. Among businessmen there is right now considerable complaint that the Council of Economic Advisers and the President are putting too much heat on them for solving current economic problems and relieving present business difficulties and that we are putting little or no responsibility on agriculture and labor, where they say it belongs. Personally, I see no reason for stopping, or indeed moderating, our statements as to the responsibility of management at this juncture in the return to postwar private business.

I said to the NAM audience:

"It is up to you to show your capacity to do business in a buyers' market. Unless you can allow the full volume of productivity of our capable labor force, our ample plant, and our marvelous technology to continue unabated and absorb within your long-time accounting, financing and managerial system such price declines as result, you will not have shown a capacity of the competitive free enterprise system adequately to serve the Nation's needs.

"You can't pass the buck to labor any more than labor can pass the buck to you. They also regard themselves as part of the system of competitive free enterprise, and you must both of you find a way of getting together to hammer out a mutually sound adjustment. I hope some day I'll have the chance to say these things to a labor audience."

Unionism and Economic Stabilization

Well, I now have my chance to talk to such an audience, and there are just three points I want to make. The first is that organized labor settlements must be the parent and not the child of economic stabilization. The great purpose of the Employment Act of 1946 is to promote economic stability or high continuous utilization of our natural resources and the maximum purchasing power for the whole consuming population that would go with such high production. It is a mistake to think that the Act provides any trick device for guaranteeing business stability or full employment. It commits the Government to provide favorable conditions, but within these conditions labor and management must work out the actual arrange-

ments under which high production can be attained.

A very distinguished labor leader once said to me: "We are strong for the Employment Act and the Council of Economic Advisers. You just go ahead and stabilize business, and we'll get ours." I have no doubt as to the second of these propositions. But I would simply be seeking to deceive you if I left the impression that the Council for a moment supposes that it can stabilize the economy or even point the way in which it could be stabilized except through the sound action of labor as well as management in their collective bargaining settlements. Under wage rates and working practices, labor must put as much into the creation of products as it arranges to take out in the way of consumer goods. In other words, the settlement must be one that creates both the opportunity and the inducement for business—jobs—to go on.

It is sometimes pointed out that the maintaining of full employment is the same as making a perpetual sellers' market for labor. You may reply: "Well, is that bad? Isn't it just what the whole labor movement is for?" My answer would be: Whether it is good or bad remains to be seen. It will depend upon how wisely union members and union officials can use the power that is theirs in a sellers' market. At the least, I would have to say that it is dangerous.

We have just seen a demonstration of the dangers of a sellers' market for commodities, which has caused you as consumers a good deal of anguish and threatened the country with spiraling inflation. I am somewhat reassured that that danger is now being averted, in part through the self-control of some business men and in part through the corrective effect of increasing production. It is hardly to be supposed that a sellers' market for labor would be protected against abuse by the stimulative effect that it would have on the production of new laborers. Hence all the more responsibility devolves on labor policy and adjustment practices if you are to keep from engendering an inflationary spiral of annual wage increases followed by annual price increases which promptly extinguish the gains for the consumer.

In this connection it seems to me that the greatest danger that the Council will have to face in its study of wage-price stabilization is that particular groups of workers will feel strong enough to secure a substantial wage increase in an industry whose product does not enter directly into their consumer budget or which is only an insignificant item in it. Thus they feel that they stand to gain more in wages than they lose in prices and are ready to ignore the losses that they are putting on the rest of the community, mostly wage workers like themselves, or on farmers—who, in the last analysis, are no less wage earners. This seems to me to call for a greater integration of policy in the whole labor movement, so that particular crafts or groups will not be seeking to promote their own advantage at the expense of other workers. This idea of union members' responsibility has been powerfully stated by two union groups, and I believe their words will carry more weight with you than anything that I might say.

In the "United Rubber Worker" for May, 1946, President L. S. Buckmaster said:

"Industrial labor in America has emerged from a state of helpless, spineless submission and from the status of second or third rate citizenship to a position of power and influence in this country. . . . Now that Joe Worker has become a first rate citizen and a power in the community, he must make sure that he behaves as a first-rater should behave. He must accept this thing that we call responsibility. He must adjust himself to fit in with this whole scheme of things sometimes referred to as society. He must learn to be tolerant lest he become a tyrant. He must be unselfish lest he be classed as an exponent of greed. He must play life's game according to the rules lest he be banned as a menace to the other players.

"In other words, we must use this new-found power of ours in a clean and decent manner if our unions are to survive. That does not mean that we should revert back to our old position of spinelessness. It means that we must begin to mix a higher percentage of intelligence and moral courage into the batch than we used to do. The end result of this sort of mixture will be a product of finer quality. It will look better and wear longer, as the advertiser would say. It will give you a union that fills your needs and makes you proud to be a member of that union."

And two years earlier, the International Brotherhood of Paper Makers, after an elaborate special study of union problems, reported:

"Wages in the paper industry as a whole have been comparatively high since it first became one of the **organized industries.** Although many believe our wage rates are not as high as they should be today, the paper industry is still a high wage industry. Average annual earnings rank high among all other industries on the North American continent. Many professions, even in these war times, are not providing comparable earnings. There are today many millions of employees of other industries earning 40 cents an hour and less. . . ."

"When unions fight for wage increases, with a blare of trumpets, they are fighting for something for themselves only. The public doubts it is going to benefit from the fight, and often is worried lest any increase will be passed on to them in the form of increased prices.

"A reduction in the cost of living should benefit the public as well as the members of the union. Should unions put up a determined fight to get the cost of living down, they would have the public in their corner, cheering them on. If the unions win, the public wins also."

It was not strange that when labor undertook to correct the abuses of early industrialism through union organization, it relied exclusively on militant methods—on trying to get as much strength as the employer, or even more strength. That was the only tool at hand—and a perfectly proper tool for establishing the institution of collective bargaining. But the time was bound to arrive when unionism, through its organizing ability supplemented by the political resort to Government aid, should catch up with and might perhaps even pass capitalistic organization in the race for power.

I suppose that if we could get an absolute equilibrium of size, strength, and skill between the two parties, that condition might assure that wage contracts from then on would reflect a true economic equilibrium. But the attaining and maintaining of any such precise equality of bargaining power is the purest figment of a theorist's imagination. What actually takes place is an endless and destructive struggle of each party to get a little bigger than the other—or a little stronger—or a little more deeply entrenched in Government protection. In all probability, the end of that struggle would be marked by the trading of independence and private enterprise for complete paternalism and bureaucratic control.

This would mean the end of unionism and, I fear, the beginning of totalitarianism. To avoid such a disaster, it would seem imperative that both labor and management abandon the race for each to get strong enough to beat the other and that, instead of gang fighting, they adopt in good faith the method of collective adjustment of the economic process in which they are both partners.

Maximum Production Outlaws Restrictionism

My second proposition is that restriction of production must be definitely opposed and not even silently condoned by organized labor if the great objectives of the Employment Act of 1946 are to be achieved. We could have all those able and willing to work actually on the pay roll and even employed 40 hours a week and still not attain "maximum production and maximum purchasing power" if the bricklayers were only laying 300 or 400 bricks per day, if the painters insisted on narrow brushes and no spray guns, and if we had to march a band in to stand by every time a juke box played or a high-school orchestra tuned up. Featherbedding and every make-work or work-spreading policy of unions is based on a fear that there won't be enough work to go around. On the other hand, the whole philosophy of the Employment Act is that there shall not merely be a full number of jobs but that workers shall work at high efficiency so that real wages or purchasing power shall be raised until a point is reached where people prefer more leisure rather than additional goods. The only limitation that would be acceptable would be in adjusting the length of the work week to the level of high productivity—not low consumption.

It is a matter of common knowledge that there is also a restrictionism on the part of employers. It is no less prevalent than that of labor and no less threatening to the objectives of high production and purchasing power. Producers match workers' fear that there won't be enough work to go round with their own fear that there won't be enough market to go round. This leads to curtailment of output in order to support price instead of simply guiding full productive effort into those channels which reflect consumers' relative preferences and then accepting the price that balances that supply with the demand available when employment is sustained.

Now in fact there is enough work to go round and enough market to take the full product if only we poor ever-struggling and often stupid agents of the business process would just relax and woo rather than coerce the price-making and wage-setting process. So you see I get back again to my basic proposition that economic adjustment via collective bargaining has to become an engineering matter strictly on the scientific up-and-up if we are not to get ourselves again into a stalemate and force the resort to authoritarian settlements. This may quite possibly be the last chance for voluntary bargaining in the private market.

Is the Outlook Bright or Dim?

Probably some of you are beginning by now to feel a little impatient with me. You may accuse me of being a bureaucrat who lives in an ivory tower or a professor content "to lecture on navigation while the ship is going down." To this latter jibe, I might reply (1) that the good ship America is not going down, and (2) that sound practical knowledge of the principles of navigation will do a lot to bring her to the ports we seek as our journey continues.

Even so, I dare say you are primarily interested in the wage demands you are about to present to the railroads and on the likelihood that you can in the end get the "pattern settlement" of "a buck a day" or perhaps of 15 cents an hour. Secondarily you are no doubt interested in whether the level of prices or the cost of living is headed up or is likely to remain stationary. As a third issue you are probably wondering whether there is going to be a recession of enough magnitude to affect railway business seriously and, if so, how long it will last. And then what?

Well, I am not going to indulge in any specific forecasts or record any detailed prophecies. I don't know whether you are going to get to ride in the 12½-cent surrey with the 2½-cent fringe on top. But in your own interest as embedded in the economic interest of the country as a whole, I shall hope that you will seek and win the settlement which adjusts your wage rate most equitably within the total price structure and your wage level in best equilibrium with prices and transportation charges as a factor in manufacturing costs, market prices, and consumers' cost of living.

As an economist—a wealth engineer—I cannot but deplore the way in which we have allowed ourselves in the last few years to drift into the acceptance of overall formulas and pattern settlements. And this applies to 10% price cuts "across the board" just as much as to "pattern" wage increases. This kind of thing is definitely alarming to an agency like our Council which is devoted to the attainment of true economic stability in the Nation's economic mechanism. The mechanics adjusting a machine don't say that, just because one nut needs to be tightened by 1½ turns, all the other nuts must or can be tightened by the same amount. Some may need to be loosened. The only sound question is: Why is the present adjustment wrong and what will happen if we put on more pressure or less?

As to the cost of living, I don't know just how that line is going to run either. But I believe that there is solid ground for relief in the way in which union negotiators and employers have been able to get contracts without strikes and in the present prospect that the dreaded wage-price spiral will not get out of hand in a process of runaway inflation. Frankly, I see real hope that the tide of inflation is being stopped and that we shall see a flood of efficient production engendering market competition that makes more goods available to more people at distinctly lower prices.

And so to the third question: Are we headed for a recession or depression that would cut railway traffic seriously, and hence employment? Well, that is the kind of thing the Employment Act of 1946 is designed to prevent. But it will not achieve that end except through the intelligent and determined participation of organized labor, of corporate management, and of farmers and their associations.

Why should we not have sustained prosperity? We have "the makin's." To be sure, the war imposed some drain upon our natural resources and some impairment of our manpower—beyond the losses we regularly sustain even during four years of peacetime operation. On the other hand, it stimulated industrial training and important additions to our industrial plant even after allowing for those types of building and equipment that were adapted only to military uses. There can be little doubt that the productive potential of the United States today is higher per capita than it has ever been before. We still have intact our system of democratic government and free competitive enterprise which we believe provide an independent, ambitious, and intelligent people the greatest opportunity for putting their powers into productive effort and thus producing for themselves a living on the highest possible standard.

In terms of opportunity, then, I do not see how any one of us can feel that the economic prospects of this country are other than bright. The real question is: Are we bright? Are we smart and tolerant and well disciplined enough to work together in a democratically organized program to realize those productive possibilities?

The prime purpose of the Employment Act of 1946 and the objective to which the work of the Council of Economic Advisers is to be directed is to secure the highest **real** wages—that is, the largest package of goods and services—for all the men and women "able, willing, and seeking to work." The rewards are to be as nearly as possible in proportion to the true productive value of their several contributions. But as I have said before, that end cannot be accomplished unless every individual and every organization within this complex and interrelated system is willing to accept the verdict of the most scientific means of measuring productivity that can be devised, and to foreswear the struggle to force a settlement in its own favor regardless of the consequences to the delicately adjusted machine of which it is a part.

If I understand the Employment Act of 1946 correctly, it declares more specifically than this Government has ever before declared its policy for the continuance of a system of free competitive enterprise. It likewise declares more specifically than ever before the intention on the part of the Government to take these complementary lines of policy and action which are necessary to sustain a high level of national production and employment opportunity. In so far as that dual system of economic life succeeds, we shall attain the goal of maximum purchasing power for those who work with hand and brain in the mines, forests, fields, workshops, and offices of the Nation.

Stock Exchange Honors Coleman

The members of the New York Stock Exchange gave a testimonial dinner on Monday, May 19, in honor of John A. Coleman,

Robert P. Boylan

John A. Coleman

who retired as Chairman of the Board of Governors after serving four years in that capacity and five years as a Governor.

Among the speakers were His Eminence, Francis Cardinal Spellman; Robert P. Boylan, Mr. Coleman's successor as Chairman of the Board of Governors; Mayor William O'Dwyer of the City of New York; Chairman James A. Caffrey of the Securities and Exchange Commission; Emil Schram, President of the New York Stock Exchange and Mr. Coleman. The Rev. Dr. Frederic S. Fleming, Rector of Trinity Church, said a benediction. Sylvester P. Larkin, presided.

The dinner was held in the Grand Ball Room of the Hotel Commodore and was attended by 1,200 guests.

Investment Companies Liquidated in Fourth Quarter

(Continued from page 2)

Wide Securities, managed by Calvin Bullock, had 57.1%; George Putnam Fund of Boston, 63.2%; Republic Investors, and Sovereign Investors, both smaller trusts, held 55.6% and 54.8%, respectively, in more volatile securities. The First Mutual Trust Fund made a complete about-face and increased cash and governments from $100,000 to $1,706,000—36.2% of total net assets. It has been reported that there was a relatively recent reshuffling in its portfolio management set-up.

An Outstanding Performer

The outstanding performer, however, among those managers, who gathered in their sails to weather the present deterioration in security prices, was the Russell Berg Fund of Boston. On March 31, 38.6% of its net assets were in cash and equivalents, 22.9% in bonds and preferred stocks of first investment grade, and only 38.5% in equities and prior securities of the more speculative type. This Fund was likewise in an excellent defensive position at the time of the break in the stock market early last fall. Increasing its position in equities slightly during the final quarter of the year, it still maintained what it termed "a cautious investment policy," resulting in a final decision to get more liquid in the present quarter. This is a relatively new Fund, its management expenses are at a minimum, and its size, not yet being large, makes for flexible operation. Sponsored and managed by an investment counsel firm, divorced from investment banking connections, its unusual performance should throw open the entire question of what is the desideratim in size, expense, and management connection *de facto*, which matters were given so much consideration when the Investment Company Act of 1940 was before the Senate Banking Committee.

The advantage to be gained from banking affiliates, for example, might be questioned when these sponsors fail to liquidate groups of securities, particularly vulnerable at this stage of a post-war business cycle, although such sponsors might, through specialization, have knowledge of inherent weakness. The merchandising shares are a case in point. One large bank-sponsored trust held $7¼ million of such shares, its third largest group, constituting over 10% of total portfolio value. Two more trusts, connected with another banking firm, held, respectively, $5⅓ and $5 million of securities in retail enterprises. This group made up for 16% of the portfolio of one trust, 14% of the other. Liquidation over the last year was insignificant in these store stocks, although other trusts sold their holdings.

Reasons for Liquidation

It is always of interest to inquire as to the cause advanced by trust managements for such liquidation as has taken place during the quarter under review. The Russell Berg Fund in a letter to stockholders preceding the quarterly report explains succinctly the factors that determined their drastic course of action:

". . . Already the physical volume of retail trade appears to be running under the same period of 1946, and when income payments are adjusted for the cost-of-living, actual purchasing power in terms of goods and services is heading downward. . . . We are bound to conclude from analysis that in many cases the current high rate of earnings is temporary and is predicated on the continuation of the spiral character of commodity inflation which developed with the end of OPA and was bolstered by an initial spurt of buying emanating from pent-up demands and the urge to avoid further price rises. There is always danger in comparing one post-war experience with another and such analogies can hide real differences in each period. We believe, nevertheless, that with respect to the recent action of the commodity price structure there are striking similarities with the 1920-1921 period. . . ." The letter also calls attention to the adverse effect on the Federal budget of implementation of the "Truman Doctrine" and "the fundamental tension in our relations with Russia."

Casual cost comparison would indicate that it is by no means farm products or non-manufactured articles alone which have spiraled in price. E. F. Jeffe, Vice-President in charge of sales for the Consolidated Edison Co., recently pointed out the following contrasts in approximate prices of electrical appliances in 1946 against 1941; automatic toasters, $7.50 as against $2.65; radios, $50 as against $18.50; refrigerators, $220 as against $150; non-automatic irons, $6 as against $2.25.

The rise in clothing prices is an every-day topic in all households. The Federal Reserve Index, using 1935-39 as a base, places this cost of living item at over 180. From this discussion of high prices and causes of business hesitancy, it is easily discernible why the retail stocks should be among the first to feel the brunt of investment company liquidation. Among the department stores, Allied Stores was most heavily sold. Associated Dry Goods, Marshall Field, and May also were disposed of by several managements. The two big mail order and retail chains, however, came in for the greater share of liquidation among the merchandising shares. Ten trusts disposed of 17,475 shares of Ward, while seven sold 19,000 shares of Sears. The United Cigar-Whelan chain was also lightened in several portfolios.

The Moving Picture Industry

Continuing a well-pronounced trend established in the previous quarter, nine managements sold 28,000 shares of Paramount Pictures. Witness to the falling off in theatre attendance was the recent move to stimulate patronage by a reduction in daytime admission prices at certain of the company's largest metropolitan show houses. Six trusts also disposed of Twentieth-Century-Fox, whereas four lightened commitments in Loew's. Warner Brothers also found disfavor with two funds. Rubber stocks, as in the latter part of 1946, were unpopular with investment managers. Goodrich and United States Rubber were each sold by seven companies. Firestone was added to the list of those unpopular in the previous period, but opinion was fairly well divided on Goodyear.

Selling spread into the paper group. Eight trusts lightened their holdings of International Paper. Three months ago three managements had made entirely new commitments in Union Bag and Paper; in the present period five trusts sold this stock. However, two managements added to holdings of St. Regis Paper.

Railroad Liquidation

Liquidation was general over a representative list of railroad equities. Volume selling was not concentrated on any individual issue, although Great Northern preferred was disposed of by five managers. Largest single block to be eliminated was 30,000 shares of Pennsylvania by one of the oldest mutual funds in the country. In the recent brief report to stockholders, accompanying its dividend payment, the railroad company points to the enormous increase in costs of fuel, material and supplies during and since the war. In common with the other roads, it hopes authority will be granted to increase charges for passenger, mail and express services in addition to the recent hike in freight rates. Southern, Southern Pacific, Coast Line, and Atchison were also sold. Even such a blue chip favorite as Union Pacific was eliminated from the portfolio of one company and lightened in that of another. It also is to be noted that five managements disposed of 73,000 shares of Greyhound, three eliminating this issue completely from their holdings.

Textiles stocks were among those groups in disfavor. Celanese was completely eliminated by five investment companies; American Viscose and Industrial Rayon also were sold. Five trusts disposed of holdings of American Tobacco "B"; two cleaning out completely this old-time favorite. Among other tobaccos not liked too well were Philip Morris and Reynolds. Selling also crept into the issues of pharmaceutical and drug companies. Pronounced liquidation appeared in American Home Products, although much of this was to dispose of shares received as a stock dividend during the previous three-months' period. Colgate-Palmolive-Peet and United-Rexall Drug were also in disfavor.

Attitude Toward Building Houses

Attitude of the trust managers appeared to be shifting on building stocks as rising costs placed new construction beyond the reach of ever-increasing segments of the population. In the third quarter of 1946 this group of companies was second in popularity among those shares purchased by investment managers. In the final quarter of the year there were still scattered favorites, but now, in the period under review, such popular issues as Armstrong Cork and American Radiator were sold, each by four trusts. Lone Star Cement and Manville were also lightened in portfolios. The one outstanding exception was United States Gypsum. No less than 12 funds purchased a total of 37,000 shares of this issue, and seven of these were entirely new commitments.

Oils Favored

The great favorites during this period were the oil stocks. Jersey, Gulf and Philips each found favor with five managers. Also well liked were Socony, Ohio Oil, and Standards of California and

Balance Between Cash and Investments of 49 Investment Companies

End of Quarterly Periods December, 1946 and March, 1947

	Net Cash & Govts. Thous. of Dollars —End of—		Net Cash & Govts. Per Cent —End of—		Invest Bonds & Preferred Stocks Per Cent* —End of—		Com Stks. plus Lower Grade Bonds & Pfds. Per Cent —End of—	
Open-End Balanced Funds	Dec.	March	Dec.	March	Dec.	March	Dec.	March
American Business Shares	3,037	4,927	9.5	15.6	5.8	12.1	84.7	72.3
Axe-Houghton Fund	404	836	6.8	11.2	3.5	2.4	89.7	86.4
Axe-Houghton "B"	95	162	9.5	15.7	12.2	10.5	78.3	73.8
Commonwealth Investment	397	490	12.4	14.6	15.3	17.1	72.3	68.3
General Investors Trust	310	482	14.8	23.3	23.0	21.2	62.2	55.5
Eaton & Howard Balanced	3,316	3,568	12.9	13.4	15.2	18.2	71.9	68.4
Fully Administered Shares	1,346	1,321	24.9	24.9	5.4	6.8	69.7	68.3
National Securities-Income	392	339	4.3	3.5	13.6	23.9	82.1	72.6
Nation-Wide Securities	597	1,270	7.1	14.0	34.3	28.9	58.6	57.1
George Putnam Fund	2,827	3,678	14.2	17.9	21.5	18.9	64.3	63.2
Russell Berg Fund	196	373	22.9	38.6	18.9	22.9	58.2	38.5
Scudder Stevens & Clark	1,101	**	4.8	**	22.2	**	73.0	**
Wellington Fund	8,876	11,425	24.3	29.1	17.5	19.0	58.2	51.9
Wisconsin Investment Co.	561	490	27.1	22.9	8.1	9.3	64.8	67.8
Open-End Stock Funds:								
Affiliated Fund	2,047	1,428	7.6	5.3	None	None	92.4	94.7
Broad Street Investing	185	543	2.3	6.7	None	None	97.7	93.3
Bullock Fund	580	611	10.8	11.4	None	None	89.2	88.6
Delaware Fund	112	249	10.8	24.2	2.6	2.6	86.6	73.2
Dividend Shares	5,884	6,157	10.3	10.9	None	None	89.7	89.1
Eaton & Howard Stock	127	102	7.6	6.2	None	2.3	92.4	91.5
Fidelity Fund	786	1,467	6.0	11.0	1.5	None	92.5	89.0
First Mutual Trust Fund	100	1,706	2.0	36.2	None	None	98.0	63.8
Fundamental Investors	4,930	4,516	22.8	20.6	1.7	None	75.5	79.4
General Capital Corp.	414	971	3.6	8.8	2.2	1.9	94.2	89.3
Incorporated Investors	2,016	1,948	2.9	2.9	None	None	97.1	97.1
Investment Co. of America	231	567	4.1	10.5	None	None	95.9	89.5
Investors Management Fund	1,713	1,770	17.0	18.0	3.2	None	79.8	82.0
Knickerbocker Fund	205	162	2.7	2.1	None	None	97.3	97.9
Mass. Investors Trust	6,461	7,882	3.3	4.1	None	0.1	96.7	95.8
Mutual Investment Fund	128	70	15.8	9.1	None	None	84.2	90.9
National Investors	561	965	3.1	5.6	None	None	96.9	94.4
Republic Investors	117	440	9.7	39.3	4.9	5.1	85.4	55.6
Selected American Shares	2,606	1,690	16.7	11.1	None	0.7	83.3	88.2
Sovereign Investors	79	102	14.5	19.4	15.5	25.8	70.0	54.8
State St. Investment Corp.	1,415	9,739	2.3	15.0	4.5	None	93.2	85.0
Closed-End Companies:								
American European Securites	278	3,525	2.1	26.6	7.3	1.1	90.6	72.3
††American General Corp.	3.089	610	31.7	10.6	0.1	0.2	68.2	89.2
Blue Ridge Corp.	2,320	6,423	5.5	15.7	2.2	0.6	92.0	83.7
Capital Administration	423	349	‡5.0	‡7.5	6.4	5.5	88.6	87.0
††First York Corp.	1,472	3,224	14.9	33.7	0.5	0.8	84.6	65.5
General American Investors	5,505	6,640	14.8	17.8	None	None	85.2	82.2
General Public Service	416	691	8.0	14.2	None	None	92.0	85.8
General Shareholders	671	830	‡4.4	‡5.2	5.9	5.8	89.7	89.0
Lehman Corporation	14,269	19,650	‡15.1	‡20.9	3.3	3.1	81.6	76.0
National Bond & Share	1,368	2,000	‡13.8	‡19.4	11.1	9.5	75.1	71.1
Selected Industries	798	1,024	‡3.9	‡4.5	9.6	9.6	86.5	85.9
Tri-Continental Corp.	540	989	‡3.5	‡4.2	6.7	7.5	89.8	88.3
††U. S. & Foreign Securities	500	701	1.5	2.1	None	None	98.5	97.9
U. S. & International Securities	774	709	2.2	2.1	None	None	97.8	97.9

*Investment bonds and preferred stocks: Moody's Aaa through Ba for bonds; Fitch's AAA through BB and approximate equivalents for preferreds. ‡Percent gross cash and governments as reported by company. **No interim reports issued to stockholders on this date. ††Portfolio exclusive of securities in subsidiary and associated companies.

Indiana. Texas and Superior were well bought. One cannot help but observe in this outstanding exception to the general trend towards liquidation in other groups evidenced during the period, that oil investors have been heartened by the challenging attitude of our foreign policy as evidenced by "the Truman Doctrine." In its leading article of the issue of Jan. 4, this year, on "Oil Politics," the "London Economist" puts the situation very bluntly: "The shadow of Russia falls right across the Middle Eastern Oil territories. Russia has about 9% of the world's proven oil reserves, and something like the same proportion of present output. But there have been several signs that the Russians are thirsty for oil and they may well think that they have as much right as the Americans and British to be interested in rich supplies so much closer to their own borders."

Electrical Equipment Bought

The electrical equipment manufacturers were the only other companies favored as a group. Five trusts bought 15,000 shares of General Electric and four made purchases of Westinghouse. Cornell-Dubilier Electric was a newcomer in the portfolios. Contrasted with the justified distinct bearishness on rail transportation issues, shares in the equipment field found several buyers. American Brake Shoe, General American Transportation, and Westinghouse Air Brake were among issues purchased by two or more trusts. Also to be contrasted with the unpopularity of the rail transport industry, was the favorable light in which air transport issues were apparently regarded. American, Eastern and Northwest Airlines were favored by several funds. Two trusts likewise purchased a total of 19,700 shares of Pan American Airways.

The chemicals were favored in light volume, transactions on the buy side only topping sellers by a margin of four individual changes. Cyanamid, Commercial Solvents, Hooker Electrochemical, and Newport Industries were among the best-liked issues. Union Carbide, however, was sold by five managements. Insurance stocks were purchased by one company, apparently in anticipation of extension of the moratorium on the application of the new Federal regulatory measure. Among motor stocks, Chrysler, General Motors and Studebaker were also sold. Metals appeared to be waning in present activity, although Nickel and Aluminum of America as well as Aluminum, Ltd., found favor among buyers. In the copper group, Kennecott opinion was divided, the issue finding six buyers at the same time as seven managers disposed of it. Opinion was also divided on Phelps Dodge, but Cerro de Pasco was cleaned out of two trust portfolios. American Gas & Electric and Pennsylvania Power & Light were the two issues favored among the utilities. Several other companies were acquired either as a result of exchanges or dividends. Chief sales were in Engineers Public Service and South Carolina Gas & Electric, the latter issue having been acquired in the preceding quarter as a dividend on holdings of General Public Utilities Corp.

At the present time, the stock market has entered another leg in the declining direction. The distinct bearishness of the investment company managers in general appears to be justified. It will be interesting to observe the correctness of decisions reflected in the accompanying tables, as security prices are registered throughout the remainder of the year.

Freight-Car Rental Charge Increased

By vote of the majority of the railroads, based upon their ownership of freight cars, the daily rental paid by railroads for use of freight cars owned by other railroads will be increased to $1.25 per car per day effective June 1, 1947, according to the Association of American Railroads.

The car rental charge has been $1.15 per day since Feb. 1, 1945; prior to that date it was $1.00 a day.

The increase just approved is based on known increases in car ownership costs, the Association said. These costs for the year 1946 are now under detailed study by a special committee of the Association, and further consideration will be given to the level of per diem car rental when the report of the committee is available.

The freight-car rental is not paid by shippers, but is a charge among railroads for the use of the approximately 1 million cars which at any one time are off the owning lines and on the tracks of other railroads. The rental charge is based on costs of car ownership, taking into consideration repairs, taxes, interest on investment, depreciation, and other costs incidental to the ownership and maintenance of cars.

Changes in Common Stock Holdings of 35 Investment Management Groups

(December 31, 1946-March 31, 1947)

Transactions in which buyers exceed sellers—or sellers exceed buyers—by two or more management groups. Issues more heavily sold are in italics. *Numerals (1) (2) (3) (4) indicate number of managements making entirely new purchases of an issue, or completely eliminating the stock from their portfolios.*

Bought: No. of Trusts	Bought: No. of Shares		Sold: No. of Shares	Sold: No. of Trusts
Auto and Auto Parts:				
3(1)	6,100	Borg Warner	300	1(1)
2(2)	1,800	White Motor Company	None	None
5(3)	*7,000*	*Chrysler Corp.*	*13,200*	*7(5)*
1	*2,200*	*General Motors*	*11,100*	*5(2)*
1	*1,000*	*Studebaker*	*27,200*	*3(1)*
Aviation:				
3(3)	8,000	American Airlines	3,600	1
3(2)	3,700	Eastern Airlines	None	None
2(2)	2,300	Northwest Airlines	None	None
2(1)	19,700	Pan American Airways	None	None
1	*800*	*United Aircraft*	*6,500*	*3(2)*
Beverages:				
2(1)	1,700	Coca Cola	None	None
2	1,300	Pepsi Cola	None	None
None	*None*	*Schenley Distillers*	*8,200*	*2(2)*
Building Construction and Equipment:				
12(7)	36,900	United States Gypsum	1,400	2(1)
2(2)	*14,000*	*American Radiator*	*29,700*	*4(1)*
1	*700*	*Armstrong Cork*	*6,700*	*4(3)*
None	*None*	*Lone Star Cement*	*3,000*	*2(1)*
Chemicals:				
2(2)	1,000	Air Reduction	None	None
4	2,900	American Cyanamid	200	1
2(1)	31,300	Commercial Solvents	None	None
2	1,789	Hooker Electrochemical	None	None
2(1)	4,300	Newport Industries	None	None
3(1)	*2,900*	*Union Carbide*	*8,600*	*5(2)*
Containers and Glass:				
5(4)	7,800	Continental Can	1,000	1(1)
None	*None*	*Container Corporation*	*11,300*	*2(2)*
Drug Products:				
3(1)	7,900	Merck and Company	600	1
None	*None*	*American Home Products*	*21,750*	*3(1)*
1	*500*	*Colgate-Palmolive-Peet*	*1,200*	*3(1)*
None	*None*	*United-Rexall Drug*	*8,500*	*3(1)*
Electrical Equipment:				
2(2)	5,000	Cornell-Dubilier Electric	None	None
5(2)	15,200	General Electric	None	None
4(1)	10,400	Westinghouse Electric	3,000	1(1)
Financial and Banking:				
5	921⅔	Guaranty Trust Co. (N. Y.)*	800	2(1)
Food Products:				
2	4,510	National Dairy Products	None	None
None	*None*	*South Porto Rico Sugar*	*1,300*	*2*
Machinery and Industrial Equipment:				
2(2)	1,700	Dresser Industries	None	None
3(1)	6,400	Minnesota Mining & Mfg.	200	1
3(1)	1,250	International Harvester	800	1
2	1,200	National Supply	None	None
None	*None*	*Fairbanks Morse*	*3,500*	*2(1)*
Metals and Mining:				
4(2)	10,200	Aluminum Co. of America	300	1
3(2)	4,300	Aluminium, Ltd.	None	None
5(1)	16,900	International Nickel	100	1
None	*None*	*Cerro De Pasco Copper*	*15,500*	*2(2)*
2(1)	*3,500*	*Consolidated Min. & Sm. (Can.)*	*4,275*	*4(3)*
None	*None*	*Lehigh Coal and Navigation*	*15,200*	*2(1)*
1	*1,000*	*St. Joseph Lead*	*9,700*	*3*
Metal Fabricators:				
5	8,300	Mueller Brass†	None	None
Office Equipment:				
1(1)	*7,700*	*National Cash Register*	*4,800*	*3(1)*
Paper and Printing:				
2	20,500	St. Regis Paper	None	None
None	*None*	*Dixie Cup Company*	*1,000*	*2(1)*
None	*None*	*International Paper*	*19,250*	*8(1)*
None	*None*	*Union Bag and Paper*	*16,700*	*5(1)*
Petroleum and Natural Gas:				
5(1)	12,000	Gulf Oil Corp.	None	None
4(2)	9,000	Ohio Oil Co.	600	1(1)
5(1)	12,600	Phillips Petroleum	None	None
4(2)	13,500	Socony Vacuum	16,000	2
2(1)	3,000	Southern Natural Gas	None	None
3(1)	7,500	Standard Oil of Indiana	None	None
5	8,650	Standard Oil of New Jersey	1,600	2
2(1)	1,700	Superior Oil	None	None
Petroleum and Natural Gas:				
2(1)	1,650	Texas Company	None	None
None	*None*	*Mission Oil Co. (Kansas)*	*2,600*	*2*
None	*None*	*Panhandle Eastern Pipe Line*	*9,900*	*2(1)*
None	*None*	*Tidewater Associated Oil*	*4,100*	*2(1)*
Public Utilities:				
10(2)	30,950	American Gas and Electric	2,600	3
4(4)	12,900	Cleveland Electric Illuminating‡	None	None
3(2)	1,475	Indiana Gas & Water Co.††	None	None
2	45,000	Middlewest Corp.	None	None
4(2)	1,480	Pacific Gas & Electric‡‡	188	1
4(2)	7,100	Pennsylvania Pwr. & Light	None	None
3(1)	1,000	Peoples Gas, Light & Coke	600	1
3(1)	2,700	Public Service of Colorado	3,200	1
1	*300*	*Commonwealth Edison*	*15,000*	*3(3)*
None	*None*	*Dayton Power and Light*	*12,400*	*3(2)*
None	*None*	*Engineers Public Service*	*47,400*	*5(4)*
None	*None*	*General Telephone Co.*	*8,500*	*2(1)*
1(1)	*500*	*North American Co.*	*5,500*	*3*
None	*None*	*So. Carolina Gas & Electric*	*15,760*	*5(5)*
Radio and Amusement:				
None	*None*	*Columbia Broadcasting "B"*	*11,600*	*2(1)*
None	*None*	*Loew's*	*22,500*	*4(1)*
1(1)	*900*	*Paramount Pictures*	*28,200*	*9(3)*
1(1)	*500*	*Twentieth-Century-Fox*	*15,800*	*6(3)*
None	*None*	*Warner Brothers*	*3,500*	*2(2)*
Railroads:				
None	*None*	*Atchison, Topeka & Santa Fe*	*900*	*2(1)*
None	*None*	*Atlantic Coast Line*	*300*	*2(1)*
None	*None*	*Erie Railroad*	*5,500*	*2(2)*
None	*None*	*Great Northern, Pfd.*	*12,100*	*5(3)*
None	*None*	*Louisville & Nashville*	*900*	*3(1)*
None	*None*	*New York Central*	*1,000*	*2(1)*
None	*None*	*Pennsylvania Railroad*	*33,000*	*2(2)*
1	*100*	*Southern Railway*	*2,300*	*3(1)*
None	*None*	*Union Pacific*	*300*	*2(1)*
Railroad Equipment:				
3(2)	2,900	American Brake Shoe	None	None
2(1)	1,000	General American Transportation	None	None
2(1)	1,000	Westinghouse Air Brake	None	None
Retail Trade and Chain Stores:				
1(1)	*1,500*	*Allied Stores*	*10,700*	*7(3)*
None	*None*	*Associated Dry Goods*	*7,000*	*2*
None	*None*	*Marshall Field*	*6,500*	*2(1)*
None	*None*	*May Dept. Stores*	*2,200*	*2(2)*
2	*600*	*Montgomery Ward*	*17,475*	*10(2)*
2(1)	*2,000*	*Sears Roebuck*	*19,000*	*7(1)*
None	*None*	*United Cigar-Whelan*	*7,000*	*2(1)*
None	*None*	*Western Auto Supply*	*1,500*	*3*
Rubber and Tires:				
None	*None*	*Firestone Tire & Rubber*	*7,600*	*2(2)*
4	*6,500*	*B. F. Goodrich Company*	*15,600*	*7(2)*
4(2)	*3,700*	*United States Rubber*	*23,700*	*7(3)*
Steels:				
3(1)	3,700	United States Steel	600	1
2	*800*	*Bethlehem Steel*	*1,700*	*4(2)*
Textiles:				
3(2)	*10,000*	*American Viscose*	*5,900*	*5(2)*
1(1)	*5,100*	*Celanese Corp.*	*31,690*	*6(5)*
1(1)	*500*	*Industrial Rayon*	*4,100*	*4(2)*
Tobaccos:				
2	*4,100*	*American Tobacco "B"*	*7,300*	*5(2)*
None	*None*	*Philip Morris*	*14,300*	*3(1)*
None	*None*	*R. J. Reynolds Tobacco*	*2,600*	*3(1)*
Miscellaneous:				
None	*None*	*American Bank Note*	*3,000*	*3(1)*
1(1)	*20,000*	*Gilette Safety Razor*	*6,400*	*3(3)*
None	*None*	*Greyhound*	*73,200*	*5(3)*
None	*None*	*International Silver*	*7,900*	*2*
None	*None*	*Newport News Shipbuilding*	*15,300*	*3(2)*

*Stock dividend of 12½%.

†Stock received in 2-for-1 split.

‡Received in part from exercise of rights issued by North American.

††Received as dividend on holdings of Public Service of Indiana.

‡‡Received as dividends on holdings of North American.

NOTE—This survey covers 50 trusts but purchases or sales of trusts sponsored by one management group are treated as a unit. For example, the six trusts sponsored by J. & W. Seligman are considered as having the weight of one manager. Overseas Securities included in addition to companies listed in companion tables.

Master Market Cycles

(Continued from page 2)

nevertheless, have been shocked time and again within a single generation at the sudden collapse in production and prices during a period when economic factors, on the surface, pointed to only the most rosy future. That these ups and downs are not something peculiar to the present century, moreover, may be easily determined from a study of the commercial history of other and older nations. In this connection, the following quotation from the opening paragraphs of an article appearing on page 8 of the London "Times" of May 14, 1866, may prove of interest:

About once in 10 years the British public suddenly finds itself worth several hundred millions less than it has supposed. Its estimate of its wealth had gradually risen to a climax too extravagant to last long, and then toppled over. At every such disappointment people make the reflection that they are at least the wiser for it, that they will not be taken in a second time, or, perhaps, that they will avail themselves of the next general infatuation and back out in time.

Nevertheless, the next fit comes on them like the rest, and they go through all the stages of the disease with pathological accuracy. Some, of course, are wiser, not better; for they have suffered persecution, but not learned mercy.

The multitude are fleeced and plucked as they were 10 years ago, and 20 years ago, and 30 years ago, and 40 years ago. We may even go on and say 50 years, and, as it happens, 150 years ago, minus a year or two, when the South Sea Bubble burst. How is it, then, that people don't learn by experience?

Perhaps the words "fleeced and plucked" in the above quotation might be changed to read "deluded and fooled" since there yet exists no proof that the excuses these boom periods are due to other than a general mistake in which every element of the community participates equally. This, however, is aside from the main point, which is that Britain, another great commercial country, has for hundreds of years exhibited, like Canada and the United States, in their shorter life span, a recurrence of these swings from times of expansion and great prosperity to times of contraction and depression, and then back again to a new era of general activity.

What the "Times" editor asks, however, is, some 80 years later, still pertinent, namely, why is it that people have not learned from experience? Stated otherwise, why, during times of prosperity, do we not foresee a depression just around the corner and why, in times of business and price recession, do we not have assurance that revived activity, like the Phoenix rising from the ashes, is a certainty? As the writer remarks, each experience is a distinct pathological cycle, seemingly divorced from all that has preceded or all that is to come.

In any event, we do know that the question as to what causes these cyclical fluctuations in the price and production field is moot. This has been dramatically illustrated recently by the diametric opinions being expressed by responsible economists and analysts as to the current outlook. In this search for an answer to the cycle millions of dollars have been spent over the years and innumerable hours of midnight oil have been burnt by securities, business and economic research organizations of the country, and by individual investors. Development of some dependable key to one phase of the cycle, that of the broad swings in stock prices, has received particular attention.

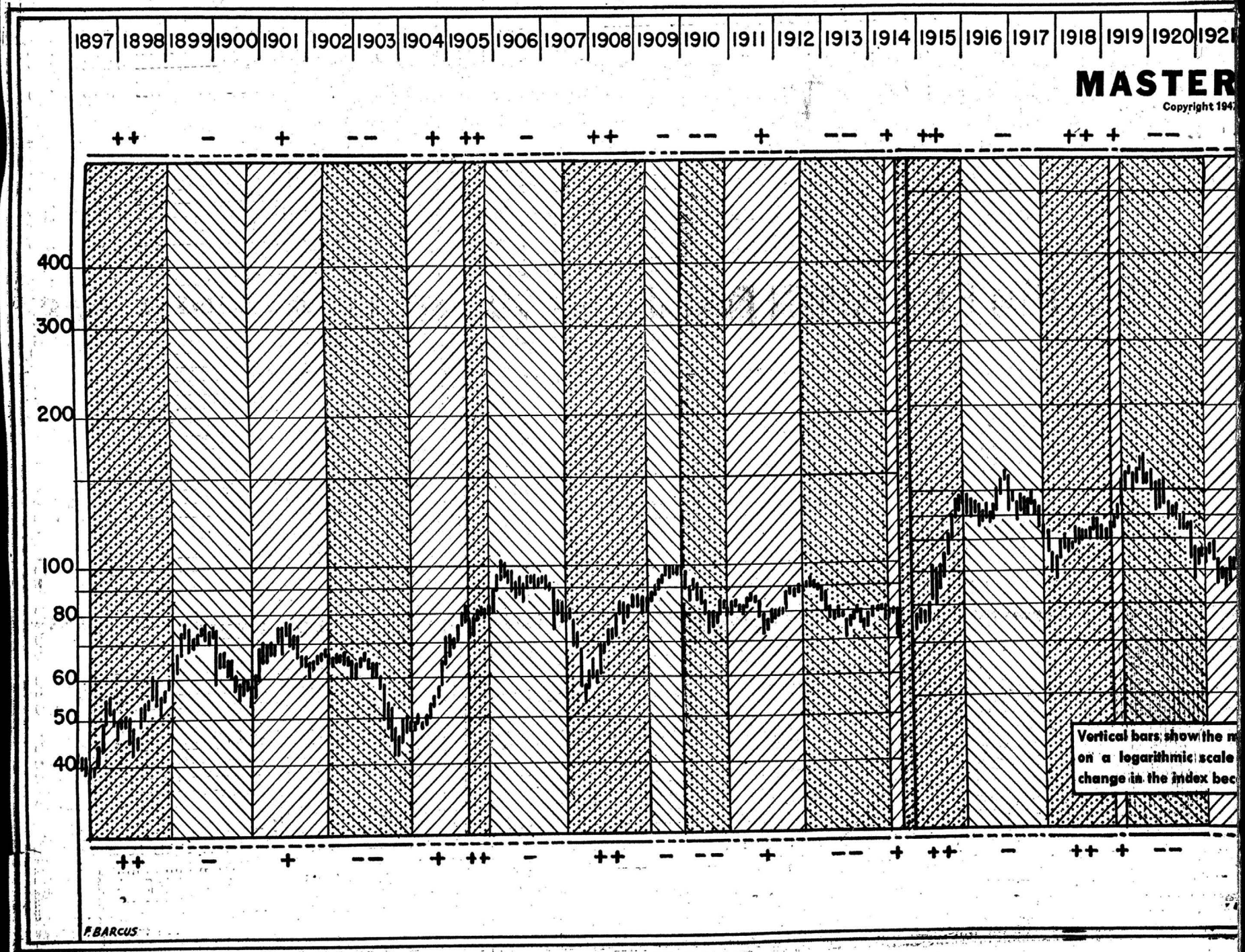
One approach to the solution of the stock market problem, that of gauging the broad swings by way of an analysis of one or more economic sequences, has already been mentioned. Another approach, the most prominent and important by-product of which is the Dow Theory, is technical. The technical method attempts to find, within the dynamics of the stock market itself, the future direction of stock movements. It has attracted many followers. There is a third and equally different approach that attributes these upward and downward movements to some natural force operating independently of economic or technical influences.

This last mentioned viewpoint has noted a certain regularity in nature such as the earth's swing around the sun, with ensuing rotation of the seasons; the moon's swing around the earth, and its continuing effect on the ebb and flow of the tides; the periodic and predictable appearance of various comets at intervals of decades to centuries; the outbreak, increase, and disappearance of spots on the sun over approximate 11-year intervals; the long swings of temperature from extremes of cold to extremes of heat, and back again; the years of increasing moisture and then the years of increasing drought.

On the basis of this periodicity in natural phenomena, the question is raised as to why man, who in many respects is subject to natural law, should not reflect a certain natural periodicity in his economic activities. To illustrate their contention, adherents to this viewpoint have isolated a number of periods of fixed and constant time length, the progress of which has had observable effects on mass activity, as reflected, among other things, in business, in construction, in commodity prices, and in speculation. These are, among others, the 84-year cycle, the 54-year cycle, the 18-year cycle, the 11-year cycle, the 9-year cycle, and the 40-month cycle.

So far as I know, the philosophy was first enunciated, and certainly has been best stated, in Ecclesiastes, of which the following is but a brief quotation:

"One generation passeth away, and another generation cometh: but the earth abideth for ever. The sun also ariseth, and the sun goeth down, and hasteth to his place where he arose. The wind goeth toward the south, and turneth about unto the north; it whirleth about continually, and the wind returneth again according to his circuits. All the rivers run into the sea; yet the sea is not full; unto the place from whence the rivers come, thither they return again. All things are full of labour; man cannot utter it: the eye is not satisfied with seeing, nor the ear filled with hearing. The thing that hath been, it is that which shall be; and that which is done is that which



shall be done: and there is no new thing under the sun. Is there any thing whereof it may be said, See, this is new? it hath been already of old time, which was before us."

Among recent writers on the subject, working largely in the field of economic phenomena, have been British, German, South American, and American observers, including H. Stanley Jevons, Senator Theodore K. Burton, Ernst Wageman, Sir James Jeans, Warren and Pearson, Willford I. King, Ellsworth Huntington, Harlan T. Stetson, C. B. Abbott, Garcia-Mata and Shaffner, Simeon Hutner, Simon Kuznets, and Edward R. Dewey.

To those whose time or inclination does not admit of protracted delving into this approach but who, nevertheless, wish a better understanding of the matter, two books should prove of interest. One is by Senator Burton—"A Century of Prices" published around 1917. The other is "Cycles—The Science of Prediction" by Messrs. Dewey and Dakin, just off the press. This last mentioned book is one of the most satisfying of the works on the subject. This is because of several considerations. Being current, it has the advantage of encompassing all previous observations. It is written with an ease and clarity that makes the text simple reading for the layman. It is profusely illustrated with charts, thereby further facilitating a ready understanding of the fascinating subject under review. Lastly, the book is devoted entirely to the one subject "cycles" and has succeeded in taking the matter from the realm of pure theory to one of practical application for the present year and day.

Since the stock market reflects changes in public viewpoint more immediately and more intensely than, perhaps, any other economic series, it would seem that if time intervals bear down or bear up on other economic activities they should be particularly observable in the important swings of stock prices themselves. On this premise I have classified a number of time cycles that years of research on the subject seem to have indicated as each having particular influence on stock prices. Each time cycle or interval being of different length it was necessary to measure, empirically, the influence of each so that, when the cycles were not all in agreement, or concurrent, a precise determination could be made as to what was the predominant influence at work. Naturally, during such intervals as each of the several time cycles pointed in the same direction, the reading was obvious.

No doubt other students of the subject can arrive at the same results as shown here. Possibly, the approach can be materially improved, and may be. In any case, in the chart accomping this discussion are given the determinations as worked out. On this chart has first been plotted the monthly price action of the Dow-Jones industrial average over a half century—from January, 1897 through October, 1946. On this price range has then been superimposed the indications of the time cycles. Inasmuch as the various time cycles terminate on a particular day of the month rather than the month itself, the closing month of one period has been used as the opening month of another period for the reason that, within the month in question, both pediods were in operation—one terminating, another beginning. Please bear in mind that these time cycle indications are mathematical or, otherwise stated, are based upon a fixed formula that admits of no tinkering with the time phenomena to fit the market facts. This approach was purposely designed to eliminate the element of human judgment. On this subject, that is, the elimination of judgment, however, something additional will be said later in this discussion.

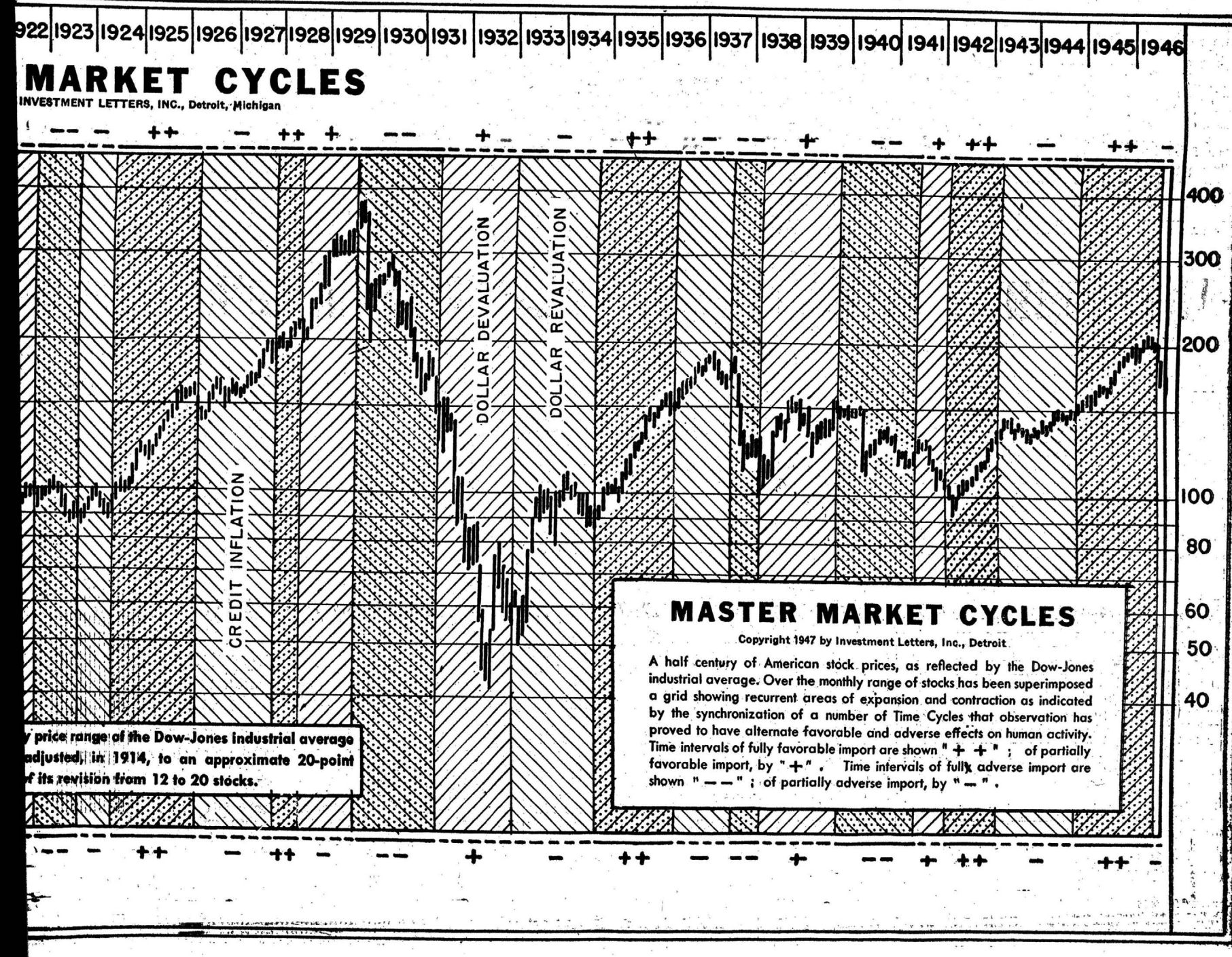
Two influences, and only two, emanate from time cycles. One is positive or expansive, the other, negative or contractive. When all of the time cycles are concurrently positive or concurrently negative, the influence in the given direction will be much stronger, of course, than when the cycles are opposed in their indication, with only a balance positive of or a balance negative. Put another way, the addition of +3 and +5, which equals +8, is a more positive figure than the addition of —3 and +5, which equals +2; just as the addition of —3 and —5, or —8, is more negative than the addition of +3 and —5, or —2. Accordingly, while, as previously stated, there are but two influences—positive and negative—deriving from the time cycles, the degree of influence will vary in accordance with whether all the cycles are in harmony, or are diverse.

To clearly illustrate the above considerations, that is, the degree of the expensive or contractive force, on the chart a plus (+) symbol has been used to indicate time periods of positive or expensive tenor; minus (—) symbols have been used to indicate time periods of negative or contractive tenor. To show the degree of the expansive influence or of the contractive influence, however, a double symbol (++ or — —) has been used to designate all the time cycles as being concurrent, or jointly pointing in one direction; a single symbol (+ or —) to indicate diversity of influence, even though the balance fell in one direction or the other. It would be expected that the stock market would be more intensely responsive to the double plus or double minus areas, and such was found to be the case.

In supplement to the diagramed illustration, wherein can be visually observed the action of the stock market during the varying time periods, there follows the price and percentage performance of the Dow-Jones industrial average for each of the cyclical periods. This check indicates, whether measurement be made from the price extremes or the mean prices of the opening and closing months of each period, that the stock market has consistently advanced in each of the unanimously expansive or double plus (++) areas; consistently declined in each of the unanimously contractive or double minus (— —) areas. In the single plus (+), or less definitely expansive, areas advance has occurred in eight of the ten instances (seven, if mean rather than price extremes are used). In the single minus (—), or less definitely contractive, areas decline has occurred, on both extreme and mean prices, in four of the ten cases. Of the six instances, however, where the market moved up, four of such advances were each less than 10%.

These expensive and contractive areas represent intervals when the line of least resistance for the market is in the direction indicated by the time cycles and, in most instances, as has been shown, the market has moved as it would be expected to, despite what may have been the tenor of economic or political developments during the period. This does not mean, however, that the market is necessarily impervious to concrete economic and political events that are strongly contrary to the influence of the time cycle. From April 1943 to December 1944, for instance, when

(Continued on page 28)



Master Market Cycles

(Continued from page 27)

a moderately negative or (—) time period was in operation, share prices advanced. If the reader will study that interval for a moment, however, he will note the relatively backward action of the stock market while the period lasted. This is disclosed by an analysis of the entire war advance running from early 1942 until the first half of 1946. This war advance, on the basis of the time cycle grid, was divided into three phrases. From March 1942 to April 1943 the time influences unanimously favored expansion; from April 1943 to December 1944 they moderately favored contraction; from December 1944 to August 1946 they unanimously favored expansion. Note, now, that for the two time periods calling for market advance, stocks moved upward by 38% and 39%, respectively, while, for the time period of moderate contraction, stocks advanced by only 8%. In other words, despite the strong pull of favorable war earnings and developments toward higher prices throughout the entire four years, the market almost stood still, as even a visual examination of the chart will disclose, during that period when the time grid was moderately on the contractive side.

Of the several variations of stock prices from the time cycle indications, only three were serious in terms of percentage movement of stock prices. In each such instance, monetary factors were a dominant influence. The first was the mildly contractive time period April 1926 to December 1927, when the roaring credit inflation, or bank loan speculation occurred, first in Florida, North Carolina and nationwide suburban real estate; second, in stocks. Next, was the mildly expansive area from May 1931 to January 1933. During this interval stocks were in an advancing direction until August 1931. The following month Britain devalued the pound thereby setting off a world decline in the commodities, stocks and other equities of those trading nations, such as the United States, whose currencies remained on a fixed gold base. Conversely, in the mildly contractive time area running from January 1933 to October 1934, stocks declined into February 1933, but the new Roosevelt Administration, inaugurated in March of 1933, cut the dollar loose from its fixed gold base and both stock and commodity prices immediately advanced to eqilibrate for this revaluation. Gold is the standard by which prices are measured and any action making for change in the value of gold or in the amount of gold behind a currency unit, will have an effect on prices.

Coming to the recent past the time cycle approach, as herein developed, entered, in March 1942, an area when the factors unanimously favored expansion. This period ran to April 1943. From the opening month of the period to its closing month the industrial average, as shown in the Table above, advanced 38%. There followed, to December 1944, an interval where both expansive and contractive time factors were in operation but where the balance fell moderately on the contractive side. Over this period, when economic influences were broadly similar to the period preceding, the industrial average moved up by 8%. Another interval followed to August 1946 when the factors again unanimously favored expansion. Over this period the market advance was 39%. For the three months succeeding, that is to October 1946—you can perhaps recall those months—the time factors were again diverse with the balance falling moderately on the contractive side. Since October 1946 a new time area has come into operation. It will run some while.

In no instance, to date, has the market failed to advance over that complete interval when the time cycles unanimously favored expansion and in no instance, to date, has it failed to decline over that complete interval when the time cycles unanimously favored contraction. The failures have come during the periods when the time cycles were opposed in their indications, with only a balance in the expansive or contractive direction. We have a healthy respect however, for the remark of one of our associates to the effect that the Lord did not give man brains and then expect that we would not have to use them. Life would become too simple and, sooner or later, the human race, its mind no longer sharpened by the exegencies of an uncharted life, would become extinct. Any mechanical approach to stock market forecasting, if relied upon fully, is such an attempt at oversimplification. Nevertheless, where some mechanical approach, such as price/earnings ratios, historical price levels, oversaturation of new security offerings, or time cycles, is used as a tool rather than as a **mechinatio totus**, we think it can be helpful. Effects of time cycles on stock prices cannot, in our opinion, be appraised independently of major economic forces at work during the period. Thus, a time cycle favorable to stock market advance should increase the upward intensity, on the stock market, of the economic forces, if such forces were favorable on balance; would lessen, though not necessarily prevent, a downward effect on the stock market if the economic forces, on balance, were unfavorable. Conversely, a time cycle of contractive or bearish tenor should intensify the downward effects of an adverse economic situation; should modify, though not necessarily offset, the upward effects of an expansive general economic background.

On a retrospective basis the time cycle approach, as applied to the stock market, would seem to merit attention. Walt Whitman observed that there is more to us than is contained between our hat and our shoes. Man, because of his intimate relationship to the brain, has come to regard this organ as a sort of **deus** to which all external phenomena are rationally subordinate. But it is not yet proved that nature is obedient to this order.

One is reminded, in this connection, of the testimony of General Knudsen, war production mobilizer, in the early days following the entrance of the United States into World War II. Called upon by a Committee of the Congress to tell why, following all-out conversion of American industry to war purposes, military production was so slow in getting started, the General replied, "Gentlemen, it's something like this. We have made great strides, over recent years, in the science of obstetrics. We have modern hospitals, improved techniques, miracles of anaesthesia, and every up-to-date method that can be devised by our most eminent physicians and surgeons to facilitate birth. Yet, gentlemen, despite all this, it still takes nine months."

General Knudsen, who in 50 or more years on America's greatest production lines had learned some fundamental lessons, was trying to point out that man proposes but, in some things, nature still disposes.

Price and Percentage Performance of Dow-Jones Industrial Average for Cyclical Periods

++Areas When Time Cycles Under Analysis Unanimously Favored Expansion

Period—	Low of Opening Month	High of Closing Month	% Change
May 1897 to January 1899	38.67	65.02	+68
May 1905 to November 1905	71.37	89.89	+26
July 1907 to April 1909	78.87	88.29	+12
August 1914 to January 1916	53.17	98.81	+86
October 1917 to March 1919	74.50	89.05	+20
July 1924 to April 1926	96.38	144.83	+50
December 1927 to June 1928	193.58	220.96	+14
October 1934 to June 1936	90.41	160.66	+78
March 1942 to April 1943	99.21	136.93	+38
December 1944 to August 1946	147.30	204.52	+39

— —Areas When Time Cycles Under Analysis Unanimously Favored Contraction

Period—	Low of Opening Month	High of Closing Month	% Change
June 1902 to March 1904	66.26	46.41	—30
January 1910 to December 1910	98.34	79.68	—19
August 1912 to May 1914	92.06	79.16	—14
June 1919 to March 1921	107.55	72.25	—33
November 1922 to October 1923	99.53	85.76	—14
August 1929 to May 1931	380.33	128.46	—66
August 1937 to March 1938	190.02	98.95	—48
November 1939 to July 1941	152.64	122.85	—20

+Areas When Time Cycles Were Diverse In Their Influence, With Balance Favoring Expansion

Period—	Low of Opening Month	High of Closing Month	% Change
October 1900 to June 1902	54.52	66.26	+22
March 1904 to May 1905	46.41	78.05	+68
December 1910 to August 1912	79.68	92.06	+16
May 1914 to August 1914	79.16	81.79	+ 3
March 1919 to June 1919	84.04	107.55	+28
March 1921 to November 1922	72.25	99.53	+38
June 1928 to August 1929	201.96	380.33	+88
May 1931 to January 1933	128.46	64.35	—50
March 1938 to November 1939	98.95	152.64	+54
July 1941 to March 1942	122.85	106.97	—13

—Areas When Time Cycles Were Diverse In Their Influence, With Balance Favoring Contraction

Period—	Low of Opening Month	High of Closing Month	% Change
January 1899 to October 1900	65.02	54.52	—16
November 1905 to July 1907	89.89	78.87	—12
April 1909 to January 1910	88.29	90.66	+ 3
January 1916 to October 1917	98.81	74.50	—25
October 1923 to July 1924	90.45	96.38	+ 7
April 1926 to December 1927	144.83	193.58	+34
January 1933 to October 1934	64.35	90.41	+40
June 1936 to August 1937	160.66	175.91	+ 9
April 1943 to December 1944	136.93	147.30	+ 8
August 1946 to October 1946	204.52	163.12	—20

The Cost of Cheap Money

(Continued from first page)

ness expansion and insure prosperity; (2) that they were a good device for redistributing income in the interest of the masses. Would not low interest rates, it was asked, reduce the income of the wealthy creditor class and relieve the burden of the hard pressed debtors? (3) Low interest rates would make it easier for governments to borrow and to embark on expensive schemes of so-called social welfare.

It must never be forgotten that the era of cheap money came in simultaneously with the period of high costs of government and was a logical consequence of deficit spending and high budgets. Beginning with the early 30's social experiments were carried on in many of the principal countries of the world which added to the high costs of armaments after the rise of Hitler forced the Treasuries into the task of raising huge sums of money. Taxes were inadequate for the expenditures. Borrowing had to be resorted to. Low interest rates on public debt made it easy to borrow. Consequently, the governments developed the deliberate policy of making money cheap and of keeping it cheap. The policy was carried on in England, France, Germany, even Japan, as well as in the United States.

Money Not Borrowed Because of Cheapness

Now, in the time at my disposal, it is obviously impossible for me to discuss at all adequately whether or not the tenets on which cheap money is based are sound. Suffice it to say, however, that I think it should be obvious that no businessman borrows money just because it is cheap. He borrows it only when he thinks he can put it to work and get a return from it that will be something more than what it costs him to borrow it. If conditions are not favorable to earn a good return on his money, he will not take the risk of borrowing it, no matter how low the interest rate may be.

Consider the building industry today. With mortgage money abundant and the interest rate at an all time low, yet construction lags. Other conditions to building are not favorable to expansion in that industry.

If you add up the new issues of securities floated in this country, you will find that in periods of relatively high interest rates there is always much more borrowing than there is in periods of low interest rates. The borrowing is not done, of course, because interest rates are high, but because in those periods the chances of making profits on money borrowed are higher than they are during periods of low interest rates. There is absolutely no direct connection at all between the amount of money borrowed for business purposes and low interest rates.

Cheap Money No Benefit to Poor

Likewise, the case for low interest rates falls down if one tries to maintain it on the theory that cheap money benefits the poor at the expense of the rich. The wealthy, by and large, do not have their fortunes invested in bonds. The principal owners of bonds in this country are institutions such as insurance companies, savings banks, colleges, universities, hospitals, churches, and other endowed organizations. By no stretch of the imagination can one show that the owners of these institutions or those that benefit from their operations are the rich and not those in more humble circumstances. The thrifty saver or the prudent holder of a life insurance policy or the recipient of hospital care or the student or teacher in an endowed institution of learning have all been harmed by the abnormally low interest rates of the last 15 years, while at the same time it is very doubtful if one can show that the rich have been similarly affected from this cause.

As I have already indicated, the world is in an era of cheap money. It began about 14 years ago. In England it had its inception in the fall of 1931 when that country abandoned the gold standard. In Germany it started in with the rise of Hitler and the rearmament of the Third Reich. In this country it came in with the New Deal. Even the financing of the huge expenditures caused by the World War has not brought this era of cheap money to an end. Interest rates are lower today than they were when the war began—and this, in spite of the fact that our Treasury borrowed over $200 billions to finance it. What is the explanation of this strange anomaly?

It was a common explanation before the war to say that low interest rates in this country were due to our huge stocks of gold. And yet, one day, when making a survey of interest rates in the principal countries of the world, I found much to my surprise that interest rates were low in countries like Germany and Japan that had small gold holdings, exactly the same as they were in the United States and France where the gold holdings were relatively high. In England interest rates had been declining since that country left the gold standard in 1931, with little change in its gold reserves. Clearly, I thought, there must be something more in the way of an explanation of the low interest rates than merely the amount of gold reserves held in the banking system.

In an attempt to get some help on the problem, I wrote a letter, the pertinent part of which is given below, to a rather large number of the outstanding students of banking in this country.

"For some time now, I have been wondering about the adequacy of the explanation that our huge gold supply is mainly responsible for our low interest rates. In the first place, in making a recent survey of bond prices, I find that they seem to be going up and reaching all-time highs in countries that have been denuded of their gold supply quite the same as they have been in this country where we have an excess supply of gold. For instance, government bond prices in Germany and Japan are at practically all-time highs. Likewise, government bonds in England have moved up sharply during the last two years. And, while they are not at all-time highs, it is interesting to note that they are higher today than when that country was on the gold standard."

In rereading the replies to this letter, I was amazed at the lack of unanimity in their answers. But one writer, it now seems to me, saw the problem clearly and fully understood it even before the war.

"Interest rates are low," he said, "because bank reserves are redundant. They are redundant in the United States on a gold basis. They are also kept redundant in countries like Germany without a gold basis. It doesn't make any difference at all," he went on to state, "about the amount of gold reserves, so long as confidence in the currency is not impaired. Money is cheap in this country because bank reserves are redundant on a gold basis, and business does not expand sufficiently to use them up. Money is cheap in Germany because bank reserves are kept ample, although on a paper basis. Germany's currency is divorced from the international money market through export and import controls and through re-

strictions on the purchase of foreign exchange. Prices and wages are kept under control by law, strictly enforced, and inflation is kept down, while no one is permitted to raise capital through the sale of securities without consent of the government."

He closed his letter by saying that interest rates in a country can be kept low, with or without gold, if a country is prepared to pay the price in the way of arbitrary controls over its life. This brief explanation of the way Germany kept money cheap when she was rearming before the war is important to keep in mind when we review the steps used in this country to keep money cheap during the war. There are some striking points of similarity.

The War Financing

But before going any further with this discussion, I want to state that it is not my purpose to find fault with the way the war was financed. In any discussion of ideal methods of financing the war, the magnitude of the task that confronted the Treasury must not be forgotten. It was faced with financing an all-out war which no one knew how long would last nor how many untold millions of dollars it would cost. No nation has ever been able to levy sufficient taxes to pay the entire cost of a war. Some part has always been paid through inflation.

But it must be remembered that special requirements imposed by war demands may make necessary banking policies that would be dangerous and wholly unnecessary in times of peace. It is important, and very important indeed, that we understand just exactly how the government was able to finance such a large part of the cost of the war through borrowing without increasing interest rates. It is this lack of understanding that is responsible in no small degree for the belief that the government can indefinitely in the future so control interest rates that they will always be low, and do so without paying in the end what has always been the cost of artificially cheap money; namely, an inflationary boom, rising prices and, in the end, a bust and depression.

In the time alloted to me, it will be my purpose to show (1) just how it was possible to finance the war with declining interest rates, (2) what the effects of that financing have been upon our present price situation, and (3) whether in the interest of continuing the present low structure of interest rates in the days immediately ahead it is safe for the Federal Reserve Banks to continue the same credit policies that they pursued during the war and thus far have been continuing to follow exactly the same as though the war were in progress.

With the beginning of our rearmament program in 1940 and, in particular after Pearl Harbor, our Government was soon borrowing huge sums of money. War bond drives in amounts that would have been considered fantastic a few years ago were put on about every three months. Roughly, about 60% of the bonds purchased in these drives were bought by individuals and savings institutions. The other 40% was bought by our banking system. This huge expansion of bank credit, resulting from this purchase of government securities, in a short time used up the excess reserves of the member banks which had been built up by the huge gold imports of the 30's. The very rapid increase in currency in circulation also augmented the problem, so that by the end of 1942 the member banks had to begin to build up their reserves with the Federal Reserve banks. To insure that the member banks would be able to do this and without rediscounting, the Federal Reserve banks at the outset of the war pegged the short term interest rate at ⅜ of 1% for Bills and ⅞% for Certificates, and stood ready to buy these securities at these rates whenever the member banks wanted to offer them. By doing this, the Federal Reserve insured the member banks adequate reserves for such loan and deposit expansion as was necessary to buy the government bonds that were allotted to them in the various war bond drives. Tracing the growth of Federal Reserve Bank holdings of government securities through the war, we find they did not begin to expand rapidly until the latter part of 1942, and then the expansion continued rapidly throughout the war until such holdings were about $22 billions. This was the expansion called for primarily to insure member banks with necessary reserves.

The Treasury was able during the war to float its huge bond issues without raising interest rates primarily because the Federal Reserve banks furnished the member banks with sufficient reserves so that the member banks could buy the amount of bonds the Treasury allotted them. And as a result of the banks buying these bonds, total bank deposits and currency in circulation increased about 300%, from roughly $60 billions in 1940 to $170 billions in 1946. The pressure to invest this ever-increasing supply of money inevitably drove interest rates down. At the same time, the desire on the part of some who did not want to save and invest but to *spend* was a mighty force to drive prices up. It has been this desire to spend during the past year that has been the bottom cause for the rapid price increases that have taken place.

The interest rate situation during the war may be summarized as follows: The Treasury set the interest curve at ⅜% for 90-day Bills up to 2½% for long-term bonds. On the one hand, there were very few new offerings of corporate bonds or stocks, or of real estate mortgages, to compete with government bonds for investors' funds, and on the other hand, when investors showed an unwillingness to buy the requisite amount of government bonds at the interest rates at which they were offered, the Federal Reserve banks provided the member banks with the reserves essential for them to buy the bonds in such amounts as were necessary to put the drives across. The situation was so tied up that the Treasury had nothing to worry about. It could be certain of getting all the money it wanted, and on its own terms as to interest rates. It might have to borrow for short periods of time from banks on Bills, Notes, or Certificates, rather than from investors on long-term bonds, but as this gave the Treasury its money at the lowest possible cost, probably it did not worry too much about this phase of the matter.

Was it not inevitable that with the banking system so manipulated during the war and with our industrial activity so controlled by war demands, that money would remain cheap? It could hardly have done otherwise.

Implications of War-Time Cheap Money

There is grave danger that the real implications of the way money was kept cheap during the war will be overlooked. The process of more or less automatic money creation by the Federal Reserve authorities was, in principle, dictated not because it was essential to finance the war in this manner, but because it was absolutely essential to have these excess reserves created if the war was to be financed without abandoning cheap money. A larger part of the Treasury deficit could have been financed by the public instead of by the banks if only interest rates had been allowed to rise, because rising interest rates would have made the public more willing to buy government bonds and less desirous of holding such a large proportion of its savings in cash and bank deposits on which it received no income whatsoever. To deny this, as some writers apparently do, seems silly and contrary to reason.

Certainly, the public did not need for any legitimate business purposes to carry over $25 billions of cash in its pockets or in its cash registers during the war. And, certainly, there was no need during the war, for individuals to carry over $42 billions in their checking accounts. These redundant liquid assets on the part of individuals were the potential threat to our price structure created by the war and were maintained because the public did not think it worthwhile to buy more of the securities offered by the Treasury.

We may summarize by saying that cheap money was maintained during the war by three methods. First, Federal Reserve Bank action in supplying member banks with all the reserves they needed. Second, government control of industrial activity and O.P.A. control of prices. And, third, persuasion and propaganda campaigns which were successful to a remarkable degree (but have not been so successful since the war was over) in getting people to save a large portion of their cash resources and not attempt to spend them for consumer goods.

Can Money Be Kept Cheap?

The question the Treasury and the Federal Reserve were faced with once the war was over was: Can money be kept cheap in the future by these same methods without endangering the price level? There is no doubt that banking authorities have learned how to regulate the volume of bank reserves so that our commercial banks can always absorb the amount of government securities which investors themselves may not be disposed to hold in the days ahead at the prevailing rate of interest. For all practical purposes, any mathematical calculation about the limits to which our banking system can go to support the government bond market is futile and fails to comprehend the real inwardness of the problem.

The Hon. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, forthright as always in his statements, let the cat out of the bag in testifying before a Congressional Committee on Banking and Currency about two years ago when the question of reducing the minimum reserves required of the Federal Reserve banks was before Congress for consideration. He said at that time in substance, that it was foolish for Congress to pass any law requiring the Reserve banks to maintain minimum reserves against their deposits, and that the Reserve banks should not be compelled to keep definite amounts of required reserves at all.

What then should be the limit to the possible expansion of Federal Reserve Bank credit, if it is not to be gold reserves? Can the central banks constantly expand their credit base by buying government securities with the aim of securing ever-and-ever cheaper money until the rate of interest has been completely abolished, as Lord Keynes mainatined that it could be. In brief, what is this so-called "technique of cheap money" that can be used to keep interest rates permanently low if the government wants to keep them so?

Lord Keynes in his epoch-making book, "The General Theory of Employment, Interest and Money," published in 1935, first worked out this technique in detail. In essence, it is very simple. It rests upon two main assumptions. First, that the central banks will always stand ready to furnish the member banks all the reserves that the member banks need no matter how high their deposits rise, and irrespective of how much cash the people want to keep. Or, to put it another way, the central banks must always stand ready to buy and sell at stated prices government bonds of all maturities. This, of course, would fix the price at which government bonds would sell. The other assumption is, that such action can be taken by the central banks without causing a price inflation. Should prices start to get out of hand, they must be arbitrarily controlled. The British recognize this clearly. The "London Economist," in its Oct. 6, 1945 issue, page 493, states: "Two factors are capable of inducing a change in the interest rate, though it is not certain that they will. The first is the risk of a pronounced inflationary outbreak which might encourage holders to off-load their securities. The second is the slackening of war-time controls, financial and physical. These must be maintained."

Great Britain's Policy

Great Britain intends to pursue its cheap money policy and keep interest rates low and it openly states that it is prepared to pay the price necessary to bring this about. In fact, the Chancellor of the Exchequer, Mr. Dalton, has been trying to drive them lower during the past year in spite of a scarcity of capital and rising prices. This has so frightened the majority of really competent students of banking that the "London Economist" in its issue of Feb. 28, 1947 states that credit is being created at present at a rate far in excess of that experienced during wartime, and boldly announces that the time has come for a little deflation.

Moreover, the British see clearly the difference between cheap money and cheap capital. Her financial experts realize, and have openly stated, that Britain has a shortage of capital. One of the well-known British writers on banking and finance, F. Bradshaw Makin, in an article in "Barron's National Business and Financial Weekly" of June 18, 1945, stated that Great Britain's chief problem in the postwar period would be how to finance reconversion and rehabilitation with her great deficiency of physical capital, that is, plant and materials, and at the same time keep cheap money. The "London Economist" has run a series of articles on this subject during the past two years. In Mr. Makin's discussion he recognized that there would not be enough capital to meet all the legitimate demands in England. He posed the question how to apportion this available supply. Should it be through the price system? To do this, he argued, would mean a free interest rate and the end of cheap money. He advocated, and of course the present British Government is following, the policy of having a Capital Issues Committee, and before any business can raise capital through an issue of securities in the money market, it must get the approval of this Committee. This is "selective-type" credit control to a very high degree, probably more than our advocates of cheap money would want, and certainly more than Congress is likely to give them.

Is it not a fair question to ask the advocates of ever-cheaper money if they are prepared to pay in the way of controls over our economic life what will be necessary to insure this cheap money? And, in the interest of frankness and honesty, should they not openly tell the people what these controls are likely to be, even as do our British cousins? Sometimes it would seem as though the benefits of cheap money are held before us as though they could be had without any cost, and that through some mysterious legerdemain our banking authorities have worked out a technique to bring this about. It must be admitted the Federal Reserve Board in its annual report for 1945 made a start in this direction. It is doubtful, however, if the controls advocated therein would in themselves be sufficient to stop an inflationary boom. Probably they would be but the beginning of further controls to be asked later.

Cheap Money Technique and Inflation

It should be apparent that there is nothing mysterious about the technique of cheap money and it also should be apparent what the limits of the government are if it attempts to make money cheap should the economic forces of the Nation be making for dearer money. The technique is nothing but an ever-creation of more and more bank reserves by the Federal Reserve banks, with the result that an ever and ever larger increase takes place in bank deposits and currency, that the liquid resources of individuals become ever and ever larger, and with the result that the dangers of inflation become greater and greater. The extent to which the Federal Reserve banks can go, therefore, in maintaining the present structure of low interest rates will, in the final analysis, depend upon how long they want to continue to put their credit into the money market by buying short-term government securities at prevailing fixed prices and thereby increase currency and bank deposits without bringing on an inflationary price rise.

A year ago I called attention to the danger of this excess money supply in the following words:[1] "Without any further increase in the amount of bank deposits, we are today faced with the serious problem of how long such huge liquid resources as are now held by individuals can remain idle. According to the Securities and Exchange Commission there was an increase of $37 billion in these liquid resources of individuals in 1945. The total increase in these resources since the begininng of the war production program in the middle of 1940 is $157 billion. For a government to gamble that these resources will be held off the market until there is a sufficient supply of goods to match them without a price increase is playing with fire, indeed.

"In an economic situation such as this, would it be a policy of wisdom for our banking authorities to attempt to maintain a structure of interest rates so low as they are at present by putting out more money and bank credit in the country when the country's monetary supply is already redundant? Our bank deposits are more than twice what they were a decade ago; our currency supply over four times what it was. Has there been any increase in production, retail sales, or factory payrolls that necessitate such an increase? Is there any serious student of finance who denies the inflation potential of this huge monetary supply? To augment it in the interest of cheaper money at the present time is assuming a grave risk for a small gain."

Let us see what has taken place during the past 12 months. With full employment, a rising price level and a scarcity of consumers' goods, one would naturally suppose that our Treasury and the Federal Reserve would have been reluctant to pursue policies that led to further monetization of the debt solely in the interest of maintaining artificially low interest rates. Caution calls for the exercise of some restraint over the expansion of bank credit at a time like this.

Implications of Bank Deposits

So much has been said about the decline in bank deposits that many people, if not the majority of them, suppose that the public deposits declined last year. True, total bank deposits did decline, but the decline was due to a reduction of the working balances

[1] See Claude L. Benner "What Price Cheap Money" in Commercial and Financial Chronicle of May 16, 1946.

(Continued on page 30)

The Cost of Cheap Money

(Continued from page 29)

of the Treasury. While the Administration deserves praise for this retirement of Treasury obligations, there have been some other and more important changes in our banking system which have been almost completely overlooked.

The so-called working balances of the Treasury which have been retired during the past year were bank deposits that had been created from the last war loan drive of 1945 and, in effect, were not working balances of the Treasury at all. They were primarily idle deposits; bookkeeping entries, if you please, on the books of the banks of the country for the account of the Treasury, and had never exercised any effect whatsoever on anything other than the books of the banks and the account of the Treasury because these deposits had never been used. The government obligations which were paid off when the deposits were retired were mainly bookkeeping transactions that canceled each other out. The Treasury simply borrowed more money than it needed, never used it, and later paid it back. If one examines the bank expansion which took place during the year 1946, and which expansion had a vital effect on our whole economic system, he finds that there was an increase for that year of some $13 billions in the effective monetary supply of the country. The March "Federal Reserve Bulletin," page 243, states that "The year's total expansion of deposits and currency held by the public amounted to nearly $13 billion, or nearly two-thirds of the average annual increase during the war years. About one-half of this expansion represented a shift of funds from Treasury balances to private accounts. The remaining half was reflected in net expansion of the loan portfolios of our banking system."

The figures broken down are quite remarkable and show a rate of expansion that has seldom, if ever, been equaled in times of peace in this country. Preston Delano, Comptroller of the Currency, recently announced that at the close of 1946 commercial and industrial bank loans totaled $14,237,000,000; consumers, $4,109,000,000 and real estate loans, $11,675,000,000. This was an expansion during the year of 48% of bank loans to business, 70% in loans to consumers, and 30% in loans based on real estate. On the other side of the banking system's balance sheet we find that business and personal deposits increased by $12,392,000,000, or more than 10%, during the 12 months, while state, county and city deposits rose by over $1 billion.

With such an expansion in our money supply, and with consumers showing a desire to bid for scarce goods, and manufacturers all too often being willing to bid against each other for the materials necessary for production, and with labor asking for increased wages, how could one reasonably expect that a rapid price increase would not ensue? The monetary fires of inflation were fed, and fed abundantly, at a time when prudence would dictate care and restraint in this connection. The result has been a price rise of such alarming proportions that it is extremely doubtful whether or not the rise has not already set up so many maladjustments in our economic structure that it may not be possible to correct them without a business recession. There are competent students of our banking system who insist that such a rapid expansion in bank credit as we have had during the past year, coupled with such a price rise, cannot be stopped, much less contracted, without bringing on a severe business decline.

Is it not somewhat naive, even futile, to speak about controlling an inflationary price movement when such underlying changes in our money supply take place as occurred last year right on top of the excess supply that existed at the close of the war?

Why was it that no attempt was made to exercise some restraint over this expansion? Why was it that Reserve banks stood ready to purchase at prevailing fixed rates, short term government securities whenever the member banks, for whatever the reason, wanted to dispose of them? I think one does not need to be oversuspicious to state that the primary reason that the Reserve authorities pursued this course of action was because they felt it necessary to do so in order to keep interest rates low and protect the Treasury's position.

I think it not unlikely also that there are some who feel that for the Federal Reserve once more to reassert its authority over the money market by making vigorous effort to put the country back in a sound money supply situation would run the danger of bringing on all-around retrenchment in spending and perhaps cause a severe depression. Whether or not this would be the result, I know not, but the simple fact remains that to continue such bank expansion as took place during the past year for another 12 months would certainly at the end of that time, if restrictions were put into force, bring about a depression much more severe than would be brought about if the restrictions had been put on sooner.

Hon. Marriner S. Eccles, Chairman of the Board of Governors, in his testimony to the Banking and Currency Committee of the House, in discussing the problem of monetization of the public debt by banks, met the problem frankly when he stated that with the Debt Retirement Program approaching an end, there may be in the future a resumption of the tendency on the part of banks to sell short-term securities to the Federal Reserve in order to buy longer term securities, and he frankly stated that under the present powers and policies the Federal Reserve could not prevent such a development. He also stated that a decline in long-term interest rates resulting from such an action would be undesirable. In spite of this statement, and with what I feel is a thorough knowledge of the dangers inherent in such a situation, the Board of Governors of the Federal Reserve System still maintain ridiculously low rates on short-term government obligations and still stand ready to buy Bills and Certificates from the member banks at rates so low as to encourage further debt monetization.

Effect On Price Structure

There can be little doubt but that the increased amount of purchasing power put in the hands of the people, resulting from the war financing and the continued rapid bank expansion since the war was over, has been taking its revenge upon our price structure. How much damage later it is going to bring to our whole economic structure remains to be seen. There are already some ominous sounds that all is not well.

Mr. Bowles continues to tell us that if OPA had been continued, the upward movement in prices could have been stopped. This is no place, nor do I have the time, to discuss the pros and cons of his contention. Suffice it to say that something might have been said for it (but not much) if one had been certain that the continuance of OPA had not restricted the increase in production which was so vitally needed. Moreover, there was a very large fallacy in Mr. Bowles' argument because he seems to forget that in the absence of hoarding money, production creates the very purchasing power that is necessary to buy it. In fact, with the scarcity of goods that existed in 1946, the expansion in production in itself increased the purchasing power in the shape of wages paid out before the finished goods came on the market.

It was unfortunate, no doubt, that there was such a large increase in wage rates immediately after the close of hostilities. It is not fair, however, to put the main responsibility for the price increase upon labor. No doubt labor costs increased and such costs made for rising prices, but the upward movement in prices was originally instigated by inflationary methods of financing the government's deficit during the war, plus the failure to exercise some credit control since the war was over. Back of it all more purchasing power was created during the war and since than there were consumer goods to absorb the purchasing power created thereby. Although our people showed admirable restraint in spending this purchasing power, enough of it was spent to start the price increase ball rolling upward. And last year the ball got rolling pretty fast.

Inflation during the war was much less than during the first World War because the technical defenses against it were erected at a much earlier stage. These major defenses were more comprehensive than in 1918 and they were perfected more rapidly. They comprised high taxes (but probably not on a broad enough base), physical controls, rationing and price control. As a purely theoretical proposition, let us admit that comparable defenses might possibly have held inflation in check in times of peace. But to suppose that they would be effective in practice, should bank credit continue to expand in order to support a cheap money policy, is naive. Such controls depend absolutely upon the sanction of public opinion, and public opinion in this country will not support them in times of peace. Whatever its merits or faults, OPA is out. If the upward movement of prices was to be controlled last year and is to be controlled now, it must be through the control of our monetary and credit supply and through preventing costs from further increase, particularly wage costs.

One does not have to believe in the so-called quantity theory of money or in any arbitrary ratio of exchange between money and trade to see the dangers that existed in our price structure after the war was over. Those who felt that there was little or no danger in the excess money supply gambled on the assumption that its owners would let it stay idle and that its velocity would be low even as it was in the depression of the 30's. It seemed to me over a year ago that that gamble was excessively dangerous. With the scarce supply of consumer goods in existence and with the increased demands for high wages, the price situation certainly was filled with explosive elements. The only credit policy that could have been followed with safety was to take such steps as were necessary to draw off some of the excess money supply in some form where it would do the least harm to our economic structure. Certainly this supply should not have been increased.

What Price Cheap Money?

What price cheap money? If the price of the artificially low interest rates is increasing the monetary supply so that there is a danger of a rapid rise in the price level, the price is far too much. To a man living on a fixed income, 10% increase in prices is exactly the same as a 10% sales tax each and every year. Individuals who have not been able to get their incomes increased since the war began are suffering a sales tax of approximately 50% and they will bear this sales tax just as long as they live unless their incomes can be increased by the amount that the prices have gone up.

Summary

Both the Federal Reserve and the Treasury are apparently obsessed with the idea that cheap money must be maintained at all costs. They would have us think that this is necessary in order to keep the cost of carrying the National Debt from becoming too burdensome. But in a budget that totals over $35 billion, the addition of two or three hundred million more to pay higher interest costs on the debt is a small price to pay indeed for helping to manage the Public Debt in such a way as to reduce its inflation potential.

It should be clear that artificially low interest rates can only be maintained by the Federal Reserve, under a free economy and under our free banking system, at the risk of bringing on an inflationary price rise. Likewise, it is impossible for the Federal Reserve to fix the short-term interest rate as low as it is at present without encouraging banks to buy longer term bonds and further monetizing the Federal Debt. One of the greatest peacetime expansions in bank credit that this country has ever seen, certainly encouraged by the present abnormally low interest rates, together with the huge increase in money supply created by the war, must be held primarily responsible for the rapid rise in prices that took place during 1946.

The Federal Reserve authorities in their management of the Federal Debt, until very recently, when some attempts seem to have been taken toward curtailing credit expansion, have continued to pursue with only minor changes the inflationary practices followed during the war. Moreover, the Federal Reserve banks, by standing ready to buy from the member banks at fixed prices short-term governments, have insured the member banks all the reserves they may need and have encouraged the phenomenal expansion in bank credit that has taken place during the past year. Because of the decline in total bank deposits resulting solely from a reduction in the Treasury balances, the year's expansion in bank deposits and currency held by the public goes scarcely noticed at all. While the Treasury was simply paying back during 1946 a lot of money it borrowed in 1945 and that it did not need and never used, bank credit for the public expanded at a rapid rate. The expansion amounted to nearly $13 billion, or nearly two-thirds of the average annual increase during the war years. (See March Federal Reserve Bulletin, page 243.)

This rapid expansion in bank credit, by increasing purchasing power at a time when the liquid assets of the country were already high and when consumer goods and raw materials were in short supply, was one of the major forces making for the drastic price increase during the year. There was an expansion of 48% in bank loans to business, 70% to consumers and 30% in loans based on real estate. In fact, consumer loans stand at an all-time high, while the increase in total mortgage loans for the year 1946 alone was more than for the whole previous decade.

Federal Reserve Policy

The Federal Reserve authorities cannot retard this increase in bank credit expansion and further monetization of the debt, with all its inflationary effects, so long as it pegs the short-term interest rate at present levels and stands ready to furnish member banks with all the reserves they need for expansion. This is admitted in both the March and April numbers of the Federal Reserve Bulletin.

Why, then, does not the Federal Reserve defrost the short-term interest rate and let Bills and Certificates find their proper price in the free money market? The answer must be because it is afraid that by so doing the interest rate might rise.

No one could understand this whole situation better than does the Hon. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System. He analyzed it perfectly in his testimony before the House Banking and Currency Committee and his testimony is reprinted in part in the April Federal Reserve Bulletin, pages 402-4, under "Methods of Restricting Monetization of the Public Debt by Banks." In spite of his analysis, however, Mr. Eccles still appears unwilling to meet the issue by taking the initial step necessary to stop this process; namely, to unpeg the short-term interest rate. He generally asks for greater selective-type credit controls which Congress is not likely to give him because to do so puts too much actual bank management into the hands of supervising authorities.

Present Situation Critical

The present situation is more critical than the public realizes. Already bank credit expansion, necessarily caused by financing the war plus, until very recently, a continuance of the same type of financing and debt management since the close of the war, has helped foment such a price increase that it is very doubtful that the present situation can be corrected without bringing on a recession. But the longer the present trend continues, the more severe the correction will be when it inevitably does come. And come it eventually will, no matter what inflationary credit policy is pursued, because the stresses in the present price situation are rapidly becoming intolerable. The stock market apparently is not willing to gamble on the present situation lasting much longer. How else account for its disregard of present high earnings?

In bank theory there used to be an old axiom that went unquestioned for years. It ran something like this. If central banks are manipulated primarily to secure low interest rates, such manipulation can only be carried on at the danger of bringing about an inflationary price rise. In essence, the only way the Federal Reserve banks can keep money cheap is by increasing the money supply of the country.

Moreover, all the talk about the huge savings that took place during the war shows a failure to understand the real nature of savings. In a very real sense, the savings that resulted during the war were "phony" savings. They were not savings in any real sense, if savings are defined as additions to the physical wealth of a country. They were merely "monetary" savings. The physical goods that should have been back of them to give them substance and real worth were war goods—goods that were destroyed and wasted in battle. And, when the destruction was over, all that remained with us were the "monetary" savings in the shape of increase in currency in circulation or in bank deposits. There were no new public utilities built, nor railroads improved, nor factories erected to back up and give real value to these savings. Our physical plant remained quite the same with the

exception of some war industries, while our inventories of consumer goods were drastically reduced. All that was increased was our money supply.

Few competent students of banking dispute the fact that the primary cause of the price rise since war began has been the increase in the money supply. The National City Bank of New York, in its monthly letter for May, states the situation tersely:

"The primary cause of the price rise has been the tripling of the money supply, as a result of the wartime expansion of bank deposits and currency in circulation. This money was created mainly by government borrowing from banks. The goods for which it was spent in the first instance were largely destroyed, but after the borrowing ceased the money remained, while the supply of goods available was insufficient for buyers' wants. The pressure of money and wants forced prices to a new high level."

The cost of artificially maintaining cheap money is rising prices. All of us will admit, I think that when the cost of low interest rates is inflation, in the end money purchased at that price is not cheap but dear, indeed.

The German Situation

(Continued from page 7)

union was the establishment of a German "Executive Committee for Economics," made up of the Ministers of Economics from the eight states in the combined area and a Chairman elected by them. Acting through the German "Office of Economic Administration," this committee controls the economic development of the two zones. It is guided in policy matters by U. S. and British Military Government experts who are members of what is called the "Bipartite Economic Control Group." This Control Group is responsible for reviewing decisions of the Committee and determining which of them require Military Government approval. It also serves as a channel of communication between the German committee and the two Military Governments. It should be emphasized, however, that subject to the advice and supervision of the Control Group, full responsibility for the planning and execution of all interzonal trade programs rests with the German Executive Committee for Economics.

Trade Planning Progress

Encouraging progress has been made by the Executive Committee for Economics in the joint planning of trade programs with the Soviet and French Zones. On Jan. 17 and 18, 1947, a meeting was held in Minden between German representatives from the combined U. S.-British Zones and from the Soviet Zone, and a comprehensive interzonal trade program which included vital raw materials and manufactured goods was arranged. This program covers the entire calendar year of 1947. The total value of the commodities which the U. S. and British Zones agreed to deliver to the Soviet Zone during the first quarter of 1947 in return for goods of equal value was approximately 14 million Reichsmark. The total value of goods to be delivered during the last three quarters of the year by the combined zones in return for goods from the Soviet Zone was slightly more than 88½ million Reichsmark. Hence the value of deliveries to be made under the 1947 contract by each party to the agreement was over 100,000,000 Reichsmark. Although the program was planned in its broader outline at the initial meeting, various technical committees will meet from time to time to arrange the details of deliveries and iron out any difficulties that may arise. One of the most interesting side lights on the first interzonal trade meeting was that the committee members present from the three zones represented 93% of the population of Germany.

Interzonal Trade Program

On Jan. 22, German economic officials from the U. S. and British Zones met with German representatives from the French Zone and arranged an interzonal trade program, covering the first quarter of 1947. The value of the goods to be delivered by the respective areas was approximately 39 million Reichsmark.

Hence, if the agreed programs are carried out, the value of the goods shipped to the French and Soviet Zones in the programmed commodities alone will amount to roughly 53,000,000 Reichsmark for the first quarter of 1947. This amount will, of course, be considerably increased by the volume of trade in commodities that are not included in the formal programs.

The interchange of goods with the other three zones has contributed to meeting the immediate needs of the German population in the U. S. Zone. How much the contribution has been, cannot be measured statistically. For example, considerable quantities of potatoes for seed and food have been secured from the British and Soviet Zones; iron and steel products, machinery spare parts, chemicals, coal, and electrical products have been obtained from the British Zone; various kinds of seeds, brown coal briquettes, buna, glass and ceramics, and chemical raw materials from the Soviet Zone; and ammonia for fertilizer, light sheet steel, refractory products, precision machinery, and optics from the French Zone. It is estimated that it would have been necessary to import 15 to 25 million dollars worth of food, if factories in the U. S. Zone had not been in a position to manufacture cans in which foods could be preserved. To make these cans, the British shipped steel billets to the French Zone, manufacturers in the French Zone rolled the steel into sheets and these, in turn, were sold to German can manufacturers in the U. S. Zone. In order to get the essential goods mentioned above from other zones, it was necessary to ship out commodities made or produced in the U. S. Zone, such as tires, dyestuffs, medicines, machinery, ball bearings, electrical equipment and live-stock.

The volume of interzonal trade between the U. S. Zone and the other three zones for the second, third an fourth quarters of 1946 follows: It will be noted that the total volume of trade ("receipts" plus "shipments") for the nine months was in the neighborhood of 946 million Reichsmark. Trade was nearly in balance; shipments were slightly larger than receipts, 474½ million Reichsmark as contrasted to 471½ million Reichsmark for receipts. Our best customer by far during the nine months was the British Zone, which took 57% of the goods which we shipped out, and from whom we received 69% of our incoming goods. Our next best customer, the French Zone accounted for 32% of our outgoing "shipments" and for 23% of our "receipts." Only 11% of our "shipments" went to the Soviet Zone while 8% of our incoming goods came from this zone.

U. S. Zone's Trade

If the Reichsmark is assumed to be worth 30 cents, the total value of the trade of the U. S. Zone ("receipts" and "shipments") with other zones for the nine months would be approximately $284,000,000. Of this amount, outgoing shipments would account for $142,300,000 and incoming receipts for $141,500,000. Although this volume of trade will not appear large to an American businessman, it must be remembered that there was very little interzonal trade prior to the spring of 1946. When the war ended in May, 1945, a complete break-down had taken place in the German economy and there was, of course, no trade between the zones. From May, 1945 to the early part of 1946, except for small deals transacted largely on a barter basis, trade was practically at a standstill. Trade has been gradually expanding since the spring of 1946, the greatest increase occuring in the last quarter of the year. The first interzonal trade program was negotiated in February, 1946; it was with the Soviet Zone. However, deliveries under this program did not take place until later in the year. Beginning in July, 1946, trade between the U. S. Zone and other zones began to show an irregular upward trend.

During the fourth quarter, merchandise to the value of approximately 128 million Reichsmark was shipped out to the British, French and Soviet Zones as contrasted to receipts from these zones of 197 million Reichsmark of goods. Shipments for the fourth quarter were only 1% larger than for the third quarter, but were some 61% larger than for the second quarter. Receipts for the fourth quarter, on the other hand, showed an increase of 19% over receipts for the third quarter and were nearly 80% larger than receipts for the second quarter.

Soviet Zone Had Widest Variation

A study of monthly trade figures indicates that trade with the Soviet Zone showed the widest variation from month to month. This resulted from the fact that heavy deliveries on trade agreements between the U. S. and Soviet Zones took place in the months that are not out of line. For example, the striking decline in shipments to the Soviet Zone in the fourth quarter (105%) is not as significant as it would appear. Large shipments of livestock from the U. S. Zone in fulfilment of the third quarter 1946 agreement were made in July and August, thus greatly increasing the third quarter totals. Likewise, large October receipts from the Soviet Zone resulted from heavy deliveries during this month of food items (such as sugar) under the same agreement.

Problems and Prospects

What has been already achieved is merely the first step on the road to rehabilitation. The obstacles that still have to be overcome are no doubt as great as any which we have encountered so far.

First of all, the provision of the Potsdam declaration which calls for the economic unification of Germany must be carried out. Unification in itself will not solve the economic problems of Germany, but it will ensure the development of the whole German economy on a more rational basis. Uncertainty as to economic unification is a handicap in many fields, notably in adjusting the so-called Level-of-Industry Plan to changed conditions. Under that plan, which was approved by all four occupying powers one year ago, maximum levels were established for most German industries with a view particularly to preventing the resurgence of German war potential. Most experts agree that this plan needs substantial corrections, but the necessary amendments in each zone will largely depend upon developments in other zones and upon the question of whether the German economy is to be redeveloped as a unit or in separate self-sufficient parts.

Another problem that urgently needs attention is currency reform. The disproportion between the supply of money and of goods at prevailing prices cannot be maintained indefinitely. All experts agree that a reduction in the volume of currency will be necessary. Obviously, the execution of such a reform also depends upon the fate of unification. If common action of all four occupying powers is not forthcoming, the advantages and disadvantages of separate action in the merged American and British zones must be weighed.

Other problems arise in connection with the political aims of occupation. The decentralization of the German economy must be achieved in order to make it impossible for the country to reorganize for aggressive purposes. In this connection, military government in the American zone has enacted a drastic decartelization statute, which is aimed at destroying the concentration of economic power in German industry. Property of allied nations looted during the war has been and is being restituted. War plants have been and are being destroyed, and other plants have been and are being removed for reparations. The over-all problem of reparations, however, still remains to be solved.

The lack of unified action of the four occupying powers, moreover, creates uncertainties that are detrimental to economic progress. As long as the management of an enterprise does not know whether or not a plant will be subject to restitution, or to destruction, or to removal under the reparations program, it cannot make definite plans for reconstruction or start an investment program which might be interrupted at any moment.

Finally, military government has to deal with the problem of reaching equilibrium in the balance of international payments of the merged American and British zones. In this connection, the question of economic unification again becomes decisive. As long as unification is not achieved, interzonal trade must be treated as international rather than domestic commerce, with the resulting need for controlling interzonal payments.

The problem of equilibrium is particularly interesting to the American public. As long as the proceeds from exports do not exceed import requirements, they must be devoted entirely to paying for current imports. Only when an export surplus is reached, will it be possible for our merged zones to start repaying the advances made by the occupying powers for the importation of basic necessities.

Our stake in the economic problems of Germany, however, is greater than our interest in receiving repayment of our advances. We want peace, and we know that in order to have peace, we must have economic stability in Germany and in the rest of Europe.

Summary Table—Interzonal Trade of the U. S. Zone

Value of "Receipts From" and "Shipments to" Other Zones in RM.

2nd, 3rd and 4th Quarters 1946

	British Zone		French Zone		Soviet Zone		Totals	
	Receipts fr.	Shipm. to	Receipts fr.	Shipm. to	Receipts fr.	Shipm. to	Receipts	Shipments
Total-2nd Quarter April-June	75,348,449	67,803,900	26,332,401	39,790,931	8,111,530	5,188,520	109,792,380	112,783,351
Total-3rd Quarter July-Sept.	113,118,985	93,568,460	39,358,323	55,659,447	11,954,286	30,884,707	164,431,594	180,112,614
% Increase Over 2nd Quarter	50	38	49	40	47	496	49	60
Total-4th Quarter Oct.-Dec.	135,529,463	110,126,594	45,351,492	56,587,362	16,323,679	14,980,997	197,204,634	181,694,953
% Increase Over 3rd Quarter	19	17	15	2	36	105 (Decrease)	19	1
9 Months Total April-Dec.	323,996,897	271,498,954	111,042,216	152,037,740	36,389,495	51,054,224	471,428,608	474,590,918
% by Zones	69	57	23	32	8	11	100	100
Total Trade (Receipts plus Shipments) 9 Months	595,495,851		263,079,956		87,443,719		946,019,526	
% by Zones	63		28		9		100	

IBA Group to Aid Savs. Bond Sales

The appointment of a committee to cooperate with the U. S. Treasury Savings Bonds Division and to direct the activities of investment bankers in promoting the sale of Savings Bonds in this area was announced on May 16 by Sumner B. Emerson of Morgan, Stanley & Co., New York City, Chairman of the New York Group of the Investment Bankers Association of America.

Sumner B. Emerson

This follows the recent appointment of a national IBA Savings Bonds Committee, of which Mr. Emerson is a member, and marks the resumption by investment bankers of an activity to which they devoted a great part of their efforts during the war. The IBA program is being timed to supplement the Treasury's mid-year campaign in June and July to promote (1) individual sales, (2) the Bond-a-Month Plan, and (3) the Payroll Savings Plan, but will be continued over the long term, it was said.

Details of the IBA Savings Bonds Program are to be worked out with representatives of the Treasury Department on May 19, when the 128th meeting of the IBA Board of Governors convenes at French Lick Springs, Indiana.

Serving on the New York Group Savings Bonds Committee under Mr. Emerson are: Richard de la Chapelle, Shields & Company, vice-chairman for New York; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven, vice-chairman for Connecticut; Arthur R. Robinson, Fidelity Union Trust Co., Newark, vice-chairman for New Jersey; Walter F. Blaine, Goldman, Sachs & Co.; and Robert H. Craft, Guaranty Trust Company.

Charles Cutter With Moseley in Chicago

CHICAGO, ILL.—Charles F. Cutter has become associated with the Chicago office of F. S. Moseley & Co., 125 South La Salle Street, it is announced.

For 18 years he was with Halsey, Stuart & Company with the exception of one year spent in assisting in the re-organization of the Illinois Department of Finance as chief investigator and four years spent in the Air Operations department of the U. S. Navy, from which he was released in 1946 with the rank of Lieutenant Commander.

Mr. Cutter was graduated from the Universit yof Chicago in 1929. His home town is Elgin, Ill.

World Bank—A Conservative Pioneer

(Continued from page 11)

they willingly exhibit, but they are not enough. The people of war-torn nations are still possessed of their wants and their ambition to improve their position.

The Tools Needed

Mr. McCloy, the President of the International Bank, tells a revealing story of the urge to get things into operation which he observed when, as Assistant Secretary of War, he was a part of General Patton's advance. Surging down the road in the opposite direction pushed a crowd of refugees hurrying to find shelter before night-fall. Mr. McCloy followed them off the road into their hasty bivouac behind a great rubble-heap which had been a German cavalry stable. Weary as they were, the women of the group began putting things in shape, clearing away masses of debris, sweeping what remained of floors with bundles of brush, lighting fires to warm what little food they might have picked up along the way. Men moved stones and sections of wall to provide shelter against the wind. Behind a heap of rubbish lay a dead man and on the other side a woman was giving birth to a baby. Life was going on in the midst of death; and the inevitable desire for shelter, food, order, cleanliness, and the implements to make a home were plainly evident. "If only I could have given those women brooms and those men shovels," Mr. McCloy stated, "they would have had that mass of ruins in shape to live in within a day."

This is what the International Bank, in broad economic terms, was set up to do. It will get the tools of production, the goods and equipment necessary for economic life, into the hands of people whose every instinct impells them to better their own positions.

Bank's Loans Not Enough

At this point, it is important to emphasize again that the Bank's loans are not to be considered adequate in themselves to produce the results I have outlined. We are exporting, at the moment, dollar exchange—not bricks and mortar and labor and self-sacrifice. These must come from the people of the countries which receive the loans. This means that the situation in each country which applies for money from the International Bank must be carefully and thoroughly scrutinized. Have the people of that country given evidence of their willingness to bring forth the effort needed to make full and productive use of the money they seek from us? That is the primary question, which must be answered to our satisfaction.

The Loan to France

News of the Bank's first loan was published in the press last week, the loan of $250,000,000 at 3¼% annually to the Credit National, a semi-public corporation created to assist in the reconstruction and development of the French economy. It will aid in the economic reconstruction program adopted by the French Government and has the full guarantee of that government.

There is no better evidence that the people of France are determined to help themselves out of their economic morass than the provisions of their own reconstruction program. On the basis of the French calculations, this program envisages the investment of the equivalent of some $18,900 million during the four years 1947-50. As much as 84% of this proposed investment expenditure is expected to come from domestic resources—the savings of the French people and of corporate enterprises. This is estimated to equal about one-fifth of the net resources available for domestic utilization (total domestic production, plus imports, less exports and maintenance expenditures). The successful achievement of this program will depend mainly on the efforts and self-discipline of the French people.

The French loan agreement assures that the proceeds of the loan will be used for productive purposes—to finance the import of specific goods and equipment necessary to economic rehabilitation. The French steel industry will be modernized. For example, the French are purchasing equipment for a modern continuous strip mill. Transportation is to be improved by the acquisition of locomotives, and freight cars, cargo ships and canal barges, and commercial airplanes. In addition, the French will buy coal and oil and numbers of industrial raw materials including semi-finished steel products and non-ferrous metals.

It is not too much to expect that purchases of this sort, plus the French will to work will pay off in production in a reasonable period of time. The French believe that by 1950 they will be able to restore equilibrium in the transactions of the franc area with the rest of the world. Thus during the early years of the life of the loan no repayment of principal is scheduled. Thereafter amortization begins at a modest rate and increases gradually so that the loan will be completely amortized by its due date.

Necessity for Entering Private Investment Market

If you are aware of the capital structure of the Bank and the present pressing need throughout the member nations for United States foreign dollar exchange, it will be clear to you that it is necessary for the Bank to go into the private investment market for the great bulk of its loanable funds. This is not only a necessity, it is a stated purpose of the Bank which is actually a bridge of guarantees and safeguards to help carry private funds to those who need it. The way the Bank will get this additional loanable money is by the sale of its debentures, initially in the United States. These debentures will be general obligations of the Bank and not tied to any specific loan or loans. They will be backed, in short, by the Bank's loan portfolio, by cash and reserves such as the special reserve to be built from commissions of from 1 to 1½% on all loans and guarantees. They will also be secured by the Bank's mandate to call on its members for the additional 80% of their capital subscriptions in gold, dollars or the currency necessary to meet its obligations.

A fact which must not be forgotten is the unique relationship between the borrower and the lender which exists. In effect, the Bank can make loans only to the member countries. Should a borrowing nation default on its obligations to the Bank—in spirit or in fact—it would not be defaulting only to the nation in whose currency it borrowed the funds, but actually it would be defaulting to all its sister member nations.

Such a default would cause each of the other 43 member nations' loss either through the dissipation of accumulated earnings, of which each member nation is naturally entitled to its proportionate share, or, under more serious conditions, a proportionate share of the 80% capital subscription guarantee.

It would seem a practical matter—and a strict business proposition—that any borrowing nation would make every effort to make good on a liability common to so many friendly nations.

But let's assume for a moment that one should take the darkest possible view. The United States has contributed approximately 40% of the Bank's capital. The 80% of its subscription, which is subject to call for the protection of the Bank's debentures, amounts to $2,540,000,000. The entire capital contribution of the United States was authorized by Public Law 171—79th Congress, and no further Congressional action is necessary to make all or any part of it available should the Bank ever find it necessary to issue a call.

Long before the amount of the Bank's outstanding debentures reaches a point where it equals the call against the United States alone, the Bank will have a record of performance inviting careful analysis.

Following the "New England Spirit"

Let's get back to New England and the conservative investors and pioneers. How does this Bank fit into that picture? Simply put, it offers the advantages of pioneering and the safety associated with conservatism. It is a pioneer in that it is something new under the sun—a cooperatively erected bridge to carry private funds where they will do the most good, where they will create jobs and goods and purchasing power to create more and more jobs and goods both here and in the rest of the world. It offers conservatism of investment in that its debentures will be soundly backed by the assets I enumerated earlier.

We of the International Bank hope for your support and ask that you examine the Bank and its operations with the eyes of conservative investors who are still pioneers. The successful functioning of the Bank is important to New England, to the United States and to the entire freedom-loving world.

Appoint Savs. Bond Com For NY Group of IBA

Sumner B. Emerson, Morgan Stanley & Co., Chairman of the New York Group of the Investment Bankers Association of America, has announced the appointment of a committee to cooperate with the U. S. Treasury Savings Bonds Division and to direct the activities of investment bankers in promoting the sale of Savings Bonds in this area.

Members of the Committee serving under Mr. Emerson are: Richard de la Chapelle, Shields & Company, Vice-Chairman for New York; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven, Vice-Chairman for Connecticut; Arthur R. Robinson, Fidelity Union Trust Co., Newark, Vice-Chairman for New Jersey; Walter F. Blaine, Goldman, Sachs & Co. and Robert H. Craft, Guaranty Trust Company.

The appointment of the New York Committee follows the recent appointment of a national IBA Savings Bond Committee, of which Mr. Emerson is a member, and marks the resumption by investment bankers of an activity to which they devoted a great part of their efforts during the war. The IBA program is being timed to supplement the Treasury's mid-year campaign in June and July to promote individual sales, the bond-a-month plan, and the payroll savings plan, but will be continued over the long-term, it was said.

The International Bank

(Continued from page 11)

ing of their own economies and thus create their own purchasing power through the production of exportable surpluses of goods which they can produce.

At the moment the needs of the respective countries are so great and political and economic conditions are so uncertain that private investors hesitate to take the risks involved. In order to bridge that gap, the representatives of 44 nations who met at Bretton Woods, New Hampshire, in July, 1944, conceived the idea of establishing two great international cooperative institutions which were intended between them to promote freedom and stability in international exchanges and to restore the flow of international capital investment. Those two institutions are the International Monetary Fund and the International Bank for Reconstruction and Development.

The International Monetary Fund

We are not here concerned with the operations of the International Monetary Fund. I shall, therefore, merely mention that it is designed to promote international monetary cooperation through consultation and collaboration among its members on international monetary problems and also to provide an international fund to assist its members in meeting conditions of temporary disequilibrium in their balance of international payments.

The Fund is thus intended to assist its members in meeting temporary deficits in their balance of international payments. The Bank, on the other hand, is intended to render long term financial assistance to its members for the purpose of reconstructing or developing their productive facilities and resources.

Membership in the International Bank

The Bank now has 44 members, not including Australia whose application for membership is now pending. Of those 44 members, 39 were represented at the Bretton Woods conference, one—Denmark—was admitted to membership at the inaugural meeting of the Board of Governors of the Bank at Savannah, Ga., in March, 1946, and four—Italy, Turkey, Lebanon and Syria—were admitted to membership pursuant to action by the Board of Governors of the Bank at its first annual meeting in Washington last September. Of the 44 nations which were represented at the Bretton Woods conference only five are not now members of the Bank. They are Australia, New Zealand, Russia, Haiti and Liberia. As I have said, Australia's application for membership is now pending before the Board of Governors.

The Capital of the Bank

The authorized capital stock of the Bank is $10 billions divided into 100,000 shares of the par value of $100,000 each. The total amount of the caiptal stock which has been subscribed is $8,024,500,000. The amounts of the subscriptions of the original members were fixed at Bretton Woods and are set forth in Schedule A to the Articles of Agreement of the Bank. The subscription of Denmark was fixed by the Board of Governors at its meeting at Savannah, Ga., in March 1946. The subscriptions of new members are fixed in agreement with such members at the time when their admission to membership is approved.

For the purposes of analysis the capital stock of the Bank may be divided into three parts:

(1) 2% of the subscriptions to the capital stock of the Bank is payable in gold or United States dollars. Original members of the Bank were required to pay that 2% on or before August 24, 1946. Members admitted after that date are required to pay such 2% when they become members by signing the Articles of Agreement. An original member whose territories were invaded during the war is entitled under the Articles of Agreement to postpone for five years payment of ½%/1% out of such 2%. Six members have availed themselves of that privilege and the total amount payment of which has been thus postponed is $4,915,000.[1] The total amount of the 2% which has been paid in in gold or United States dollars is thus $155,575,000. That amount is freely available for use in the Bank's operations.

(2) 18% of the subscriptions to the capital stock of the Bank was subject to call for use in the Bank's operations and is payable in the currencies of the respective members. All of that 18% has now been called, the last call of 5% being payable on or before May 26, 1947. That 18% amounts in the aggregate to the equivalent of $1,444,410,000. That part of the Bank's capital can only be loaned with the consent of the particular member whose currency is used. Since most of the members of the Bank are not now in position to permit the export of capital, it can be expected that few, if any, members other than the United States, and perhaps Canada, would now consent to the lending of the 18% of their capital subscriptions which has been paid in in their currencies. Accordingly, for the time being at least, the only part of such 18% which will be available to the Bank for use in its lending operations is the $571,500,000 which will have been paid in by the United States.

(3) The remaining 80% of the subscription of each member is subject to call only when required to meet the obligations of the Bank. It is in the nature of a guaranty fund, which is not available for use in the lending operations of the Bank, but can only be called and used to meet the Bank's obligations.

The Bank is frequently spoken of as an $8 billion institution. That is true only in a very broad sense. As is apparent from what I have already said, the capital of the Bank wihch will be available for lending after May 26, 1947, will be as follows:

(1) 2% of its capital paid in in gold or United States dollars which is free for use in its operations (after deducting an operating deficit as of March 31, 1947, of $805,335)—$154,769,665; (2) 18% of the United States subscription paid in United States dollars—$571,500,000: **Total $726,269,665;** (3) 18% paid in other curencies not presently available for lending—$872,910,000: **Grand total—$1,599,179,665.**

The Organization of the Bank

The organization of the Bank consists of:

(1) A Board of Governors composed of one governor appointed by each member and an alternate for each governor;

(2) A Board of Executive Directors composed of 12 members of which five are appointed by the five largest stockholders (the United States, the United Kingdom, France, China and India) and seven directors who are elected by the remaining members. Each Executive Director also has an alternate;

(3) The President, who is elected by the Executive Directors, and the staff appointed by the

1 China, Czechoslovakia, Denmark, Greece, Poland and Yugoslavia.

President under the general direction of the Executive Directors.

Under its Articles of Agreement all the powers of the Bank are vested in the Board of Governors, which may delegate and has delegated such powers (with certain exceptions) to the Executive Directors. The exceptions include the admission of new members, the increase or decrease of the capital stock of the Bank, the suspension of a member, decisions on appeals from interpretations made by the Executive Directors, approval of agreements with other international organizations and decisions with regard to the distribution of the net income of the Bank and the liquidation of the Bank.

In the Board of Governors each member nation has 250 votes plus one vote for each share of stock subscribed by it. In the Executive Directors each appointed director has the same number of votes as the government which appointed him and each elected director has the same aggregate number of votes as the nations which elected him.

The Board of Governors meets annually but may be called for special meetings when required. A vote of the Board of Governors may also be taken without a meeting by cable, wireless or letter.

The Executive Directors meet regularly once a week and are continuously available at the headquarters of the Bank for special meetings at other times. The function of the Executive Directors corresponds generally to that of a board of directors of a private corporation.

The President is ex officio chairman of the Executive Directors without vote except in case of a tie. He is the chief of the operating staff of the Bank and is responsible under the general direction of the Executive Directors for the conduct of the Bank's operations.

In practice there is close and constant cooperation between the President and his staff and the Executive Directors. At the regular meetings of the Executive Directors the heads of the operating departments are present and through informal discussions at such meetings the Executive Directors are kept constantly informed of the progress of the Bank's affairs and exchange views informally with the President and his operating chiefs on matters pending before the Bank. In that way the Executive Directors are placed in position to act promptly on all recommendations presented to them by the President.

The Lending Operations of The Bank

Briefly the purpose of the Bank is to assist in the reconstruction and development of the productive facilities and resources of its members by making direct loans, participating in loans made by others or guaranteeing loans made by others. It may make loans, participate in loans or guarantee loans to any member or any political subdivision of a member or to any business, industrial or agricultural enterprise in the territories of any member.

If the member government in whose territories the loan is made is not itself the borrower, and, therefore, the principal obligor on the loan, then the loan must be guaranteed by that member or by its central bank or other agency acceptable to the International Bank.

In carrying out its purposes the Bank seeks to promote private international investment. It cannot make or guarantee a loan unless it is satisfied that the borrower would be unable otherwise to obtain the loan under conditions which, in the opinion of the Bank, are reasonable for the borrower.

It is thus contemplated that the Bank shall make or guarantee loans only where private investors are unwilling to make such loans on reasonable terms. On the other hand, the Bank must weigh the purposes for which the loan is to be used and satisfy itself that the loan is within the scope of the purposes of the Bank, that is, that the proceeds of the loan will be used for the reconstruction or development of the productive facilities and resources of the country in which the loan is to be made; that the project to which the proceeds of the loan are to be applied is technically and economically sound; and that the amount, terms and conditions of the loan are such that there is a reasonable prospect that the loan will be repaid. The Bank is specifically enjoined by its Articles of Agreement to act prudently in the interests both of the particular member in whose territories the loan is to be made and of the members as a whole.

In respect of each loan a special loan committee consisting of one or more members of the staff of the Bank and an expert selected by the governor of the member in whose territories the loan is to be made makes a study of the project for which the proceeds of the loan are to be used and submits a written report of its recommendations on the merits of such project.

In practice each loan application and the data submitted in support of it are analyzed and studied by a working group of members of the staffs of the Loan Department and the Research Department assisted by members of the Treasurer's staff and the legal staff of the Bank. This group is in constant consultation with representatives of the prospective borrower in order to obtain necessary explanations and additional information whenever required. The results of the studies of the working group are from time to time presented to the President and the Vice-President and the heads of the operating departments and form the basis of the ultimate recommendations of the President to the Executive Directors. In the meantime the Executive Directors are kept apprised of the progress of the studies through informal reports at their meetings and through memoranda summarizing the factual data presented to the Bank. The procedure is not specifically formalized and necessarily varies as among different loan applications depending on the character and scope of the project for which the loan is desired. On technical engineering and economic matters the Bank avails itself of the services of outside experts on a consultative basis. When necessary the Bank sends members of its staff or experts specially retained by it to the borrowing country in order to study the project on the ground.

The Bank is required by its Articles of Agreement to make arrangements to ensure that the proceeds of the loan are used only for the purposes for which the loan was granted. When the Bank makes a contract to grant a loan it sets up on its books an account in the name of the borrower to which the amount of the loan is credited. The borrower is permitted to draw on that account upon submitting proof satisfactory to the Bank that the amount to be withdrawn will be applied only to the purposes for which the loan was granted.

Furthermore, having regard for the general purposes of the Bank and its international cooperative character, it intends to include in its loan contracts provisions whereby, during the life of the loan, it will be furnished currently with information concerning the application of the proceeds of the loan, the progress of the project for which the loan was granted and general economic and financial conditions in the country where the project is located. Provision will also be made whereby the Bank will be in position at all times to consult with the borrower concerning all such matters. It is believed that such provisions will be of increasing importance in enabling the Bank to keep informed with regard to economic and financial conditions and trends throughout the world and to direct its efforts and resources most effectively toward the promotion of the long-range balanced growth of international trade and the maintenance of equilibrium in international balances of payments.

Borrowing by the Bank

The Bank is empowered to borrow funds for use in its operations provided that it obtains the approval of the member in whose markets the funds are to be borrowed. It is obvious that in present conditions the Bank must rely for some time to come on its ability to borrow in the investment markets of the United States, if it is to come anywhere near to satisfying the applications for loans which have been or will be made to it.

The form and terms of the securities which the Bank will issue for that purpose and the methods by which it will distribute those securities are still being studied by the management of the Bank. To a large extent the determination of those matters will depend on market conditions when the offering is made. Considering the amounts which the Bank will need to borrow, it seems clear that it will have to look chiefly to large institutional investors, such as insurance companies and savings banks, and others who customarily invest in prime securities. At the same time, from a long-range point of view, the Bank should seek to have as wide a distribution as possible of its securities.

The officers of the Bank realize that there is not now adequate understanding by the investment public and the banking community of the purposes and operations of the Bank. For that reason they welcome any opportunity such as this to explain the functioning of the Bank. More than that, you will find them in a receptive mood toward any questions, comments or suggestions which those who may be interested shall have to offer.

Everyone is, of course, interested in the security behind any obligations which the Bank shall issue. From time to time various people have prepared hypothetical tabulations on the subject. All such tabulations have the inherent weaknesses of *pro forma* balance sheets. They present a static picture and no not reflect a course of operations over a period of time.

The Articles of Agreement of the Bank provide that the total amount of loans made or guaranteed by the Bank cannot exceed its unimpaired subscribed capital, reserves and surplus. That would mean that at the present time its total loans and guarantees would be limited to $8,000,000,000 in round figures.

Frequently calculations are based on the hypothesis that the loans made by the Bank have reached that limit. Those calculations disregard the fact that it would be some time before the loans made by the Bank could reach that amount. During that time some of the currencies other than dollars may become available for lending, thus reducing the total amount which the Bank would have to borrow. Furthermore the Bank may avail itself of its power to guarantee loans which would also reduce the total amount which the Bank would have to borrow directly.

Moreover, during the first ten years of its operations the Bank is required to charge on all loans guaranteed by it and on all loans made by it out of borrowed funds a commission of not less than 1% and not more than 1½% per annum on the amount of the loan outstanding. That commission is required to be kept in liquid form in a special reserve to meet the Bank's obligations. The present policy of the Bank is to charge a commission of 1% per annum on all loans, whether made out of capital or out of borrowed funds. That commission will be accumulating in the special reserve during the period in which the Bank is making its loans.

Generally speaking the security behind the Bank's obligations will be:

First: Its portfolio of loans;

Second: Its liquid assets in cash and in the special reserve; and

Third: The 80% of its subscribed capital which is subject to call only to meet its obligations.

The loan applications now pending in the Bank aggregate about $2.3 billions. Those applications cover requirements of the applicants which will be spread over from one to three years. Any calculations based on the assumption that the Bank will have made loans up to its limit of $8 billions within the next two years are entirely hypothetical. As a matter of fact, by the time the loans made by the Bank pass the amount of the United States subscription to the Bank's capital, investors will have had an adequate opportunity to judge of the soundness and prospective success of the Bank's lending operations.

The immediate consideration is that the Bank can be of real assistance in the restoration and development of international trade. Whatever may be the attitude of the American investor toward his duty as a citizen of the world to contribute toward the restoration of a sound and healthful world economy, he owes it to himself to support the efforts of the Bank.

In 1946 the United States supplied goods and services to foreign countries in the amount of over $15 billions. Private or commercial exports amounted to nearly $8 billions. Of the $15 billions of goods and services supplied to foreign countries by the United States only $7.1 billions were paid for by imports and services purchased from abroad by the United States. Of the remaining $8.2 billions, $3.2 billions consisted of government grants and private contributions. The remaining $5 billions was financed by loans and credits of $3.5 billions and by use of gold and dollar resources of the purchasing countries for the balance. For 1947 it is estimated that our total exports of goods and services will be approximately $15.2 billions and our imports of goods and services approximately $9 billions, leaving an excess of about $7.2 billions, of which about $5.4 billions will have to be financed by loans and credits or foreign gold and dollar resources.

Unless this country is to face a serious decline in its export trade a substantial part of the excess of its exports over its imports in the next few years must be financed by loans. Some may say that, rather than make loans abroad, we should forego a part of our export trade. Aside from its effect on other countries which need our goods in order to restore their own economies, that must mean a drastic curtailment in our own volume of production, especially of agricultural products, and in our national income, with a corresponding decline in our standard of living. Ultimately, of course, we must expect to receive payment of our loans abroad in imports of goods and services from abroad. But those imports can and should represent an increase in our standard of living.

The plain fact is that, unless the American investor is willing to invest some of his savings in foreign lending, he must expect to face a decline in the income or his domestic investments. That is the selfish motive which should impel the American investor to support the International Bank. It seems to me that the American investors should not be slow to appreciate that very simple fact.

Business Man's Bookshelf

What the International Bank Means to You — Booklet telling what the bank is for, how it was organized, who its members are, what kind of loans and guarantees it can make, how it will supplement its present loanable funds, etc.—International Bank, Office of Public Relations, 1818 H. Street, N. W., Washington, 6, D. C. — paper—copies on request.

Departmental Merchandising and Operating Results for 1946 of Department Stores and Specialty Stores — Controllers' Congress of the National Retail Dry Goods Association, 100 West 31st Street, New York 1, N. Y.—paper—$7.50 (to members of the Controllers' Congress and the National Retail Dry Goods Association, price $3.00; 10 or more copies at $2.50 each).

Management and Human Relations in Industry—Volume 1—Labor & Industrial Relations Yearbook and Directory for 1947 —Industrial Relations Publishing Corp., 1165 Broadway, New York 1, N. Y. and 1010 Vermont Avenue, Washington, D. C.—paper—$2.00.

New York Laws Affecting Business Corporations — Annotated and revised to April 18, 1947 containing the amendments of the Legislative Session which adjourned March 18, 1947—United States Corporation Company, 160 Broadway, New York 7, N. Y. and 240 State Street, Albany 6, N. Y. —paper—$2.00.

Price-Quantity Interactions in Business Cycles — Frederick C. Mills—National Bureau of Economic Research, Inc., 1819 Broadway, New York 23, N. Y.—cloth—$1.50.

FIC Banks Place Debs.

A successful offering of two issues of debentures for the Federal Intermediate Credit Banks was made May 19 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $19,580,000 1.05% consolidated debentures, dated June 2, 1947 and due Dec. 1, 1947 and $28,510,000 1.10% consolidated debentures, dated June 2, 1947 and due March 1, 1948. Both issues were placed at par. Of the proceeds $32,920,000 will be used to retire a like amount of debentures due June 2 and $15,170,000 will be used for new money. As of June 2, 1947 the total amount of debentures outstanding will be $355,750,000.

Dawson Director of Albert Frank Agency

R. W. Dawson, vice-president in the Chicago office of Albert Frank-Guenther Law, Inc., 1 La Salle Street, and dean of the branch managers, has been elected a director of the firm, according to announcement today by Emmett Corrigan, chairman of the board. Mr. Dawson first became associated with Albert Frank & Co. in Chicago in 1914, and was made office manager there in 1921. Upon the merger of Albert Frank with Rudolph Guenther-Russell Law, Inc. in 1932, Mr. Dawson was elected a vice-president of the combined companies.

Guaranteed Wage: Mirage or Reasonable Goal?

(Continued from page 3)

both security and liberty, as well as economic progress.

Business Management's Limited Power

The current drive for guaranteed wages may have two unfortunate effects: (1) It implies that employers are negligent in their duties to their workers; that they are failing through cussedness or lack of humanity, to do something which they could easily do if only they had the right attitude. (2) It diverts attention from the real causes of discontinuity of wage payments as well as from workable remedies. In fact, Jay C. Hormel, one of the leading practical proponents of steady jobs, has repeatedly expressed regret that the term "Guaranteed Wage" ever became popular.

Management's sustained wage-paying capacity depends upon the customers and the solvency of the enterprise and not upon the size of the boss's pocketbook. Yet management can do something to keep the customers buying. While we speak of management's prerogatives and the range of choices open to management, every business is highly dependent upon the economy as a whole.

In our society, economic activity depends primarily upon voluntary cooperation of many groups and sectors of the economy. The citizen is free, within his means and ability, to become job-seeker, job-maker or to become self-employed. The consumer ultimately determines the direction of production, but his behavior is, in turn, partially conditioned by what happens to him as a producer.

From 1929 to 1933 the consumption of gasoline was fully maintained but the purchase of new motor cars declined by about 75%—some simple statistics which show two things: (1) How the consumer is the ultimate arbiter of production, (2) How much more difficult it would be for an automobile manufacturer to guarantee wages than it would be for an oil company.

In response to prospective consumer demand, investment funds flow into new enterprise. A flexible price system is the vehicle through which supplies and demands express themselves. The designers, the inventors, and the innovators are ever alert and active. Through new competition, substitutes and shifts in consumer tastes, a process of continuous "creative destruction" pervades our entire economic system. This is its lifeblood.

If so, how far can the individual enterprise go in guaranteeing wages? Would a system of wage guarantees throughout the economy paralyze this dynamic system and cause it to slow down? Actually, to what extent is management in control of the destinies of its own enterprise? If management is pushed into guaranteeing wages will management be driven to try to control collectively new competition, new investment, new products, production and prices, with the hope that it can make good on the guarantee?

War and Instability

Furthermore, if this sensitive economic system is subjected every generation to the tensions and stresses of war, is it reasonable to expect it to operate on a keel sufficiently even to permit a majority of employers to guarantee wages by the year? Wars stimulate and retard. Wars make subsequent periods of jerky catching-up inevitable. Wars upset the normal relations between the money supply and the price level, stimulating further instability. The wave-like economic movements set in motion by wars continue for many years.

Is it possible for employers to promise security and guarantee wages in a world of wars? Is it not one of the responsibilities of management, when confronted with unrealistic demands for guaranteed wages, to explain the underlying factors which make sustained wage-paying capacity so vulnerable to forces outside of the control of management? If management merely resists the demands for guaranteed wages without explaining fully, carefully, and sympathetically the reasons for the instability, management is apt to appear in a position of favoring insecurity and to be unconcerned with the employees' problem of the overhead cost of living, which go on whether the workman is on the payroll or not.

Does Labor Want the Guaranteed Wage?

Labor unions are far from unanimous in demanding guaranteed wages. Some unions, like the National Maritime Union, admit that the guaranteed wage is possible only under a socialized economy; and we might add, then only if labor itself submits to detailed state control. History has already indicated that if private enterprise is socialized, this requires the socialization of the labor movement as well. John L. Lewis in 1937 demanded a guarantee of 200 days work per year, but has not pressed the issue. The International Ladies Garment Workers Union claims that it is more concerned with the problem of creating greater stability of employers, many of whom fade after a few months' operation. They ask what good is a contract when the employer goes bankrupt? The AFL unions, while concerned with security, have not been deeply enamoured of the guaranteed wage route.

A number of CIO unions are preparing to make the guaranteed wage demand a major issue. For many of them wages have risen 30% the past 18 months, and there is some reason to believe that for 1948 the emphasis may not be primarily on further wage increases but rather upon the guarantee of the wages which they already get.

The CIO subscribes to what is sometimes called the naive purchasing power theory of prosperity, although as recently as 1940 Philip Murray said:

> Pioneers in this difficult field deserve great commendation, but not too much should be expected from their efforts. Experience to date raises doubt as to whether annual wage plans can be extended over a wide area of business activity, for basic to their success is the stabilization of operations.[1]

This company-by-company approach has now been replaced by the CIO with a "purchasing power" approach. Under this view, depressions are due to a lack of wage earners' purchasing power; a guarantee of wages, it is argued, will maintain income and will maintain a willingness to spend income as it is earned and thereby maintain eternal prosperity.

It would be difficult to find an economist who devotes his time to an impartial analysis of our economy, who would agree that depressions are due to shortages of purchasing power.

Production always finances consumption, providing no one is hoarding income. It is the failure to use income which may cause a break in the necessary circuit flow of production and income. The mere guarantee of wages would not prevent the accumulation of those maladjustments which precede depression. Even Karl Marx noted that depressions come when purchasing power is at an all-time peak. It might also be noted that recovery from depression takes place when purchasing power is at its lowest, such as late in 1921. Yet we will hear much in the months ahead of how the guaranteed wage will sustain purchasing power and prevent depression; it is important that management be properly informed on what causes depressions and what will, and what will not, prevent them.

Since there is grave doubt that the guaranteeing of wages will obviate depressions (and indeed such guarantees may make depressions deeper and prolong recovery by delaying adjustments) business management should be prepared to analyze and understand the economics of the business cycle, in order that we will not proceed to false conclusions from erroneous premises.[2]

Guaranteed Wage as Liberalized Unemployment Compensation

For nearly a decade organized labor has opposed experience rating in unemployment compensation, under which the employer is given an incentive to stabilize employment through the payroll tax savings. Yet, would not the guaranteed wage constitute 100% unemployment compensation with 100% experience rating? If the employer succeeded in providing year-round employment he would not be called upon to pay any unworked-for-wages under the guarantee. The same is true of benefits under experience rating in unemployment compensation. Some view the demand for the guaranteed wage as an attempt to liberalize unemployment compensation by calling it by another name. Labor's principle arguments against experience rating have been:

1. Management actually cannot prevent unemployment because the forces causing it are beyond its control.
2. It is unsound public policy for employers to have a financial interest in the level of unemployment benefits.
3. It is unsound public policy to have benefit costs vary from employer to employer, depending upon the amount of unemployment attributable to each establishment.
4. Since the community as a whole is financially interested in payments during unemployment, all employers should pay the same rate regardless of whose employees are unemployed.

If these arguments are valid against experience rating in unemployment compensation, are they not equally valid against the guaranteed wage, which is experience rating carried to the full? The latter may be viewed as unemployment compensation with the benefit rate 100% of the weekly wage and benefits financed by charges only against the **individual** employer, depending upon his employment experience.

When President Truman proposed a Federal Treasury supplement to unemployment compensation immediately after V-J Day ($25 for 26 weeks proposal) there was considerable public hostility toward this idea. Since then, the abuses under the Veteran's Readjustment Allowances and the abuses of unemployment compensation within the states during the labor shortages in the postwar have caused further public criticism of these programs. Yet, would not the guaranteed wage accentuate the abuses, reduce labor mobility and reduce the incentive to find other work?

Under the guaranteed wage with 100% wage payment, there would be no incentive to find other work, so long as the wage payments continue. Under unemployment compensation the benefit scale usually ranges from 55 to 70% of the previous wage, thus providing some incentive to work in most cases.

Unemployment compensation benefits generally run for not more than half a year, whereas under the guaranteed wage they might run for 52 weeks or 104 weeks, depending on the length of the guarantee and its renewal provisions.

Under unemployment compensation, the law requires the beneficiary to expose himself to job referrals through the United States Employment Service to any and all employers who may have suitable employment. Under the guaranteed wage, job offers would have to come only from the guaranteeing employer.

To repeat, is the guaranteed wage not largely a liberalized version of unemployment compensation with experience rating, but without the incentives to utilize effectively that portion of the labor supply in productive work, which the guaranteeing employer cannot use?

Five years ago the foregoing comparison between unemployment compensation and the guaranteed wage would not have been made. The reason is simple. Then a few employers were engaging in a conscientious experimental search to provide a guarantee to their employees. These efforts were rightfully applauded. Today the guaranteed wage, unfortunately, has become a political or semi-political issue. Government is building up pressure. Labor unions are "demanding" the guaranteed wage. Some of them are likely to make this demand upon a take-it-or-leave-it basis and then through the collective withdrawal of labor from the plant or the threat of the strike, the issue is likely to be forced. At least is this not apt to be the case if "collective demanding" continues to replace genuine voluntary collective bargaining?

Some More Questions

If a guaranteed wage plan extends only to the older employees whom the employer expects to retain even during a major depression, is it not merely a glorified name for the established system of layoffs by seniority? Even if so, does the formalization of the seniority system into a guarantee have some value?

If the guarantee plan calls for 52 weeks of 40 hours, does the employee guarantee to stay on the job for 52 weeks? Must he give 52 weeks' notice if he desires to quit? Is the hourly wage rate fixed for 52 weeks? Does the employee agree not to strike for higher wages in the 52 weeks? If the employee becomes ill or asks for a leave, must the employer still agree to pay him a full 52 weeks? If a department is abolished, can the employee demand 52 weeks of income, or does he agree to shift to some other department? If the employee agrees to shift from a slack department to another, as part of the bargain, does the old or the new wage rate apply? If the employer goes out of business, does his obligation cease? If the employee works more than 40 hours in one week, can this overtime be credited at straight-time to some week when he works under 40 hours? In seasonal industries will peak workers also come under the guarantee? Will workers guaranteed an annual income accept a lower hourly rate?

Would the requirement of a guarantee tend to cause employers to hire fewer workers? Will it retard business expansion? What will it do to the incentive to open new enterprises? How will it affect small business? Will it cause the economy to stagnate, especially those parts of it which are most susceptible to enormous shifts in consumer demand upon short notice? Would the guaranteed wage so raise the risks of business, that private job-making would become a function to be avoided to the point where it paved the way for the socialization of enterprise?

If the management has made an unduly onerous commitment what will happen to industrial relations if a smaller commitment is offered the second year? Would the additional risks of business under a substantial guarantee in industry in general, so deter the pioneering enterpriser that progress would give way to stagnation.

If a whole industry, say the full-fashioned hose industry, established a guaranteed wage, would not the production for stock during dull years create the risk of intensifying the very breakdown which it postpones? Is this not likely to happen since under the guaranteed wage, labor costs have been converted from variable into fixed costs, so that these labor costs must be met whether there is any work done or not? If this is a likelihood, will the industry after a time, ask to be relieved from anti-trust action so that it can "regulate" output and investment in the industry, because of its benevolence in establishing a guaranteed wage.[3] If this anti-trust exemption is granted how long would it take before the workers and management would engage in a conspiracy against the consumer, in the guise of a "stabilization" program?

These and many other questions should be asked again and again in the months ahead. Perhaps these are not the most important questions. Some of them may be irrelevant and some of them irreverent. But it is better to ask the right questions now, rather than to assume that glib and easy solutions are at hand. Some 150 guaranteed wage plans have been abandoned—there are reasons for this high mortality. We should devote at least as much time to a study of the failures as we do to the successes. This is the scientific spirit; this is the honest way, and in the long run, the only safe way.

Some years ago a scientist spent $25,000 on some industrial research for a chemical company. The search was a failure. The scientist hesitated to report the failure to the management. When he finally mustered enough courage to inform management of the failure, to his surprise the president said, "well too bad; but it's worth $25,000 to find out that the idea won't work."

In assuming anything so formidable as a guaranteed wage, management should not hesitate to devote adequate resources to finding out what will work and what will not work. Then it has a responsibility to the public to report the findings.

A Negative Approach Not Enough

Nor is this all. The desire for security and economic stability is a legitimate goal. No one can object to the interest of the American workmen in 52 regular pay checks per year, and year after year. The literature on employment stabilization is packed with many useful ideas on how to eliminate or reduce seasonal fluctuations of wage income if not of production itself.[4]

Eastman Kodak, Armstrong Cork, General Foods, General Mills and many other companies have pioneered in the adoption of employment stabilization techniques. Hormel & Company, Procter and Gamble, and Nunn-Bush Shoe adopted guaranteed plans only after long study, much experimentation and the develop-

1 "Organized Labor and Production," by M. L. Cooke and Philip Murray, New York: Harper & Brothers, 1940, p. 121-2.

2 For a brief treatment see: A PROGRAM FOR SUSTAINING EMPLOYMENT. Chamber of Commerce of the USA, 32 pages, 1945.

3 One labor leader has already stated: "The limitations of the single firm must be merely a reason for cooperation with others." *Personnel Journal*, April, 1946, p. 369ff.

4 For some useful ideas and guides see: GUARANTEED WAGES, AN ECONOMIC ANALYSIS by Emerson P. Schmidt, *The Controller*, January 1946, p. 23, and the bibliography cited on page 27.

ment of ways and means to make the guarantee practical. Yet, we should not assume that what these companies have done is transferable to every company. Nor dare we overlook the difference in the problems faced by the durable and non-durable goods industries.

Can We Prevent Depression?

Company by company employment regularization techniques may bring much security to the workers, within the framework of a genuinely free society. This may avoid much short-run unemployment.

But our greatest task is the avoidance of periodic mass unemployment. To prevent this the individual enterprise can take several crucial steps:

1. Avoid the speculation in inventories, an important factor in making for subsequent contraction.
2. Avoid the expansion of short-term credit for what should be long-term financing, as one important phase of monetary stabilization for which business firms themselves can assume a considerable measure of direct responsibility.
3. The manufacturer and the distributor, as an aid to prevent depression should be ever alert constantly to adapt production and distribution to changing tastes and demand as to the type, quality and price of products. The slowing down of sales or the accumulation of inventories may be an indication of the failure to follow this principle. This anticipation of changing consumer demand may help greatly to prevent the shrinkage of markets and employment. If this one policy alone were widely practiced, it would go a long way toward mitigating depressions. It is commended **most strongly.**

But to be successful these steps must be supported by moderate policies of organized labor and contra-cyclical policies of government. War as an upsetting factor, must be eliminated.

We think we know what must be done to achieve reasonable security, but have we the wit to do what is required?

The Stock Exchange—A People's Market

(Continued from page 7)

ment of our financial mechanism known as the investment banker. Through the underwriting of industry's securities, he makes available money for the creation of facilities for still more work, and makes still more goods available to be exchanged for dollars.

The investment banker, in turn, raises the needed funds by selling these securities to a limited number of original investors—people who have saved part of their money, and thus stored up part of their work.

But the monetary requirements of modern industry are far too great to be assumed by a limited group. There has to be the element of wider marketability, so that this ownership of the facilities for work can be resold, and distributed broadly over the nation.

The New York Stock Exchange is the indispensable instrument of that broad marketability. Without its services as a secondary market, affording a wide and prompt means for the redistribution of the securities of industry at known prices, there would be little inducement for the original investor to risk his own supply of capital, his own stock of stored-up work.

Nobody, outside of a zoo keeper, wants to own a white elephant. Yet, without risk-taking ours would be a different world — a world of hand power, small units, long hours and lower living standards. We are sometimes inclined to forget that the great production units to which we owe so much had their genesis in ideas—and they would be little more than ideas today had they not had the backing of those with savings as well as faith and ambition.

What Is Speculation?

There is another term which can legitimately be applied to the providing of venture capital, and it is a term that has for some reason fallen into disrepute. It is "speculation." But—and the distinction is most important—the activity we speak of is *informed* speculation. In military terminology, it is a "calculated risk."

Risk-taking is not new to Americans. Our nation was founded and built by men and women who were not afraid to stake the present on the expectation of a better future. Yet Americans are canny. It is not easy to sell an American property of any sort unless he can see his way clear to future realization of his profit.

When an automobile salesman expounds on the value of his car, one of his selling points is the ease with which it can be resold. The real estate man never fails to point out the features that will make a property readily resaleable. With any purchase of importance, marketability — prompt reconversion of stored-up wealth from one form to another—is a matter of legitimate and vital concern.

Thus, while the Stock Exchange is properly identified as a secondary market, it is significant that the primary market for securities bears a vital relationship to what is happening on the floor of the Exchange. Only when transactions there indicate a stable, sustained interest on the part of the rank and file of investors across the nation, do we generally find a significant volume of the new financing which is so essential to business growth.

It is easy to over-simplify the functions of our markets and to overlook the fact that they have social as well as economic aspects. We serve the mass of the people, not the upper crust. The Americans who share in ownership of industry today are numbered in millions, scattered broadside across the land. They are members of all faiths, all political parties; they are men and women, employes and employers, of moderate circumstances far more often than the wealthy.

There are many corporations with securities listed on the Exchange which count their stockholders in hundreds of thousands. Yet, the average number of shares held is usually far less than 100. Let us not forget that these holdings represent the stored-up work of a great many men and women, and that they are entitled to fair payment for their labor.

A People's Market

We believe, in all honesty, that the Exchange can properly be called a people's market. It serves all our citizens, without partiality, who seek productive use of their savings.

In a market fraught with so many implications related to the national well-being, a high degree of responsibility is implicit.

Self-regulation is an integral element in the conduct of the Exchange. I refer not only to the many explicit rules — important though these are in a market as free as possible from artificial influence—but to a rigorous code of business practice, and to the constant, close supervision of member firms' financial affairs. Few outside the Exchange know even a fraction of these measures of self-regulation.

The Exchange pioneered in the task of making available to the investor facts on which sound judgment can be based. It also has worked hand in hand with the Securities and Exchange Commission in this essential function. Disclosure of all essential facts by companies whose securities are listed is the very essence of Exchange policy.

To acquaint investors with the availability of facts as the basis for seasoned investment decisions, we have for the last two years conducted a campaign of informative advertising in newspapers across the country, and in national magazines. In this advertising, as well as in other public statements, we have cautioned against the fallibility of tips and rumors as investment guides, contrasted with the solidly factual information that is available.

Combatting Fallacies

In so doing, we have been combatting the same fallacy implicit in the theory of expecting more money for less production — the fallacy that there must be some magical new way in this country to get rich quick without work, effort or judgment.

I see no essential difference between the economic unsoundness of the labor leader who demands 48 hours' pay for 40 hours' work, with some "featherbedding" on the side for good measure—and the person who comes into the stock market with the erroneous idea that he can emerge a millionaire through exercise of hunch, grapevine information, and that instinct which the early barnstorming aviators called "flying by the seats of their pants." Most fliers of that type were embalmed in the cold type of casualty lists long ago. Fortunately, the heedless person who decides to "take a flier in the market" doesn't suffer such physical violence, but the fatality in his pocketbook region can be just as disastrous.

No!—in this market, as in any other phase of our nation's economic life, there is no alternative to sweat, save one. And that is tears—an alternative none in his right mind would willingly choose. Neither on the floor of the New York Stock Exchange, nor out in American business and industry, is there any royal road to easy riches for anyone.

These are troubled times in world affairs. To each of us comes the frustrating thought that there is little or nothing that we, personally, can do to aid in the shaping of events to the ends that we so earnestly desire. We look to the men of our Government with the hope and belief in our hearts that they are doing all possible to safeguard the common weal. Yet there is always the nagging thought, "If only I could do something, too."

Must Have Strong Nation

To every such thought, there is a positive, contructive, affirmative answer. Each of us — no matter how far removed from this seat of Government, no matter what our role as private citizen—can do something, something very tangible in the service of our nation. And that is work at the limit of our productive ability while we are working.

Our national security lies in strength. And work makes strength. In a world of many uncertainties one fact is ever certain —the strong nation is a safe nation. No one goes out of his way to pick a scrap with Joe Louis. The surest way for you or me to hold up the hands of Secretary Marshall today is to put our own hands to the tasks immediately in front of us. In a mighty outflowing of productive work we can make irresistible America's arguments for a just and lasting peace at all the council tables of the world.

Let us have faith, hope and—not charity—but work. Let us have the sweat of honest endeavor —never the tears of vain regret.

Britain Moving Toward Fascism

(Continued from page 17)

of quality, service, and price) a poor third. This company, by tradition and practice, is well aware of the necessity of good industrial relations, and, I hope, also of efficient management; but the community must assert that the acid test of rightness in changing the form of administration is not whether the unions and the management like nationalization more or less than private enterprise, but whether or not consumers get a better and cheaper product or service than before.

(2) There are many indications that supervision of industries not to be nationalized will be guided (in effect though maybe not in intention) on corporate state lines. Even if British industries accepted the standards of efficiency of their best operators, these are unlikely in many cases to be competitive with comparable United States standards, where division of labor, H. P. per worker, and availability of plant are greater than in this country. But to adopt efficiency standards (with corresponding quality and price) modest enough to be acceptable to all members of a trade association will result in more inflation and a further fall in the standard of living. To reject as unacceptable to the community standards or prices acceptable to the majority in number of members of an association will bring home the difficulty of carrying out promises of avoiding unemployment and the difficulty of working through trade associations of universal membership. The outcry against a return of competition may well be as strong from trade association interests as from trade unions; or, indeed, stronger.

(3) There are signs that the volume of legislation is proceeding at a greater pace than the Civil Service and statutory bodies can administer and apply it. Apart from the reasonable doubts on the practical limitations of "legislating prosperity," an overloaded administration could create a series of dangerous crises from no other cause than the delay in making decisions.

(4) The Ministry of Food has insisted on wartime associations continuing in 1947; the previous Government did all they could to encourage a merger between the FBI and the BEC so as to have an "opposite number" to the TUC on the employers' side. In the Industrial Organization Bill, though Sir Stafford Cripps has assured the House (and his good faith cannot be doubted) that the powers will be reasonably interpreted, the actual powers listed in the Schedules are capable of being used to the great detriment of efficiency and enterprise; and we must be concerned not with the intentions of individual Ministers but with actual permanent powers taken. Thus senior officers of the company are concerned nowadays not only with formulating policy at company level, which is what we are staffed to do, but also with the formulation of policy at industry level, through the wartime associations, whilst at the same time watching important developments at FBI-BEC level; and now we have the threat that every aspect of industry can be further investigated and policy promoted at Development Council level. Industry is simply not staffed to formulate policy at so many points; and there is a grave risk that the effect will be to reduce efficiency in operation of the individual business, and to stifle that true enterprise on which our national welfare depends.

The Real Manager of National Economy

(5) I have consistently urged that progress in a company, or industry, must be based on sound research, and on a policy that places the consumer interest in price and quality of its products above and before the interests of either management or labor. The ultimate beneficiary of such a policy is the housewife, who is the real manager of the national economy, for it is families and not trade associations or trade unions that are entitled to first consideration in economic policy.

(6) The current value of a gold £1 or sovereign is 40s 3d, so that the £1 note we have today is worth 9s 11d. Even after the last war £1 notes were technically redeemable in gold, so that in little more than 25 years the pound has lost 10s of its value.

I am old-fashioned enough to believe that a healthy democracy depends to a large extent on the self-reliance of individuals at all income levels. Part of that self-reliance should properly be based on thrift, which must have incentive based on real foundations if people are to continue the self-discipline of saving and to take long views in the economic management of their affairs.

It is difficult to see how the oncoming generation can have adequate incentive to save when, apart from low interest rates, capital itself can be cut in half in 25 years. The truth is that savings are being drained away from individuals and families and concentrated in the hands of institutions and corporate bodies. Whatever the economists may say, this appears to me to be a net loss of democratic strength. "A man's a man for a' that," but can he be so if all his powers are delegated in advance to officials?

We have much to learn yet in the art of living together, both nationally and internationally, but does not common sense tell us that a minimum dignity of man must rest on a minimum personal responsibility for the conduct of his affairs? We know what the nation has gone through since the previous war, and the present value of the pound is the work of many Governments.

Need for Objective Analysis

(7) I do not believe that any single political party has the moral right, whatever its political rights, to offer a solution to a grave national problem requiring crisis cooperation from all sections of the community unless the problem has been analyzed objectively by a group fairly representing all shades of political opinion, and whose judgments are based most on objective impartial study and least on party political bias.

The foreign affairs of both the U. K. and the U. S. A. have had to be conducted broadly on this concept. Who will deny that our most serious home economic problems equally require the impartial national approach, divorced from party passion, if we are to survive the turbulent aftermath of this last war?

Only thus, as we necessarily abate our position as a leading world power, can we do so with the dignity of an immortal tradition, to a new level, where, given grace, we may contribute tomorrow in wisdom and tolerance, as much as our forbears did in economics and politics, to the well-being of the world.

Announce Formation Of Maher & Co. in N.Y.C.

J. W. Maher and K. M. Maher, both formerly with Maher & Hulsebosch, announce the formation of Maher & Co., with offices at 62 William Street, New York City.

U. S. Responsibilities in Foreign Reconstruction

(Continued from page 6)

degree retards revival in nearly every country of Europe and Asia.

A third factor is that unforeseen disasters—what the lawyers call "acts of God"—have occurred to the crops of Europe. For two successive years unusually severe droughts have cut down food production. And during the past Winter storms and floods and excessive cold unprecedented in recent years have swept northern Europe and England with enormous damage to agricultural and fuel production. These disasters have slowed down the already slow pace of reconstruction, have impeded recovery of exports, and have obliged many countries to draw down irreplaceable reserves of gold and foreign exchange, which had been earmarked for the importation of reconstruction materials, for the purchase of food and fuel for subsistence.

Staggering Disparity in Production

The accumulation of these grim developments has produced a disparity between production in the United States and production in the rest of the world that is staggering in its proportions. The United States has been spared physical destruction during the war. Moreover, we have been favored with unusually bountiful agricultural crops in recent years. Production in this country is today running at the annual rate of $210 billions.

Responding to this highly abnormal relationship between production in the United States and production in the rest of the world, the United States Government has already authorized and is carrying out an extensive program of relief and reconstruction. We have contributed nearly $3 billions to foreign relief. We have taken the lead in the organization of the International Bank for Reconstruction and Development and the International Monetary Fund, and have subscribed to these two institutions to the extent of almost $6 billions. We have increased the capacity of the Export-Import Bank to make loans abroad by almost $3 billions. We have made a direct loan of $3¾ billions to Great Britain. We are proposing this year to contribute a half billion dollars for relief and reconstruction in the Philippines, and a billion dollars to relief in occupied areas. The President's recommendations for aid to Greece and Turkey to the extent of $400 millions and for post-UNRRA relief to the extent of $350 millions are still under consideration by Congress. And there are a few other smaller items

Relief a Matter of National Interest

These measures of relief and reconstruction have been only in part suggested by humanitarianism. Your Congress has authorized and your government is carrying out a policy of relief and reconstruction today chiefly as a matter of national self-interest. For it is generally agreed that until the various countries of the world get on their feet and become self-supporting there can be no political or economic stability in the world, and no lasting peace or prosperity for any of us. Without outside aid, the process of recovery in many countries would take so long as to give rise to hopelessness and despair. In these conditions freedom and democracy and the independence of nations could not long survive, for hopeless and hungry people often resort to desperate measures. The war will not be over until the people of the world can again feed and clothe themselves and face the future with some degree of confidence.

The contribution of the United States towards world livelihood and reconstruction is best measured today not in terms of money but in terms of the commodities which we ship abroad. It is commodities — food, clothing, coal, steel, machinery—that the world needs, and it is commodities that we must concentrate our attention upon.

Extent of Our Exports

Our exports of goods and services to the rest of the world during the current year, 1947, are estimated to total $16 billions, an all-time peacetime high. Before the war our exports of goods and services fluctuated around $4 billions annually.

It is difficult to imagine $16 billions worth of commodities. This represents one month's work for each man and woman in the United States, one month's output from every farm, factory and mine.

Let me give you another indication of the extent of our exports. The volume of commodities now moving out of east coast and gulf ports of the United States is twice as great as the peak volume which moved out of those ports during the war when we were transporting and supplying not only our own huge armies abroad but a tremendous volume of lend-lease supplies.

Our exports this year are perhaps the maximum in quantity, that is likely to be exported abroad in the next few years. At the same time these exports are probably the minimum that we should make available to the world.

It is extremely difficult under present circumstances to increase the volume of our exports further. For in this country too, there is a great demand for commodities, and foreign customers must compete with American customers. The character and composition of our exports will probably change, with lesser quantities of food, fuel and raw materials being exported and increased amounts of steel, machinery and other manufactured products going abroad. But the total volume of exports is not likely to increase substantially until the world gets soundly on its feet and a genuine world prosperity may carry a healthy multilateral trade to higher levels.

In return for the commodities and services which we expect to furnish the world this year, we estimate that we will receive commodities and services from abroad to the value of about $8 billions. This is just about half as much as we are exporting. This volume of imports is equal to about two weeks' work of all the factories, farms, mines, and laborers of the United States, and consists largely of things which are not produced in this country in sufficient quantity. We wish that the imports were larger, but the war-devastated world is just not able to supply more.

The difference between the value of the goods and services which foreign countries must buy from the United States this year and the value of the goods and services they are able to supply to us this year will therefore amount to the huge sum of about $8 billions.

Problem of Dollar Shortage

How are foreigners going to get the U. S. dollars necessary to cover this huge difference? And how are they going to get the U. S. dollars to cover a likely difference of nearly the same amount next year? These are some of the most important questions in international relations today.

Of this year's difference between imports and exports, more than $5 billions is being financed by loans and grants-in-aid from the United States Government, through such instruments as direct relief, the Export-Import Bank, the International Bank, the International Fund, and the loan to Great Britain. Funds for this purpose have already been authorized by Congress. The remainder of this year's deficit will be covered by private investments, remittances of American citizens abroad, and by drawing down the extremely limited foreign reserves of gold and foreign exchange.

But what of next year, and the year after that? Continued political instability and "acts of God" are retarding recovery to a greater degree than had been anticipated. The extreme need of foreign countries for American products is likely, therefore, to continue undiminished in 1948, while the capacity of foreign countries to pay in commodities will probably be only slightly increased. Under existing authorizations, considerable sums will be available to offset next year's deficit. But these funds will taper off rapidly during the latter part of 1948. The need, however, will decline very little if at all.

This is not a bright picture. But we must face up to the facts on the rate of world recovery. It has been widely overlooked that after the First World War it was only in 1925 that the world arrived at the 1914 level of economic activity. And World War II was many times more destructive than World War I. In the late war nations planned on a vast scale and executed with new and tremendously improved weapons the destruction of the enemy's economic resources, with enormous success. Recovery will therefore be correspondingly slow.

One more thing to be considered is that as great as is our supply of commodities and services to the world during the current year, it is still far short of what the people of the world need if they are to eat enough to maintain their physical strength and at the same time carry on essential measures of reconstruction and become self-supporting. This will be true until the other workshops and granaries of the world are back in full production.

Must Take More Imports

What do these facts of international life mean for the United States and for U. S. foreign policy?

They mean first that we in the United States must take as large a volume of imports as possible from abroad in order that the financial gap between what the world needs and what it can pay for can be narrowed. There is no charity involved in this. It is simply common sense and good business. We are today obliged from considerations of self-interest and humanitarianism to finance a huge deficit in the world's budget. The only sound way to end this deficit financing is by accepting increased quantities of goods from abroad. There can never be any stability or security in the world for any of us until foreign countries are able to pay in commodities and services for what they need to import and to finance their equipment needs from more normal sources of investment.

Today in Geneva our negotiators are meeting with representatives of 17 other countries in an effort to negotiate a mutual reduction in trade barriers and an agreement upon fair rules to govern international trade. This is one of the ways in which we are attempting to face up to the realities of international life. The Geneva Conference must succeed. The International Trade Organization must be established.

The Geneva Conference must succeed not only because of the emergency supply and financial situation that exists today, but also because our position as the world's greatest producer and creditor nation demands that for a long period to come we accept an ever larger volume of imports. When the process of reconversion at home is completed, we are going to find ourselves far more dependent upon exports than before the war to maintain levels of business activity to which our economy has become accustomed.

More Emergency Foreign Financing

The facts of international life also mean that the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies. Requests for further United States aid may reach us through the International Bank, or through the Export-Import Bank, or they may be of a type which existing national and international institutions are not equipped to handle and therefore may be made directly through diplomatic channels. But we know now that further financing, beyond existing authorizations, is going to be needed. No other country is able to bridge the gap in commodities or dollars.

This leads directly to a third imperative for our foreign policy. Since world demand exceeds our ability to supply, we are going to have to concentrate our emergency assistance in areas where it will be most effective in building world political and economic stability, in promoting human freedom and democratic institutions, in fostering liberal trading policies, and in strengthening the authority of the United Nations.

This is merely common sense and sound practice. It is in keeping with the policy announced by President Truman in his special message to Congress on March 12 on aid to Greece and Turkey. Free peoples who are seeking to preserve their independence and democratic institutions and human freedoms against totalitarian pressures, either internal or external, will receive top priority for American reconstruction aid. This is no more than frank recognition, as President Truman said, "that totalitarian regimes imposed on free peoples, by direct or indirect aggression, undermine the foundations of international peace and hence the security of the United States."

Reconstruction of Germany and Japan

The fourth thing we must do in the present situation is to push ahead with the reconstruction of those two great workshops of Europe and Asia — Germany and Japan — upon which the ultimate recovery of the two continents so largely depends. This is what Secretary Marshall meant when he reported to the nation on April 28 that action on behalf of European recovery can not await "compromise through exhaustion," and that we must take whatever action is possible immediately, even without full Four Power agreement, to effect a larger measure of European, including German, recovery. European recovery cannot be complete until the various parts of Europe's economy are working together in a harmonious whole. And the achievement of a coordinated European economy remains a fundamental objective of our foreign policy.

Finally, in order to carry out an economical and effective policy of relief and reconstruction along the foregoing lines, your Government is going to need the extension by Congress of certain executive powers over the domestic sale, transportation, and exportation of a limited list of commodities. Such controls have been in effect during the war and are still in effect under the President's War Powers, but are due to expire June 30th of this year.

It is vitally important that these controls be renewed. It is commodities that are needed in critical areas abroad, not just money. It is wheat and coal and steel that are urgently required to stave off economic collapse, not just dollar credits.

Your Government must therefore be able to insure equitable distribution of supplies as between the domestic economy and the export demand. This requires the extension of allocation powers with respect to a limited list of commodities certified by the Secretary of State and the Secretary of Commerce as critical to the foreign economic policy of the United States. Powers to assign priorities directly to producing firms will be necessary for a still more restricted list of items. At the same time, a continuation of export controls is required in order to direct exports where we want them to go and to cut down unnecessary and undesirable foreign buying in the domestic market.

Needed Legislation

Power to assign priorities on transportation are also needed. This power is needed in order to insure the efficient use of transportation facilities, particularly freight cars. Without such authority it will be difficult to move bulky export commodities such as coal and grain in the required quantities.

Finally, certain legislation which would enable the Maritime Commission to insure maximum availability and efficient use of shipping is required in order to insure the success of our export programs with respect to bulky items such as coal and grain.

Legislative proposals of this nature have been presented to Congress, or will be presented in the near future. It is of the greatest importance to the foreign economic policy of this country, and thus to the security and wellbeing of the nation, that these powers be granted.

There is a story going the rounds about a man, who after listening to an extended lecture on the grave financial and economic difficulties of nothern Europe and Great Britain, remarked "And just think, all the trouble was caused by a blizzard."

I think we will all agree that something more than a blizzard has caused Europe's current difficulties. But last winter's blizzard did show up the extremely narrow margins of human and national subsistence which prevail in the world today, margins so narrow that a blizzard can threaten populations with starvation and nations with bankruptcy and loss of independence.

Not only do human beings and nations exist in narrow economic margins, but also human dignity, human freedom and democratic institutions.

It is one of the principal aims of our foreign policy today to use our economic and financial resources to widen these margins. It is necessary if we are to preserve our own freedoms and our own democratic institutions. It is necessary for our national security. And it is our duty and our privilege as human beings.

Working Capital's Import in Valuing Common Stock

(Continued from first page)

ing capital, after further deducting any long-term liabilities, can be looked on as an at least approximate measure of the real liquidating value.

There are, broadly speaking, two different methods followed by those seeking capital appreciation. The method utilized by the great majority of traders and investors is trend analysis. There is an almost unlimited number of trends which can be used but in practice only a few dominant ones find application, the more important being: (1) technical, which includes the chart analysts; (2) secular, with emphasis upon growth; (3) cyclical, where economic and political factors dominate and (4) the eclectic, which combines one or more of the preceding three methods with various other devices, such as "contacts" "formulas" (Vassar) and "majority opinion."

Those who utilize the method of seeking undervalued securities primarily on the basis of underlying asset values are in the minority. This was not always so and it is important to find the basis for the change.

The total volume of shares traded on the New York Stock Exchange for the year 1901 was 264,935,000 shares. In 1919, the volume was 318,273,000 shares, an increase of about 25%. This was the largest number of shares traded in any single year up to that time. In the late twenties, however, the volume of trading skyrocketed from 459.7 million shares in 1925 to over a billion shares in 1929. The great public interest in the operations of industry and the tremendous emphasis upon potential earning power created a viewpoint which still dominates the attitude of the general public in security evaluation. Because of this over-emphasis upon earnings, with its resultant extremes, either at the highs or lows of the market, the asset position of many companies is ignored and, consequently, opportunities for acquiring undervalue securities exist.

Implies Success in Forecasting

The wide swings in earning power over relatively short periods during the past two decades have become the basis for determining security values in the majority of instances. That the general investor is able to gauge the timing and extent of these cycles is exceedingly doubtful. In fact, it is questionable whether more than a very few professionals can do so successfully.

Another factor which causes neglect of issues undervalued in relation to assets is the amount of time required in most cases to realize potential values, as against the quick changes in market value of securities in the forefront of public interest. It is probably this element of time more than any other which accounts for the general neglect of securities undervalued on an asset basis.

A further deterrent to interest in this type of investment opportunity is the general belief that a stock selling low in relation to asset value indicates some difficulty. It is true that an issue selling at such a discount does point to some inherent problem. But having granted this, the question then becomes one as to whether the discount is justifiable.

Discounts Often Justifiable

It is taken for granted that the securities of some industries should sell at a major fraction of their quick assets, notably shipbuilding, coal, truck and aircraft manufacturing. Each of these industries has long range problems peculiar to itself, which could be the basis for consuming large amounts of capital and thus dissipating existing strong financial positions. In the aircraft manufacturing industry considerable doubt exists as to how long a time will be required for the industry to stabilize on a sound postwar basis. Very heavy expenses incurred in developing new models and the fact that a relatively long time is required before the deliveries of new models reach a profitable level can eat into large cash positions at a rapid rate. This situation, together with competition in the industry, greatly accentuated by wartime expansion, causes the investing public to place a large discount upon the large quick asset values of aircraft manufacturing companies.

But this general attitude tends to exaggerate and to lack discrimination. Consequently, the careful analyst will delve into such a situation confident that some real values are obtainable at bargain prices.

A similar condition prevails in shipbuilding. This industry undergoes tremendous expansion during war periods and lapses into a very depressed state in postwar years. Worthwhile earning power appears extremely remote and a heavy drain upon working capital is anticipated. The truck manufacturing industry, due to its highly cyclical character, falls into the group which sells at a discount from net working capital. This industry has flush years of output followed by lean years under highly competitive conditions. Large capital accumulations are essential to weather the low or non-existent profits of lean years. An example of a different type of industry whose securities sell at a discount in relation to net working capital is the coal industry. Here we have an industry which has been steadily declining in earning power for a number of years, reflecting the competition from other fuels, principally oil.

Discounts Will Continue Pending Basic Change

In each one of the foregoing industries a change in the attitude of the investor is not to be expected unless the conditions peculiar to the industry change. In other words, the stocks of truck manufacturing companies may be expected to continue selling at a low price in relation to net working capital until such time as sufficient reason appears to signify a change in the basic cyclical character of the industry. At the present time there is no such indication either for truck manufacturing or shipbuilding. Uncertainties prevailing in the outlook for aircraft manufacturing are likely to be prolonged for some time with the competitive factor being greatly heightened. As an industry, therefore, it may be expected that a low valuation of securities relative to net working capital will exist. Under such circumstances it is possible, of course, to find an individual situation whose competitive position is materially better than for the majority of concerns within the industry. Recent technical developments in the coal industry regarding the possibilities of coal gasification and coal burning turbine warrant a reconsideration of this industry to determine to what extent the unfavorable competitive position of the industry may be altered. Such a possibility holds considerable promise where securities are selling near net working capital.

It is seen, therefore, that because a security is priced below what may be considered its liquidating value, this is not a sufficient reason in itself for believing the issue a bargain. On the contrary, such a condition points to the fact that some difficulty prevails. But, the difficulty may be one that is being overcome and which can be eliminated. In some cases it may be a near term possibility and where the market price of the issue is being held down because of difficulties existing for the industry as a whole. In other instances, long range technical factors may be involved or considerable time may be required to realize the true value of an undervalued situation. The fact, therefore, that an issue is selling close to its net working capital does not mean that it is cheap. On the contrary, it may be indicative of some fundamental difficulty. Nor, does a large asset backing per share provide a defense against general market declines. As a group, therefore, there is no reason to expect much variation from the general market. A broad list of stocks (Standard & Poor's) priced near net working capital declined more than the general market during the break in the market last year.

Prerequisites to a Bargain

For an issue which is selling near its net working capital to be considered under-valued, it must meet one of two conditions. Either there is a prospect of sustained earning power or that the time required to realize the true value of the company (through sale or liquidation) is relatively short. The latter possibility is, of course, infrequent but one which affords an opportunity for substantial capital appreciation. The more general case is an improvement in earning power.

It is also important to note the composition of current assets where there exists a large net working capital. In some cases, cash items may represent the largest component as is the case currently with most aircraft manufacturers. In other instances, receivables may bulk large in current assets due to the company's policy of financing sales, as is to be found for some agricultural implement companies. And, in still, others, inventories are the predominent factor in current assets. The latter situation is the more general one. Occasionally there is a relative balance between two or all three of the major components of current assets. Companies with a large proportion of current assets made up of accounts receivable may prove less interesting as this condition may reflect normal business requirements. Also, many concerns normally carry inventories which are large relative to total net current assets. This is true for such diverse enterprises as retailers and heavy equipment manufacturers. It means, generally, that management has followed a conservative dividend policy in the past and retained in the business a substantial portion of earnings, thus avoiding the need of bank loans in periods of high business activity. Again, the securities of this type of high net working capital per share market price are likely to parallel general market performances. The earnings outlook will be the decisive factor as with the general market.

It is clear, therefore, that most securities selling at a substantial discount in relation to net working capital are to be evaluated primarily upon their earnings outlook and not alone upon their asset value, which, in fact, is what the market does. A combination of good earning prospects and a market price low in relation to net working capital, however, offers an ideal situation. The accompanying tabulation presents 24 companies which are considered to fall within such a group.

24 STOCKS SELLING BELOW WORKING CAPITAL VALUE

	Earned per Share 1st Qtr. 1947	1946	1945	*Per Share †Cash & Equiv.	‡Work. Capital	Recent Price	1946-1947 Price Range
American Laundry Mach.	N.A.	$1.84	$2.02	$15.39	$33.91	30½	46 -30¼
American Seating	$0.22	0.55	1.70	1.96	a22.38	15⅞	33½-15⅞
A. T. F. Inc.	N.A.	b0.79	s1.64	t4.64	t12.85	12⅛	29⅛-12⅛
Babcock & Wilcox	N.A.	2.94	6.00	21.79	46.29	38¾	63 -36
Bendix Aviation	c0.65	e0.37	e7.31	f19.80	f28.90	29	58 -28¾
Brown Shoe	N.A.	g4.86	g3.21	h16.55	h29.65	28½	45⅝-28½
Butler Bros.	d0.57	3.31	1.36	4.72	19.62	12	39¼-11¾
Cincinnati Mill. Mach.	0.35	2.32	2.76	25.42	30.70	22½	38½-21
Colt's Manufacturing	d0.67	d3.83	2.70	31.78	39.41	28	48 -23¼
Columbia Pictures	i2.25	j5.22	j2.96	k15.80	k21.85	15	36¾-14¾
Continental Foundry	N.A.	d1.27	m4.03	n22.28	n15.12	12½	33 -12½
Endicott Johnson	N.A.	m2.57	m2.44	n20.43	40.00	30	51⅛-30(o)
General Cigar	0.76	2.76	1.33	3.96	38.35	24¾	40¾-24¾
Grumman Aircraft	N.A.	0.66	11.24	34.00	37.30	19½	52½-19¼
Hart, Schaffner & Marx	N.A.	m9.44	m4.63	n17.78	n37.21	30	60½-30
Hercules Motors	N.A.	d1.27	3.01	1.59	18.41	16½	38⅞-16¼
Mack Trucks	N.A.	d1.48	4.65	9.50	54.00	43⅛	76¾-38½
Manhattan Shirt	N.A.	m5.41	m2.37	n3.66	n31.25	24¾	46½-24¾
Midvale Co.	p1.67	2.28	3.00	14.80	28.73	26½	47 -26½
Nat'l Dept. Stores	N.A.	r5.45	r2.93	q10.00	q25.60	15	39 -14¾
Nat'l Enamel'g & Stamp'g	N.A.	4.66	5.19	15.40	43.30	33¾	67¾-31¾
Niles-Bement-Pond	N.A.	d0.06	1.85	1.30	15.31	11¼	26¼-11⅛
Oliver Corp.	N.A.	g2.04	g1.63	h10.70	h25.13	19⅛	36 -18⅛
Yale & Towne	1.14	2.12	3.30	5.60	38.20	35½	61½-33

*Based on Dec. 31, 1946 balance sheet unless otherwise indicated.

†Before any deductions.

‡After deducting long-term debt, preferred stock and minority interest.

N.A. Not Available.

a March 31, 1947.
b 9 Months 12/31/46.
c 3 months 12/31/46.
d Deficit.
e Fiscal year ends Sept. 30.
f Sept. 30, 1946.
g Fiscal year ends Oct. 31.
h Oct. 31, 1946.
i 26 weeks 12/28/46.
j Fiscal year ends June 30.
k June 30, 1946.
m Fiscal year ends Nov. 30.
n Nov. 30, 1946.
o Adjusted for 2-for-1 stock split.
p 12 months to 3/31/47.
q Jan. 31, 1947.
r Fiscal year ended January of the following calendar year.
s Fiscal year ends March 31.
t March 31, 1946.

Salvation in Repeal of New Deal Policies

(Continued from page 4)

tails you lose" game, with the lion's share of the winnings going to the Government.

And why cannot men lift a pick or dig a shovel full of coal unless one man says he may do so? Why do we have powerful monopolies in the field of labor making rates of pay for an entire industry? Why are there threats of nationwide tieups in essential fields of activity which periodically cripple the business life of the entire country? Why do men cry for more money while they do less work? Where did we get the 40-hour week? This too we inherited from Roosevelt—but you simply cannot have a prosperous country where people work less and the only thing that is in constantly increasing production is more and more paper money.

Yes, here in our postwar, New Deal America, disillusionment is rapidly overtaking the hollow promises of those with the gifted tongue and the ready alibi. But we are still trying to solve the world's problems by printing more paper money and issuing more bonds while we dole out our dwindling natural resources to an envious Asiatic and European world. This too we learned from Roosevelt — such a "shell game" will only buy us hatred and intrigue, but the lessons of the past are slow to take root in the consciousness of our people. Fiat money never solved our domestic problems and will never cure world-wide problems but this fallacy remains with us in our postwar world of fantasy and human blundering.

New Deal Class Hatreds

And then there are the class hatreds — how sharp and clear they are. Where did the people of our land learn to hate each other? Did they not hear hatred preached from on high for over 12 years of Roosevelt's stay in the White House? Why do young Americans now associate the words "big business," "capitalism," "Wall Street," "National Association of Manufacturers," etc., etc., with something that is evil in our way of life? Is it not the Roosevelt disciples, the CIO's, the radical pinks, reds, and fellow travelers that are still carrying on their dishonest campaign of vilification against American business and business men? PROPERTY RIGHTS TO THESE PEOPLE are not deserving of the protection of Government. All this is the legacy Mr. Roosevelt has left to us but YOU CAN'T HAVE A PROSPEROUS COUNTRY WHEN IT IS CRUELLY DIVIDED BY CLASS HATREDS!

And how about our established form of Government—hasn't that been changed too? Has not the bureaucrat taken over the functions of the Legislature time and again? Did not a New Deal Congress write laws that are so loosely drawn that the widest sort of powers have been given to the executive bureaus of the Government? And piled upon this conglomeration of contradictions we have a Roosevelt packed Supreme Court composed of men whose ideas of American justice have condoned sit-down strikes in Illinois, and Kluxism in the South, while they reverse themselves *ad nauseam* and able citizens walk in fear of the future and know not what the law is from day to day.

There is only one way to cure a cancer and that is to CUT IT OUT! Possibly the time for performing such a major operation is long past due. However, if this is not done it is only a question of time until a business depression will come upon our land. It cannot be forestalled if the people do not eradicate the foregoing evils from our political and economic system. What this country needs is honest political leadership, devoid of economic palliatives, and a return to Constitutional Government and sound fiscal policy. No other course will solve our problems.

Govs. Nominated for Cleveland Bond Club

CLEVELAND, OHIO—The following slate has been presented for governors of the Bond Club of Cleveland, four of whom will be chosen at the election:

Clarence F. Davis, First Cleveland Corporation; Stanley M. Eilers, Hornblower & Weeks; Harold L. Emerson, H. L. Emerson & Co., Inc.; Richard A. Gottron, Gottron, Russell & Co.; John Johnston, McDonald & Co.; Russell J. Olderman, Field Richards & Co.; and Burton T. Reid, Ball, Burge & Kraus.

Members of the nominating committee were: Rudford K. Wilson, Curtiss, House & Co., Chairman; John D. Burge, Ball, Burge & Kraus; William H. Clark, Merrill, Turben & Co.; Galen Miller, Hayden, Miller & Co.; and Robert O. Shepard, Hawley, Shepard & Co.

More Answers to: "Is the Money Supply Too Large?"

(Continued from page 4)

"quantity theory of money" which has become a tradition in the predilected theme of those economists who bar the rationale of mathematical homogeneity from value theory by calling money a "form of wealth." The chart shows, not the **per capita** change, but the **total** change, in money supply; and it is argued that "the relation between the quantity of money and prices is not a singularly close one" because "the money supply increased by eight times yet the price level at the end of the period (1880-1915) was the same as at the beginning!"

These "facts" prove too much, to wit, that there is no relation at all! Why, then, are they presented only to be forthwith ignored by explaining (?) that "the money supply of the country was increasing . . . without exerting an upward pressure on prices" because of fortuitous "demands of the public to hold money" and "a frontier-barter economy" which, if it did exist during the period covered by the charts, invalidates them as a basis for conclusions as to money-price relations today? If "the quantity theory of money is of dubious validity" for these (or any) reasons, then so are any and all considerations of money quantity, including those of the Bowen charts relating it to "national income"; for what these demonstrate (if anything; it would be well to note the indictment of statistical aggregates, specifically "national income," in a recent article in "The Harvard Business Review") is simply that **V** is relatively a constant while **M** is the significant variable in **MV=PT**; which is just about what he sets out to disprove!

A similar confusion of cause and effect is involved in the claim that "current income" determines "spending." Unless it be admitted that they are simply two names for the same thing, it would be more reasonable to say that **spending** determines **current income.** The assertion that the wildest inflation does exhibit a relation between money supply and prices is a concession which only serves to point up the falsity of the inference that there is no correlation in the facts that are charted, for it is well known that the velocity of the actual supply of money is a dominant factor in uncontrolled inflation.

I attach herewith a chart showing the facts, corrected for population and eliminating the arbitrary placing of the indexes at 100 for a given year (1926 on the Bowen chart) by using the average for the whole time covered as 100. Until the deficit financing of Keynesian policy was instituted, with its depressing socialistic implications, movements in money supply and money income practically coincided. The New Deal separation has, indeed, continued during the pyramiding inflation of wartime deficits; but the idea that this is a whimsical "secular trend" is unwarranted because of the relative enormity of the (at first deliberate) increase in the money supply as determined by Treasury deficits financed by the banks in a way to displace use of their reserves in privately negotiated credit expansion. This has tended to deter business activity relative to money supply and give a semblance of increasing "liquidity preference."

Whether or not the procedure which produced these results remained an "arbitrary" policy throughout, is irrelevant to the effects on money supply, price level, and "velocity." Freeing the economy from restraints and wartime, uneconomic objectives comparable with the boondoggling of New Deal "recovery," will certainly restore the "velocity of money" and alter the price level as it is doing right now. This pressure was concealed in its effect by inflationary subsidies during the reign of OPA. Plainly prices are the chief worry of the Government as it is compelled to abandon the attempt to induce taxpayers and non-bank investors to cover its costs at low interest rates in the face of rising prices.

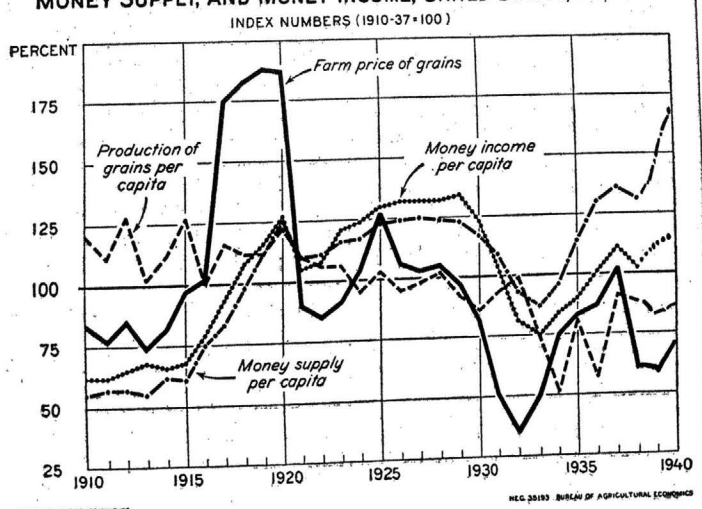
The Bowen statement that "the effect of the quantity of money on spending is cancelled in part by the fact that the interest rate tends to be low when the quantity of money is large as at present" ignores not only his own contrary conclusion that the money supply is **not** at present large, but also the fact that interest rates are arbitrarily set by the Treasury which, by keeping them low causes the allegedly fortuitous "demand" for money, that is, the pyramiding of "savings" by forcing Treasury securities into bank portfolios to keep their price from collapsing. Interest rates, in other words, are not caused by, but are a cause of, the quantity of money under existing circumstances in the status of banking procedure. This is an inherent dilemma in the system of expanding money supply with lending.

If Mr. Bowen thinks that the war could have been financed without increasing the money supply, by the same token it could have been financed exclusively by taxes stepping in by law to prevent the so-called "demand" for funds to "save" rather than to "invest." This plainly points up the absurdity of his basic Keynesian premise that the money supply is of no significance as long as "liquidity preference" keeps pace with it. Of course, billions of wartime "liquidity" was "preferred" by the Treasury itself and has since been written off the total of "savings." For the rest, the reason for its creation is irrelevant to the fact of its creation and the fact that prices are continually rising and transforming the "demand for liquidity" that is "saved" into a "propensity to consume," i. e., into a necessary spending at a new price level, thus following the consistent pattern of historical fact in every inflation on record.

In the chart attached it is to be especially noted that any correlation between the supply of our staple grain crops and their price is lacking. (Seasonal changes, not adequately shown in this chart because of the timing of the annual average employed, would indicate some short-time relation between supply and price.) The periods of high farm prices and general prosperity have coincided, as have low farm prices and general depression and unemployment; and there is an unexceptional correlation between the price level and the money supply. They virtually always move up and down together, though clearly not in a one-to-one correlation.

In view of these facts it is a wholly untenable contention that production can ever be made to depress prices in the food sector, wherein the heaviest items in the cost-of-living are developed, so as to relieve the "inflationary spiral" of wage demands and consequent price increases in the sector of "administered" prices. An excessive money supply causes farmers to **decrease** their production and marketing and stimulate rising prices by scarcity (witness the situation in the Anglo-American sector of Germany now) because they can do little with their savings but to bid up land prices as long as industry is caught between demands for reducing prices and increasing wages to "preserve purchasing power" allegedly to stave off the ever-imminent collapse which has been so persistently and erroneously predicted by the Bowlesian theorists who think that prices follow the law of gravity rather than the money supply!

FARM PRICE OF GRAINS; PER CAPITA PRODUCTION OF GRAINS, MONEY SUPPLY, AND MONEY INCOME, UNITED STATES, 1910-38



DAN W. HOGAN

President, City National Bank & Trust Co., Oklahoma City

I have just read the address by Dr. Howard R. Bowen and I concur almost wholly in the conclusions set out in his very able address. It occurs to me, however, that the financial structure of the United States would be benefited greatly by a more rapid reduction of our outstanding government bonds. This should be attained through a more economical government and the maintenance of taxes at a level to bring it about. I base this conclusion on the theory that the volume of money increased as the government debt increased, and by reversing the operation we would eventually get to a normal basis.

Dan W. Hogan, Sr.

After the holders of money satisfied their requirements in purchasing such commodities and equipment as they needed, there would naturally be borrowing by individuals which would, in a measure, supplement the decline in the government's outstanding indebtedness.

H. MALKIN

Brooklyn, N. Y.

As a "non-professional" economist, but one who reads numerous articles on money, finance and Federal economy, etc., I am impressed with the soundness of Dr. Bowen's conclusions. Your publication has rendered a service to our people in presenting his article.

The National Debt—Bank Problem No. 1

(Continued from page 14)

that have made rough going for us all in the past.

As the national debt has increased the importance of its proper management and proper placement has increased. Changing economic conditions will force changes in debt management from time to time.

Key to Debt Management

The key to management of the Federal debt lies in the ownership and distribution of its securities. Today this ownership is split three ways: about one-fourth is owned by individuals, three-eighths by other non-bank investors, such as insurance companies, non-financial corporations and associations, and about three-eighths by the banking system, including the Federal Reserve Bank.

From the inception of the war finance program, the Treasury began to lay plans for postwar debt management. Securities were designed to fit the needs of various groups. Series E bonds were designed primarily for individuals, for those not experienced in investments. This bond eliminates all market risk and gives to the individual a sense of security in his investment not found in any other form.

The ⅜% Treasury bills and the ⅞% certificates of indebtedness as well as Treasury notes, were designed for banks and for large corporations that require a short-term investment. Long-term Treasurys were designed to fit the requirements of insurance companies, savings banks, trust funds, and a few other specific types of investors.

Economists generally agree that wise management of the debt must include widespread distribution of ownership of its securities. The Savings Bonds program helps accomplish this objective. Through the time-tried Payroll Savings Plan and through the sale of bonds by banks and post offices we have been successful to a degree that no one would have dared predict at the war's end. When we realize that scores of millions of Americans directly own $65 billions of government bonds, we realize what a job has already been done. But we must not stop to congratulate ourselves.

The Savings Bond program is making progress. In the first four months of 1947 we show a net gain in the E bond account over redemptions of over $320 million compared to a net loss of $362 million in that account in the same period of last year. We have a net gain of $1 billion 100 million of E, F and G bonds in the first four months of this year, against a net gain of $1 billion 400 million for the **entire** year of 1946. The Savings Bond program is very much a going concern.

This record proves that the American people recognize Savings Bonds as the soundest of all investments. Proper placement of government securities contributes to a sound government and to a healthy economical and financial structure. The more citizens that participate in debt ownership, the easier it will be to maintain our democratic form of government.

In some parts of this country an individual is not allowed to vote in local elections unless he is a property owner, the belief which comes down from colonial days, being that a man cannot vote properly unless he has a personal stake in what he is voting for or against. That is not a modern conception of democratic suffrage, but we do know that when it comes to national issues, a man who has a financial stake in his government will be likely to watch its fiscal policies more closely and will expect his elected representatives to manage government finances and the debt problem properly. Widespread ownership of the debt is the best insurance we can set up against its management.

Importance of Debt Management

As Secretary Snyder recently said: "We must face the facts. The National debt is a grim reality. Its management is a vital matter and affects all of us. The whole future of the banking system is bound up in its successful management. Commercial banks with 2/3's of their earning assets invested in Government securities have very much at stake in the management of the debt."

It should be obvious to any man that if two-thirds of his eggs are in one basket, keeping that basket in good shape is his number one problem. In seeking your cooperation in the sale of more savings bonds through the new Bond-a-Month Plan we are asking you to do that which will pay high dividends for the time and effort put into it.

To be sure, we are asking you to give up deposits today, but the benefits your bank will reap will far outweigh this.

The strength of your bank and of the whole banking system depends in the end upon the strength of the National economy and the economic health of your community. Every time you sell a savings bond you are taking a positive step to strengthen both. You are helping to keep prices down and to build up buying power against the day when it may be needed to keep your factory chimneys smoking, your business establishments thriving and your people employed productively. You are building good will for your bank by doing a service to the depositor that he may thank you for all the days of his life. And the new Bond-a-Month Plan enables you to do that service for more people, more easily.

* * *

In another address on May 16, before the Massachusetts Bankers Association at Swampscott, Mass., Mr. Townsend stressed the need for a wider distribution of the National debt to prevent it from becoming "a political football." In this connection he said:

In distributing the debt among individuals we are also insuring that more people share in the interest they and all of us will be taxed to pay. That way we prevent the debt from becoming a political football. If tens of millions of Americans directly own U. S. securities they are not going to let the debt be tampered with by demagogues. I don't have to spell that out for you. I'm going to talk now about that good old Yankee virtue—thrift.

Thrift education underlies the entire program for the sale of United States Savings Bonds. Self-interest considerations are the buying motives: the education of children, liquid reserves for family emergencies, and funds for other financial goals common to most of us, and retirement income.

F. H. Winter Admits Israel

Ivan Israel has been admitted to partnership in F. H. Winter & Co., 111 Broadway, New York City. In the past Mr. Israel was with Lisman Corp. as Sales Manager.

F. G. Lesh Opens in N. Y.

Frank G. Lesh is engaging in an investment business from offices at 2540 Valentine Avenue, New York City.

Which Version of UK's Finances Is Correct?

(Continued from page 8)

Assuming a world of increased trade and lowered trade barriers such as the Geneva conference today seeks, the full exploitation of British industrial inventiveness, and hard work, it is believed in India that Britain not only can clean up these old obligations but expand its exports to the point where it may again build up its investments abroad, particularly in "backward countries such as India." For the Indians consider Britain to be a very rich country, richer than all others but the U. S. A. All this will involve work and planning, of course, but these are both official slogans in the United Kingdom today, the Indians are saying.

Indians point out that if the average number of persons in Britain unemployed before the war were put to work on exports, they would increase the number of workers in the export trades by about 80% and so add $1,760,000,000 to Britain's exports. The Indians claim that increased efficiency could, in the view of some observers, lead to an actual doubling of the value of Britain's exports, as compared with 1938. If this is true, Britian could add $2,160,000,000 in hard and soft currencies to its income from abroad, or considerably more than the Indians consider it is necessary to expand exports for financing the country's import needs.

At London the Indians will cite the report of the British organization known by its initials, "PEP," the Political and Economic Planning Group. They will cite its forecasts of a couple of years ago that, on certain described assumptions, Britain will by 1949 have effected an increase of at least one-fifth above 1938 levels in the net national product; that is, in the physical volume of goods and services produced. This takes account of Britain's loss of income from investments abroad, as compared with prewar. Taking into account a permanent increase in the price level of, say, half again the prewar level, it will be India's contention that the increase in national product anticipated by PEP will be the equivalent of $15,200,000,000, or quite ample to take care of the funding arrangement they suggest as a solution of the sterling-balances problem.

Another Suggestion

The Indians may even suggest to the British Treasury in the coming conversations that Britain can afford to and should pay off India and its other creditors out of the income Britain still is receiving from investments abroad. Their view seems to be that it is unfair for a country to ignore its "just debts" the while it is receiving foreign income sufficient to service those debts. This is equivalent to arguing that Britain during the war should have liquidated more of its overseas investments and thereby paid its way in India currently in hard currency, rather than to have paid the Indians in sterling which could not be spent and cannot yet be spent. For Britain now to apply to "debt payment" the income it is receiving from abroad in the Indian view would constitute an almost imperceptible burden on the British people, representing only between 1% and 2% of the national income during the period payments will be necessary. In fact, some Indians contend that even with this gradual liquidation of the sterling balances over a period of a quarter century there would still be not a decrease, but a net increase of a few percent in the standard of living in Britain, quoting in support of this thesis the PEP report, which states:

". . . India's extreme poverty, its wartime privations and its peculiar political circumstances would seem to give it a claim to particularly favorable terms, the more so if it were to use the balances as part of a national plan for industrial and agricultural development . . . An annual payment of £100,000,000 [$400,000,000] would represent little more than 1% of the nation's present income. This would not put an excessive strain on our national economy, and the standard of living even if we fail to achieve full employment. Indeed, in such conditions debt repayment would contribute valuable employment - creating expenditures."

In further support of their insistence that the British argument for substantial cancellation of the sterling "war debt" is invalid, the Indians state that the actual standard of living and production in Britain of non-luxuries has not gone down since the war, the people getting "as much food and clothing as before"; whereas the standard of living in India is now definitely worse than before the war.

The Indians consider that the British, in now raising the issue of "counter claims," evidence the realization that they cannot effectively combat the Indian position with statistics. British claims of present or coming financial stringency, even though fortified by large loan drawings, fall on deaf ears in India, where the attitude seems to be: "You can and you must pay."

After the large American and Canadian loans, is Britain "broke" or is its outlook so bad that another loan will be necessary before long? No one can predict the future, of course, but in some circles in official Washington the feeling clearly is that the answer is no. Secretary of the Treasury John W. Snyder, for instance, only this month professed to be unalarmed by the rate of British loan drawings.

According to one calculation, which is admittedly rough pencil work but work by an informed source, Britain's gold and dollar outlook is fairly comfortable for some time to come, certainly until well into 1949. At the beginning of 1946 Britain's actual gold and dollar holdings, American and Canadian, counting the then expected American and Canadian loans, totalled about $7.3 billions. This does not include securities and other investments. During 1946 Britain drew $1.1 billions against the two loans but simultaneously gained $250,000,000 in gold and dollars. At the beginning of 1947 Britain thus had $6,450,000,000 in its cash drawer and checkbook.

No Pressure Until 1949

Assuming that this year Britain must meet a hard-currency balance of payments gap of $1¾ or $2 billions, it would still enter 1948 with about $4.5 billions of spending money, hard cash, that is. Hence there will be no real pressure now foreseeable until 1949 at the earliest.

Britain's drawings against the American and Canadian loans in 1947 to date are estimated at $1.5 billions, but simultaneously Britain has been building up its reserves of gold and dollars, Washington has reason to believe. Perhaps this is in anticipation of the convertibility of new "current account" sterling on July 15. Perhaps the policy has other purposes as well.

The above estimate of a $1¾ billion gap in hard currencies in 1947 includes $1.3 billions to meet payments in the U. S. A. and Canada and $450,000,000 to meet other hard-currency requirements. Needed for converting current and some old sterling into hard currencies after July 14 will be an estimated $1 billion in 1947. Experts point out that to be converted after July 14 not only must the sterling arise out of a transaction which the Bank of England will define as "current account," but the purpose to which the desired dollars will be applied also must meet the "current account" standards of the Bank of England.

Offsetting some of the above requirements during 1947 will be an estimated gold-or-dollar income of not less than $300,000,000 in the form of South African gold, an expected $60,000,000 gold payment from France, and dollar acquisitions as a result of sale in the United States of rubber, tin, and other products by Empire regions such as Malaya having with the United Kingdom an unfavorable balance of payments. Such dollars come into Britain's possession.

The above figures and interpretations gathered in Washington by this reporter suggest the difficulties which will face the British not only in obtaining a settlement of the "blocked sterling" with India and perhaps some of the other creditors, but also in obtaining more dollars from this country anytime soon.

The Problem of Real Estate Forecasting

(Continued from page 9)

to be faced with real problems, but retailers will again know what competition is. Moreover, it seems likely that the retail centers of most of our cities will undergo terrific changes in the not-too-distant future.

As we have traveled from one price level to another, people have not only had the benefits of income to spend, but they have also, without question, had capital gains to spend. It is needless to delude ourselves into thinking that all capital gains have been retained in capital accounts. With the incomes that many people earn, it would have been impossible for them to finance the purchase of jewelry, etc. during the past five years without recourse to capital gains income to some degree.

In looking at this picture from a national viewpoint — and the future of all retail shops is intimately connected with national prospects—it might be well for a moment to consider a few facts and figures with relation to national income. In 1939, it was $70.8 billions. By 1942, it was $117.3 billions. And last year, it was over $165 billions. So roughly, the national income is two and one-quarter times its 1939 level.

All retail sales in this country — including durable goods — was $48 billions in 1929. It fell to a low of $24 billions in 1933, but in 1940, it picked up to $46 billions. In subsequent years, this figure rose to $64 billions in 1943, $69 billions in 1944, $76 billions in 1945, and $96 billions in 1946. So retail sales have doubled over the last six or seven years. But it is interesting to note that with 1935-39 as a base of 100, department store sales soared from an index of 106 in 1939 to 264 in 1946, which is just about 2.6 times their former level. It may further interest you to know that it is anticipated that department store sales will increase further in 1947 —6% over 1946—and will probably reach the $10 billion peak for the first time.

A New Era?

Now what does all of this mean? Perhaps we have reached a new era—perhaps! Perhaps all of our economic thinking must be charted along different lines, but there is, nevertheless, a feeling among the better-informed industrialists that the nation has been going ahead at a hell-bent-for-election speed — that will not last! So, anyone can make money today, and any retail store can sell goods, and any (and when I say any, I mean any) retail area can thrive!

But in any analysis of a retail area, we must differentiate between the types of businesses that are located there. For instance, in 1940, the volume of home furnishings business totaled $2.0 billions. In 1946, it was $4.7 billions. In 1940, the retail jewelry trade did a volume of about $325,000,000. Last year, it was $1.24 billions. That is just about 400% of the 1940 average. When people have high incomes, they have a tendency to spend their money, and when automobiles and washing machines and refrigerators and house furnishings could not be purchased, the jewelry trade benefited. So it does not seem unreasonable to look forward to something of a slump in the jewelry and luxury trade stores in the not-too-distant future, and a resultant recession of realty prices and values and rentals in luxury trade areas! Strange to relate, the retailer is more often than not an optimist, who, when things are bad, capitalizes the future — and when they are good or better, he capitalizes the present. Like some appraisers (of course, excluding all present company) whom both you and I know!

All market areas are dynamic and they are constantly adjusting themselves to the economic and social forces which determine their patterns. Population centers do not remain constant, and site values fluctuate, and therefore a good location today may not necessarily be a good location tomorrow. And at this point, it certainly would be well to remember that the best merchandisers can seldom overcome the handicap of poor locations, while good locations will offset many other types of merchandising deficiencies, some of which may even be serious.

Importance of Parking Areas

To mention specific areas, I do not think we can neglect at this time the looming shadow — and the tremendous effect — which transit, automobile and parking facilities will have in the future on all our retail shopping centers. Despite the continued rush of people to the stores—despite the fact that the lack of parking facilities in the center of many cities is minimized by urban officials — nevertheless, I predict in all seriousness and with certainty that unless parking facilities for automobiles are provided within the bounds of many old retail areas, new areas will spring up to compete with the older sections. The main streets or the main thoroughfares in many local areas have changed and will change more, because the lack of parking facilities—and taxes and rents to a lesser extent — have forced grocery and variety stores and Sears Roebuck and others to seek quarters in other than the 100% locations that they have been occupying. Moreover, don't forget that our present new and future areas are going to invite parking rather than discourage parking. As Mr. Marcel Villanueva has said in a recent report for the National Comimttee on Housing:

"The areas with no parking facilities will simply vanish. Just as the motor age has changed the patterns for residential communities, so must new patterns evolve for the commercial centers. This applies either to a new neighborhood in the suburbs or a central district which must be preserved or reconstructed."

It might interest you to know that the Eno Foundation has made a number of surveys with respect to parking, and they have found that in a main shopping district, a thousand feet is the maximum a person would walk to his shopping destination from his parking space. Perhaps this is silly, but it is a fact, and to change habits of people is one of the most difficult things to attempt. But all of this probably means that the shopper wants to be lazy, that the shopper wants to take life easy and relax in his or her shopping, and that if he or she wants to take something out of a store, there is no reason why his conveyance should not be as near to him as a farmer's cart or buggy was to the hitching post outside of the village store. It may interest you to know that parking has always been something of a problem, and that in the sixteenth century, a famous Lord was fined a few shillings for leaving his carriage too long before a shop on what was then the Picadilly Circus of London. In his decision, the Lord Justice remarked that the main street was not to be used as a stable — and that reasoning has applied for almost 400 years since that time.

Yes, gentlemen, there are going to be losses, plenty of losses, because of changing shopping demands and shopping habits. But, without question, for each loss that is incurred, there is coming a greater opportunity for greater profits than ever before. When land values fall in one locality because retail shops are on the move, they will, just as certainly, rise in another section.

Real Estate Values Dynamic

Real estate values have long been dynamic, and they will continue to be so in the future. But in approaching our problem today, I would say that a broad knowledge of the social and political conditions underlying our economic system are as great in importance as a knowledge of particular methods of valuation. We have not as yet outgrown the traditions and cultures of a small town and rural economy as we live in the midst of complicated urban organisms. The problems of real estate today relate themselves to the entire world, and to deal with them successfully, we must have a knowledge of world geography, world economics, and even religion and morals. As this nation has a new responsibility among the other nations of this earth, we must acquire a social maturity, if you will, which will enable us to understand the waves of the future as they roll up upon us. Real estate probably suffers from a "cultural lag" more than any other line of business or endeavor. And the persistence of customs and habits and ideas and attitudes as related to the 19th century will not enable us either to understand or to measure the effect of the social and political forces which govern the actions of each one of us today. All real estate values, past, present and future, are related to people and their actions, and unless we have an understanding of their thoughts and desires, we cannot hope to understand the present, much less the future. A street, a city, a state, or a nation lives by its deeds and aims, and as appraisers, you must do likewise. Growth, happiness, and economic health come not as a gift, but as a reward for work well done.

In closing, I am reminded of part of a poem which I heard some time ago:

Real towns are not made
By men afraid
Lest someone else gets ahead;
When everybody works
And nobody shirks
You can raise a town from the dead!

What Do the Facts Show?

(Continued from first page)

cial-economic problems, an emotional complex develops that disregards facts completely. An illustration of this is the present difficulties that exist because of the strikes that have been taking place. Neither the goods, the money, nor the inconveniences caused by a strike can be made up. Hence there is a natural reaction on the part of an outraged public for a demand to place some curb on the use of the strike. And what happens? A terrible cry goes out from the ranks of labor. The strike is said to be a fundamental right of labor. Those who would take it away are even accused of being petty dictators or fascists of one kind or another. Though there is a deadly silence about the fact that in Soviet Russia you just don't find the working men going out on strike. Whether the recently passed Condon-Wadlin Bill (Chapter 391, Laws of 1947, also Section 22-A of the Civil Service Law) is to be a forerunner of future similar legislation probably depends upon the actions of organized labor in accepting its responsibilities. But one thing is certain, we can accomplish very little as long as we talk about the strike being a fundamental right of the worker. I disclaim here any interest in whether or not workers should have the right to strike. My attitude is simply that of the scientist in the economic field of human behavior and history, looking for facts to enable us to think clearly. And the records which are available and will be herein quoted show definitely that labor was regulated for centuries by law and that any attempt to get higher wages or unionize was regarded as a conspiracy punishable at law.

The picture of what a strike is must be in our minds at all time. Economically, for the employee the strike is a collective withdrawal of labor by a group who intend to return to their jobs after the employer consents to certain demands which have been made upon him. The workers intend to return to the same employment but under better conditions than are offered by the employer at the time of the strike. A survey of what a strike has been held to be in various courts of law show it defined as "a combination to quit work," "a simultaneous cessation of work on the part of the workmen," "cessation of work by employees in an effort to get for the employees more desirable terms," and "a concerted refusal to serve in an industry, either to assert a supposed right or obtain an economic advantage." The point never to be overlooked is that a strike is *essentially a type of warfare*, the workers fighting against the employer. In the famous case of Farmers' Loan and T. Co. v. Northern P. R. Co. (1894), 25 L. R. A. 414, Circuit Court, Judge Jenkins said: "No strike can be effective without compulsion and force. That compulsion can come only through intimidation. A strike without violence would equal the representation of the tragedy of Hamlet with the part of Hamlet omitted." And in Picket v. Walsh, 1906, 192 Mass. 572, Judge Loring in a similar tone said: "Speaking generally a strike to be successful means not only coercion and compulsion but coercion and compulsion which, for practical purposes, are irresistible. A successful strike by laborers means, in many if not most cases, that for practical purposes the strikers have such a control of the labor which the employer must have that he has to yield to their demands."

Now upon pure logic alone, how can anyone say that this medium of industrial warfare is a "right," especially when we find labor in this country demanding an end to all kinds of war between nations, and even insisting that the UN get an army with equipment to put down wars any place. Here the inconsistency of labor is evident when it clamors for its "right" to industrial warfare!

For our first look at labor legislation we can go back to the 14th Century when as a result of the great pestilence, many people died. Labor made its demands for higher wages and the Ordinance of Labourers, 23 Edward III (1939) was passed. Chapter II practically prevented a worker from leaving his job, for it provided: "Item, if any reaper, mower, or other workman or servant, of what estate or condition that he be, retained in any man's service, do depart from the said service without reasonable cause or license, before the term agreed, he shall have pain of imprisonment. And that none under the same pain presume to receive or to retain any such in his service." And the wages paid were regulated, for in Chapter V, we find: "Item, that sadlers, skinners, white-tawers, cordwainers, tailors, smiths, carpenters, masons, tilers, shipwrights, carters, and all other artificers and workmen, shall not take for their labour and workmanship above the same that was wont to be paid to such persons the said 20th year, and other common years next before, as afore is said, in the place where they happen to work. And if any man take more, he shall be committed to the next gaol, in manner as aforesaid." In order to be able to think clear, let it be said that the bill also contained a forerunner of our OPA in regard to price control, for Chapter VI provided that victuals be sold at reasonable prices. Now this is most important, for while labor demands control of the price of commodities, it forgets that the other attribute is historically control of labor itself.

Almost some 200 years later we find the Act of 2 and 3 Edward VI, c. 15 (1548) which also controlled prices of labor as well as commodities. Look at logic again: why should a conspiracy to raise the price of a commodity be any different than a conspiracy to raise the price of one special commodity, namely labor? The answer is that we have created a legal fiction by which we utter several words and say that the labor of man is not to be considered a commodity, though any person knows it is something to be sold.

In regard to the workingmen the law provided, "(4) or if any artificers, workmen or labourers do conspire, covenant, promise together or make any oaths, that they shall not make or do their works but at a certain price or rate, or shall not enterprise or take upon them to finish that another hath begun, or shall do but a certain work in a day, or shall not work but at certain hours and time," and a set of penalties were set forth in the law. In 1720 we find the Act of 7 George I, stat. 1, c. 13, in which all contracts between journeymen tailors, in London and Westminster, for advancing their wages or lessening their hours of work were declared illegal and void. The statute read as follows: "Whereas great numbers of journeymen tailors, in and about the cities of London and Westminster, and others who have served apprenticeships, or been brought up in the art or mystery of a tailor, have lately departed from their services without just cause, and have entered into combinations to advance their wages to unreasonable prices, and lessen their usual hours of work, which is of evil example, and manifestly tends to the prejudice of trade, to the encouragement of idleness, and to the great increase of the poor"; and all such contracts were declared illegal and void.

Even down to the opening years of the 19th Century, you just can't find any such concept in law as "a right to strike." The Combination Act, 40 George III, c. 106, 1800, in Section 3, stated: "That every journeyman or workman, or other person, who shall at any time after the passing of this act enter into any combination to obtain an advance of wages, or to lessen or alter the hours or duration of the time of working, or to decrease the quantity of work, or for any other purpose contrary to this act, or who shall, by giving money, or by persuasion, solicitation, or intimidation, or any other means, wilfully and maliciously endeavor to prevent any unhired or unemployed journeyman or workman, or other person, in any manufacture, trade or business, or any other person wanting employment in such manufacture, trade or business, from hiring himself to any manufacturer, or tradesman, or person conducting any manufacture, trade or business . . . shall by order of such justices be committed to and be confined in the common gaol."

One need not look only at the statutes to see that no right of strike existed, we can even find the same in the cases at common law. Thus in *Rex v. Journeymen-Tailors of Cambridge, Kings Bench, 1721*, we have a case in which one Wise and several other journeymen-tailors of Cambridge were indicted for a conspiracy amongst themselves to raise their wages and were found guilty. The sentence was upheld on the ground it was a conspiracy and that was an offense at common law. In *Rex v. Hammond, 1799*, decided at the Westminster Sittings, there was an indictment against the defendants who were journeymen shoemakers, for a conspiracy to raise their wages. The men were found guilty.

In the United States, we have the *Case of the Philadelphia Cordwainers* decided at Philadelphia in 1806. The defendants, who were journeymen cordwainers of the City of Philadelphia, were indicted for a conspiracy to raise wages. And the court found the defendants guilty of a combination to raise their wages. In New York City in 1810 we had the case of *People v. Melvin* in which the defendants were indicted for a conspiracy. These men too were cordwainers and wanted higher wages. They were all fined.

It is a fact that there was a change in the attitude of society in regard to the desirability of permitting workingmen to unite and strike. Generally speaking, the strike came to be regarded as legal provided the ends were legal and also subject to the condition that the strike was not carried on in an illegal manner. It is sheer nonsense upon the facts presented historically to try to talk about a "right to strike." The aim of our economic society is to produce a free flow of goods and services that are sold to the consumer. Under our economic setup we have produced in this country the highest standard of living ever present in any part of the world. Good industrial relations between capital and labor can continue to not only keep our past high level of productivity but also to increase it. It is up to labor to think wisely about the uses to which it has put the privilege of the strike. If restrictions come, it is only labor's fault for the misuse of this privilege.

Wesley Ahlgren Opens

(Special to THE FINANCIAL CHRONICLE)

EAST WALPOLE, MASS. — Wesley C. Ahlgren is engaging in a securities business from offices at 163 Washington Street.

With Macart, Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, COLO. — Joseph B. Bishop has been added to the staff of Macart, Jones & Co., Thatcher Building. He was formerly with the Investment Service Corp. of Denver.

Price Outlook and Consumer Purchasing Power

(Continued from page 4)

are still increasing—not everywhere, but decidedly so in the unionized sector of our labor market, until the new pattern of 1947, which means 12 to 15 cents an hour more will have become general in this sector and some others.

Nevertheless, the President, strongly backed by his economic advisers led by Professor Nourse, insists that prices should decline by voluntary action of industry, by "moral restraint" so to say.

Broad masses of consumers in the United States call for a reduction of the price level, and they expect it because, they say—and probably justifiably—for large parts of the population income and the general price level are not in harmony.

More say so abroad. Marshal Stalin hopes for a sharp price drop and ensuing economic catastrophe in the United States, and almost all foreign nations that last year expected a runaway inflation in this country after having listened to the prophecies of Chester Bowles and others, are now looking for a drastic break in prices and economic deterioration in the United States.

This is the strange *"vigil" for an American depression.* Its persistence reminds me of the Englishman who followed a circus all over Europe. He attended every performance. "I want to be present," he said, "when the lion eats his tamer."

On the other hand those who were confident of at least five years of uninterrupted prosperity after V-J Day apparently believe that they have only to put up a sign saying *"depression forbidden,"* that we will have no depression if we only say so.

What Is Ahead Generally for Purchasing Power and Prices in 1947?

The decisive element for the price structure is the available mass purchasing power, and the way this purchasing power will be employed.

It is much less risky to make long-term forecasts than short-term ones. A long-term forecast is easy. Either you are right, and then you can tell people; or you are wrong and people will have forgotten your forecast when the time comes. Short-term forecasts are much more easily checked and I think they are much more useful. Let us try to discuss the probable development of mass purchasing power during this year of 1947.

(1) I see a tendency towards somewhat increased purchasing power for the broad masses of consumers until Labor Day and perhaps for some weeks afterward.

(2) From mid-September on, employment will probably shrink and national income will then no longer progress. Over-all prices will show a slowly sinking tendency. Employment may recover somewhat toward the end of the year with the general trend of Christmas business and decline afterwards.

(3) If the expected serious recession should come about this year, almost certainly it will not be before October, and probably not in the form of a very sharp break in consumer purchasing power.

In other words, I think the lion-tamer doesn't need to worry for the next six months.

Why Do I Expect These Developments?

On April 15, our national income was running at a yearly rate of $175 to 180 billion. Consumer spending at that moment was at a yearly rate of $135-138 billion.

Since that time some elements have appeared that tend to increase purchasing power, and others that tend to decrease purchasing power.

Quite especially we have to expect declining prices in one sector of business and at the same time somewhat higher prices in another sector of the economy.

Forces Working Toward Increases of Mass Purchasing Power

(1) The *wage increases* already obtained and likely to be obtained will, as I said, affect mainly the unionized segment of labor; in most other areas the increases seem to have stopped, and there have even been some indidivual adjustments downward in the higher salary brackets. On an annual basis the amount of wage increases will reach $4 to 5 billion, may go even higher.

(2) If *food prices* should go down 10% at the consumer level—they have already decreased about 5% from the March peak—it will decrease somewhat the purchasing power of the farmers and food processors, but it will increase mass purchasing power of consumers by, say $3½ billion on an annual basis. Other price reductions, including clothing, lumber, shoes, may amount to $1½ to 2 billion.

(3) Some *expansion of instalment sales* volume will occur, beyond the rate realized in the first four months of 1947. This will increase consumer purchasing power further by perhaps $1½ billion on an annual basis.

(4) If *tax reductions* were to become effective July 1, this would improve consumer purchasing power at a rate amounting to $3½ billion a year. However, a veto of tax reduction is still possible.

Now let me mention the elements tending toward decreases of purchasing power:

(1) We will have a number of *price increases.* They have been announced already for electrical appliances and sheet iron castings, but they will also be made in many so-called cost-plus industries like public utilities, railroads and other services, and I expect also in coal. I risk the estimate that these price increases will amount to a billion dollars on an annual basis.

(2) *Exports*, even including those to Greece and Turkey, will stay somewhat lower than last year, according to a semi-official estimate, say by a billion dollars.

(3) *Producers' investment goods* will be scaled down $1 to 2 billion; let's say $1½ billion.

(4) *Corporation and private profits* cannot stay as high as they have been. I estimate the decrease from now on at an annual rate of $1 to 2 billion at least.

Without tax reduction the margin for consumer purchasing power will increase $5 to 7 billion on an annual basis above the April 15 level. If taxes should be reduced, that would mean a further increase of $3½ billion at an annual rate.

Therefore I expect that *the general purchasing power of the masses will increase until Labor Day by perhaps 4 to 5 cents for every dollar* spent in April. No further increases can be expected for the rest of the year unless tax reductions should take place, in which case consumer purchasing power would be increased another 2½ to 3%.

If this reduction should not take place, our national debt would be cut down by about $1½ billion, as now scheduled by President Truman, plus the $3½ billion now earmarked by Congress for tax reductions. If that should happen, this relatively large amount will

not only not increase mass purchasing power but will rather in itself be a deflationary element.

The Price Trend

How will this whole development, if it materializes, work on prices and price tendencies, and especially on those prices in which the women's apparel chains are most interested?

Recently we have been hearing much about the "distortion" of our price level. That refers to changes in the interrelationship of individual prices and of price groups, such as the prices of food and industrial goods, for instance, as compared with pre-war times. It is difficult to say how far the old interrelationship will be re-established, but it is definitely on the way. Cotton goods, for instance, had risen more than the general price level; so had vegetable oils and tallow. But recently the prices of these three commodity groups have gone down, relatively slowly in the case of cotton goods, erratically for tallow, extremely sharp also for lard.

Prices Down and Up at the Same Time—Two Price Sectors in Our Economy

Prices almost bound to come down are especially those which move in what I call the *market price sector* of the economy. This group comprises most raw materials and semi-finished goods which are quoted on commodity exchanges or traded under similar conditions, like cotton, copper, grains, metals, lumber and yarns.

Prices will still go up in the *cost-plus sector* of the economy, where prices are set in close connection with real costs, as in railroads, for instance, and other public utilities, in electrical appliances and probably also in coal.

Farm products, however, have a limit below which they will not be allowed to fall in 1947 and 1948. That is the "support price level," which is at 90% of parity for most important farm commodities and at 92½% for cotton. Nevertheless, I expect an overall reduction of 10% in food prices by the end of the year.

What Is the Picture for Textiles?

Let us take the raw materials first.

Cotton, which last year experienced its greatest price increase since 1919, will go down rather than up after the new crop is in, unless the new crop should be very small. The limit, however, to which the price can fall, is as mentioned, the support price of cotton. If in July it should be the same as it is today, the CCC must support cotton at 27½ cents, basis Memphis. Since we do not expect a great decrease in parity, this would be 8 cents less than the present price.

Formerly there were periods when a whole pound of cotton did not cost 8 cents. Now a drop of fully 8 cents a pound would only mean somewhat more than one-fifth of the raw cotton price and much less in the finished merchandise.

The *wool* price in this country is dependent on the world market price, especially the price for Australian fine wools, and on the tariff. Interested parties demand a special fee on imported wool—actually a tariff increase—while the International Trade Organization seems to make it almost a prerequisite of world trade agreements that our raw wool tariffs should come down. I expect the tariff will stay where it is now and no special fee will be introduced. Wool prices are still rising in the world market, although the carryover of wool amounts to nearly one and a half years' consumption. In spite of the high price we are now paying in this country for imported wool, it is lower than the parity price for domestic wool; and since the CCC which bought last year's domestic crop, is not allowed to sell its holdings below parity, little domestic wool is getting to the mills. Congress is expected to provide legislation to help move the crop.

Rayon, as you know, has been the most stable commodity price-wise. As rayon is not a farm product but a manufactured product, the supply can be much more easily adjusted to the demand than in the case of cotton, and price increases and decreases are therefore less violent. The price for 150 denier yarn is now 67 cents a pound, as against 55 cents during the war and until the end of OPA. The industry might mave to meet wage increases, but it has to keep in mind the competition with cotton.

The price of *raw silk* has been set by our own government since the end of the war. The initial price was set much too high and has since been lowered. The consumption of silk will never rise to its old level; nylon and rayon have pushed it out of important lines. For hosiery it is definitely out; for lingerie I doubt whether it will ever regain its position. In the long run we can anticipate only sinking prices and reduced importance for this fiber, which was a real luxury in ancient times and down to our mothers' times.

Whatever may happen to the textile raw material prices, this must be taken for granted:

Retail prices for textiles have seen their peak, except possibly for worsteds. Don't forget that quality improvements, as they are happening at this moment, are also a form of price decline. The other day it made an evident impression on the audience of a textile association when some converters predicted that within three months or so gray goods would decrease by 20% in price. This prediction was easy, since price reductions are already under way. For example, contracts for the third and fourth quarters for class A print cloth are already 15 to 24% cheaper than spot prices, for wide print cloth 22%, for others less.

The Mill Margin

The first sufferer from the increasing buyers' market will undoubtedly be the *mill margin*. It has climbed, since the end of the OPA, to heights never dreamed of before.

The mill margin for the average of 17 constructions of unfinished cloth was, in cents per pound, on the average as follows:

Year	Price Margin
1926	16.03
1929	13.59
1932	9.43
1939	10.44
1945	20.82
1946 (before Nov.)	22 to 31
Nov., 1946	40.78
Dec., 1946	47.72
Jan., 1947	51.60
Feb., 1947	52.16

The distributor's mark-up may not be depressed too much, but his net profit will be determined, I think, by the markdowns he may have to take.

I do not think that the Newburyport 10% price cut plan will be really effective across the board. But in the women's apparel trade I think this cut is already in effect and a deeper one seems in the offing during the last part of the year.

What Department Stores May Expect

Department stores are still running 5 to 12% above last year's dollar volume, which means perhaps 8 to 10% below the unit volume of 1946.

They hope to maintain the dollar volume of 1946 in the third quarter of 1947.

And they are prepared to fall very considerably below last year's huge dollar volume in the fourth quarter of 1947.

I think they might be lucky if they maintain, during the last quarter of this year, 85-87% of the unit sales of last year. But we should not forget that last year's sales were quite exceptional.

The Pattern of Purchasing Power and Where It Will Go

If we have declining prices in some markets and rising prices in others at the same time, what will the over-all trend be? This is of course decisive for the real trend of the whole business cycle.

I have never seen a situation in which declining prices in one part of the economy went side by side with rising prices in another important sector for any rather long period. After some transition, one of the two trends must decisively prevail. It is my estimate that in spite of still rising wages, the *tendencies towards decreasing prices will ultimately prevail* before this year is over.

The elements which seem determinant in this forecast are these. Food, clothing and housing amount to about 55% (in some years 60%) of mass consumer expenditures. Rents will probably not be allowed to go up substantially; food and clothing will drop in price, and so will lumber. This trend will probably be more important than such increases as in railway fares, which have just been agreed on at the rate of 10 to 15% in the west, and others which may come as soon as new wage demands are settled in coal and some public utilities.

If Purchasing Power Increases Somewhat—Who Will Be the Beneficiary?

If on the whole there will be somewhat increased purchasing power for the next four to five months, who will benefit?

I do not think that there will be a change in *savings*. We have returned to the pre-war ratio of savings to income, and there is no reason for this rate to move upward.

Will it be *construction*? It should be, but unfortunately it will not, because by an unusual degree of mismanagement on the part of housing expediters and other planners, business has failed to get started on a higher level than last year in this market which is so important for all employment.

Perhaps more and better *food*? This is rather unlikely, because our per capita food consumption is already very high. One of the most remarkable recent developments has been that meat consumption did not go down even though prices are at their peak. Once people have become used to better food, they apparently would rather spend less on night clubs and entertainment and on apparel than on food. Before the war the yearly per capita meat consumption amounted to 125 pounds; now it is considerably more than 150 pounds, and it has stayed there even at the highest price levels. I do not expect a great change there in the near future, neither up nor down.

Vacation and Travel? Here expenditure will be high but is not likely to go beyond the very high level of last year. People will travel abroad, however, to the full capacity of every means of transportation.

Consumer Durables? The competition between consumer durables on the one side and soft goods and perishables on the other is already under way. Immediately after the wage settlements in the automobile industry, employment rose in Detroit. Surprisingly, retail stores in that city hired 2,200 more employees through the employment services. However, automobile manufacturers are already selling all they can make. Some other consumer durables like radios may profit.

There is a new competitor that is not much observed. The front on which the consumer's dollar may be spent is becoming broader and broader day by day. The area of goods now available which were not available a year ago is expanding. Chocolates are in abundance. Washing machines and refrigerators can be bought. There is television and air-conditioning apparatus. Many smaller gadgets are now crowding again, almost unobserved, into shop windows and making demands on the consumer's pocket.

Therefore it is suitable to emphasize that those industries which were the great beneficiaries of the first two post-war years will not have the advantage any longer. Agriculture, for instance, is having its best year now. In the crop year 1946-47 agricultural net income will probably be three times as large as it was before the war, but this increase cannot last.

Other industries affected are those where some kind of replenishment took place during the war. Among them is the women's apparel industry. Women bought more and better garments during the war, and consequently can do with fewer new things for a time. Estimates which I have received show that the women's apparel industry—while recovering at this very moment—expects a total decrease in volume this year of about 15%. Even that, of course, means very high sales in pre-war terms. Similar figures have been mentioned to me for other parts of the textile industry.

It will be very important to investigate and discuss the degree in which the changes of purchasing power may affect the most important categories of merchandize within the individual business line.

In department stores, the greatest losses in volume during the last four to six months, besides read-to-wear, seem to have been in lingerie (very sharp reduction), in higher-priced fabrics, in staple domestic carpets, then shoes and furniture.

There is one factor, seldom mentioned, which will back general employment and the price level as it did during the last 20 months: the manufacture of armaments will go on undiminished, to say the least.

This, however, will not be strong enough to prevent the unemployment figure, which is now around two and a quarter million, from rising after Labor Day to four million at least and perhaps more.

Such an unemployment figure while our productivity is rising would not mean much from a purely economic viewpoint, but it might have a strong psychological effect.

Therefore, *if some better weeks and months are here and may continue during the summer and perhaps early fall, let us not consider this as a renewal of the boom.*

We once had a glorious time when we had prices slowly declining and wages modestly rising in 1922-1929. Then our national output per labor hour rose more than the usual 2% a year; it reached 2½ to 3%. The consumer automatically got his share of this increase, and so did capital and labor.

This has changed fundamentally. The increase of productivity has become the subject of a dangerous interest. In 1946-47 our productivity may have increased 3 to 5% per labor hour; the wages for unionized labor, however, have been raised 10 to 12%. When the price level as a whole moves downward, and purchasing power as a whole should remain stable then wage discussions will again become much more serious. There will be a competitive struggle as sharp as ever before.

I think a good policy for everyone of us is to make the best possible use of the period during which purchasing power may still rise, and to be aware of a recession which I expect will not begin with a sharp break in consumer purchasing power but which once begun, will be of longer duration than most businessmen anticipate. Therefore it will be wise to adapt all your operations to the fact that the maximum of purchasing power of the masses for some time to come will probably be reached between now and some weeks after Labor Day.

In the face of a decrease in prices and possibly in sales volume, the right policy will be to renew all experience about hand-to-mouth buying, to scrutinize each element of costs, not every month but day by day.

Municipal Club Plans Elaborate Program

The 14th annual Field Day of the Municipal Bond Club of New York will be held on June 20 at the Sleepy Hollow Country Club, Scarborough, N. Y., it was announced May 21 by Frank T. Lucke of Laidlaw & Co., Chairman of the committee.

An elaborate program of sports events and entertainment has been arranged, including golf and tennis tournaments, softball and swimming for member and guest participation.

The "Stock Exchange," a feature attraction of the yearly outing, will be in operation during the evening. Final distribution of its assets will climax the day's activities.

The annual meeting of the Municipal Bond Club will be held during dinner in the evening at which officers for the year will be installed. Walter H. Steel of Drexel & Co., the 1946 President, will officiate.

To aid those who intend to drive to the Field Day activities on June 20, the committee is supplying to club members a map showing the routes which may be taken to reach the country club. The map was prepared by the touring service of Shell Oil Co., Inc.

Members of the Field Day Committee include: Leonard R. Sullivan, Phelps, Fenn & Co.; and James D. Topping, Braun, Bosworth & Co., sub-Chairmen; P. Hurley Bogardus, Barr Bros. & Co.; Frank J. Brophy, R. S. Dickson & Co.; Thomas C. Cafone, W. E. Hutton & Co.; Marquette de Bary, Harris, Hall & Co.; Gene L. DeStaebler, F. S. Moseley & Co.; Gordon B. Duval, Guaranty Trust Co.; George B. Gibbons, Jr., Geo. B. Gibbons & Co.; William T. Hall, Jr., Edward H. Hills, Eldredge & Co.; Harold E. Leaf, R. D. White & Co.; Albert J. Milloy, First Boston Corp.; Richard N. Rand, Rand & Co.; William J. Riley, Joseph F. Vandernoot, R. W. Pressprich & Co.; and Raymond R. Wilson, Stone & Webster Securities Corp.

Officers of the club for 1947-48 are: James G. Couffer of B. J. Van Ingen & Co., President; David B. Scudder of the National City Bank, Vice-President; Donald C. Patterson of Halsey, Stuart & Co. Inc., Secretary, and Frank L. Lucke of Laidlaw & Co., Treasurer. Leonard R. Sullivan of Phelps, Fenn & Co., has been nominated to serve on the board of governors until 1950.

With Livingstone in S. F.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Joseph C. Kessler has become associated with Livingstone & Co., 317 Montgomery Street. Mr. Kessler was formerly in the trading department of the First California Company.

Two With White, Weld

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Goodwin W. Harding and John A. Paine, Jr. are now connected with White, Weld & Co., 111 Devonshire St.

Observations

(Continued from page 5)

investors may feel that the reduction of the speculative segment, and the increased values, represented in the lowered stock market level, offer the opportunity for greater value in stocks. They may well feel that in view of the potential political and economic risks and the apparent complexities inherent in the Bank Issues, from self-interest they may be better off in seeking safety and appreciation through the purchase of the best American common stocks at prices which yield between 5 and 6%, which capitalize average earnings at reasonable ratios, and which embody safety because of their backing by high working capital and general financial strength. Comparative appraisal between the Bank's securities and United States Government Bonds also will have to be met. Assuming that the former are offered, at least initially, on a long-term 3% basis; the current 2.30 yield available on outstanding U. S. Treasuries may create strong competition. Nor can the income tax factor be disregarded here; for instance, for an investor in the 50% bracket the net "penalty" paid for the greater safety of our government obligations would be only ⅓ of 1%.

The Actual Protection

Again the private investor seems to be somewhat confused concerning the backing which will protect the safety of the securities. Bank spokesmen frequently state as fundamental the credit-worthiness of the borrowing countries. Typically, the current issue of the National City Bank's *"Letter"* asserts "the first line of protection for the investor in Bank obligations is the reasonable expectation that the borrower wil lbe able to fulfill his contractual obligation to the Bank." On the other hand, some Bank optimists—comprising both officials and the public—are reassuring doubting Thomases by reminding them that the United States (in the amount of $3,175 million) and Canadian backing, will furnish airtight protection to the extent of $4 billions; and either imply or actually state that obligations beyond that amount would be shaky. The impression is even being gathered that it may be sound procedure for the buyer to purchase and hold them without worry—perhaps even at a premium—until this $4 billion lending ceiling is reached, and then dispose of his holdings in the open market. But this overlooks the fact that a statutory lending limit of that amount would be indispensable for such protection, and that liquidation by others similarly minded may make such technique difficult if not impossible. And whatever doubts do thus exist may be considered out of proportion to the above-demonstrated advantage over U. S. Treasuries of only ⅓ of 1% in yield.

Doubt regarding the repayment of borrowings over the discernible future surely is going to be difficult to eradicate from the mind of the investor who is daily faced with an unending barrage of worldwide political news indicating that the Eastern Hemisphere at least is sitting on a keg of explosives (atomic). Or perhaps at best, that national governments are going to change their form—perhaps next week, perhaps next decade. Or, fiscally, that the necessary transfers of dollars will be made impossible by irremediably adverse trade balances.

Again confusion has to be met concerning the public's concept about the basic structure of the Bank. For example, in some public utterances the institution's officials are wont to compare it to "an ordinary industrial corporation whose stockholders are, in effect, the Board of Governors of the Bank." Actually the ordinary definition of the corporate stockholder is of an absentee owner of a business, who puts up the equity capital which receives the profits on the enterprise. In the case of the World Bank a great segment of the public—wrongly no doubt—believes that the setup will in short order take the form of all the members—far from being stockholders—being borrowers excepting the United States and Canada. Furthermore it is feared that the technique of the Institution's making loans to its own members may well interfere with a sound and businesslike debtor-creditor relationship.

Some doubts have also been raised by the prescribed prerequisite for a loan that the bank must be satisfied that the borrower would be unable to obtain the credit under reasonable conditions from other sources. It is feared that this policy will cause the individual investor to think that he will be called on to shoulder only the undesirable risks.

There has been some misunderstanding regarding the extra annual payments of 1-1¼% by borrowers, for the special reserve fund called for by Article 4, section 4, it being in effect an adjustable interest charge. Although this is, as was explained by Mr. Black at a press conference this week, it constitutes a payment for the benefit of the entire assets' safety. Nevertheless, as some comment has been made that this extra adjustable interest charge on borrowers should be taken into account in fixing the rate paid by the institution on its own debentures, the correct explanation should be widely disseminated.

Various conflicting versions have been given out about the actual past results of our international between-war lending. Bank spokesmen have at different times respectively cited a record whose compilation is attributed to the institution itself, that an SEC study is "the Bible"; and again, conclusions tabulated by the Department of Commerce.

* * * *

To clarify these and other elements of obfuscation, considerable further education should be devoted.

Joins Smith, Hague Staff

(Special to THE FINANCIAL CHRONICLE)

BATTLE CREEK, MICH.—Lawrence E. Gordon, Jr. has become affiliated with Smith, Hague & Co., Security National Bank Building.

With E. E. Henkle Inv. Co.

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — William W. Radcliffe has become associated with E. E. Henkle Investment Co., Federal Securities Building.

With Chapin & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—William F. Davis has been added to the staff of Chapin & Co., Penobscot Building, members of the Detroit Stock Exchange.

Joins R. H. Johnson Staff

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Robert W. McCabe has become affiliated with R. H. Johnson & Co., 30 State St.

A Sound Tax System

(Continued from page 15)

a major contribution to the future progress of this country.

I wish now to comment briefly on each of the major tax items under study in the Treasury Department.

Business Taxes

Revision in the business tax field should be designed to achieve the greatest feasible uniformity of treatment of different forms of business, to promote a sound competitive system, and to eliminate any barriers to a high level of investment. Among the important business tax matters being studied are the following:

(1.) **Corporate rates.** Both the level of corporation tax rates and the method and extent of graduation need to be carefully examined. Under present law the corporate income tax begins at a rate of 21% on net incomes of less than $5,000 and is graduated to a rate of 38% on the entire income if in excess of $50,000.

The level of corporate tax rates must be considered in the light of overall revenue requirements and action taken on other major taxes, with due regard to any revisions in the structure of the corporation tax. The present method of graduation imposes a high rate of 53% on income in the so-called notch area between $25,000 and $50,000, to bring the effective rate on the whole income up to 38% at $50,000. One question that merits consideration is whether this method of graduation should be continued or whether the so-called notch rate should be eliminated and a system of bracket graduation similar to that used for the individual income tax substituted.

(2.) **Taxation of dividends.** Under present law a corporation pays an income tax on its entire net income and stockholders are taxed on their dividend income at the regular income tax rates. This system of taxing corporate profits has been widely criticized as involving double taxation. It is contended that this is both inequitable and damaging to investment incentives. This is a question about which there is no general agreement. An important issue in postwar tax policy relates to the extent of so-called double taxation of distributed corporate profits and the question of the desirability of reducing or eliminating any existing double taxation.

On the assumption that the corporation income tax rests at least in part on stockholders, a number of plans have been advanced for the reduction or elimination of double taxation. These plans are of three basic types. One approach would be to eliminate the corporate income tax and to tax stockholders, like partners, on their full portion of both corporate profits. A second approach would be to continue the corporate income tax but to grant corporations a tax credit or deduction for dividends paid. A third approach would be to continue the corporate income tax on both distributed and undistributed profits but to grant stockholders an allowance or credit with respect to dividends received. The Treasury Department has completed and released a technical study of a number of such plans for the taxation of corporate profits.

The taxation of corporate income raises important and exceedingly complex problems. The existing arrangements and alternative approaches need to be carefully analyzed to determine their advantages and disadvantages with respect to tax equity, economic effects, and administrative considerations.

(3.) **Small business.** The vital importance to the economic system of a vigorous and healthy group of small business enterprises make it essential to consider carefully the impact of present taxes on small business. Some spokesmen for small business believe that the present tax system discriminates against smaller enterprises and imposes unnecessary impediments to their establishment and growth. Others take the position that an attempt should be made to liberalize the tax system in order to provide special advantages for new and small enterprises. Among the proposals advanced for the tax relief of small business are suggestions for tax rate revisions, tax exemption for new enterprises, tax exemption or deduction for investment in small business, and more liberal treatment for operating losses and depreciation allowances. These and other proposals for the special benefit of both incorporated and unincorporated business firms raise difficult problems which merit extensive investigation.

(4.) **Tax exempt organizations.** Because of the continued growth of the scope and volume of activities of tax exempt organizations, there is need for reexamination of the tax status of these organizations. It has been charged that in some instances the present treatment discriminates unfairly against taxable enterprises.

(5.) **Elimination of discrimination among various forms of doing business.** In a free competitive economy business is conducted in a variety of forms. Sole proprietorships, partnerships, and corporations can all make a significant contribution to economic progress. It is important that taxes create no unnecessary obstacles to the carying on of business in the forms best adapted to different situations. At the present time, there are significant differences in taxes on incorporated and unincorporated businesses, depending on the size of the business income, the other income of the business owners, and the portion of the profits retained in the business. While complete uniformity of tax treatment of proprietorships, partnerships, and corporations is impracticable, the present tax system needs careful examination to determine whether existing differences in treatment are justified.

(6.) **Business loss offsets.** Opportunities for offsetting business losses against taxable income are a significant factor in determining the attractiveness of risky investment and in arriving at an equitable basis of taxing fluctuating incomes. Under present law, net operating losses sustained in any one year may be carried back and applied against the income of the two preceding years and any balance not absorbed may be carried forward as a deduction from income of the two years immediately following the year of loss. In connection with postwar tax revisions, it is important to consider whether the present loss offset period is long enough. Another important problem is to determine whether the present system of carrybacks and carryforwards is preferable to a system which relies solely on carryforwards.

(7.) **Depreciation.** The speed and certainty of recovery of capital invested in depreciable assets have an important bearing on the risks of investment. Consequently, it is necessary to give attention to present depreciation practices and to various proposals for their modification. Some taxpayers complain that the present system of depreciation allowances is too rigid and urge that they should be given more leeway in estimating the useful lives of their depreciable assets and more freedom of choice in selecting the method of taking depreciation. They contend that the individual taxpayer is in a better position than the tax administrator to estimate the life span of a particular asset.

Some advocate a change in the law that would arbitrarily shorten the write-off period so that the capital invested in depreciable assets will be recovered over a period which is less than their probable useful life. They assert that accelerated depreciation would reduce the risks of large capital expenditures in fixed assets. To the extent, however, that it understates income during periods when a taxpayer is increasing his capital investment, it would result in postponement of tax.

(8.) **American business abroad.** American corporations and individuals doing business in foreign countries are normally subject not only to American taxes but also to those of the foreign countries. Such individuals and enterprises, therefore, may become subject to excessive tax burdens unless some allowance is made in the American tax laws for taxes paid abroad. In the past, American corporations have been allowed to credit against their American tax liabilities on income derived from business abroad the taxes which they have paid to foreign countries.

In addition, a number of special relief provisions have been enacted from time to time designed to meet particular problems arising in various foreign countries and areas. For example, domestic corporations qualifying as Western Hemisphere Corporations have since 1942 been exempt from corporation surtax. Also, taxpayers doing business in the Possessions of the United States have been exempted from Federal income taxes and a special type of exemption is provided for China Trade Act Corporations. Individuals resident abroad are allowed a complete exemption on their wages and salaries earned abroad and a partial exemption where their income is derived from operating a business.

American corporations and individuals doing business abroad should not be placed at a disadvantage in their competition with foreign firms. At the same time, so long as they are American citizens and businesses, they should bear their fair share of domestic tax burdens. It is, therefore, highly important that we analyze the combined effect of United States and foreign taxes with a view both to minimizing any existing discrimination and inequities and to ascertain whether such taxpayers are bearing their fair share of taxes.

(9.) **Intercorporate problems.** Attention should be given to the desirability of the present 2% additional tax on consolidated corporate returns and the 85% credit for intercorporate dividends received. The special tax on consolidated returns was intended as an offset to the tax advantages accruing from the offsetting of losses of one corporation against the gains of another and the avoidance of the tax on intercorporate dividends which would otherwise have been paid on dividends received by one member of an affiliated group from another. The tax on intercorporate dividends was intended to prevent the evasion of the graduated corporate income tax by setting up a series of small corporations in order to obtain the lower rates applicable to small corporations. It is necessary to determine whether these taxes have achieved the purposes they were intended to serve and whether they should be retained in the postwar tax structure.

Individual Income Taxes

The individual income tax is, and should remain, the mainstay of the Federal revenue system. Hence, it is most important to

achieve a fair and equitable distribution of the taxes while maintaining broad consumer markets and incentives to work and invest. Among the major tax problems in this field now under study in the Treasury Department are the following:

(10.) **Individual rates.** The financial demands of the war forced us to raise individual income tax rates in all brackets to very high levels. The entire rate schedule should be reconstructed with a view to achieving an equitable distribution of taxes and maximum production under peacetime conditions. The rates must be reexamined to determine their effects on incentives to work and invest and their effects on living standards and purchasing power. Revision of the individual income tax rates should be coordinated with other changes in the income tax such as personal exemptions and the treatment of family incomes and with changes in other taxes.

(11.) **Personal exemptions.** As part of the war finance program, personal exemptions under the individual income tax were sharply reduced. At the present time a taxpayer is allowed an exemption of $500 for himself, for his wife, and for each of his dependents. Thus, a single person now has an exemption of $500; in 1939 his exemption was $1,000. A married couple without children now has an exemption of $1,000 as compared with $2,500 in 1939. While exemptions for single persons and married couples have been reduced, the allowance for dependents has been increased from $400 in 1939 to the present level of $500. War and postwar increases in the cost of living have further sharply reduced the real purchasing power represented by the personal exemptions.

The level of personal exemptions determines the coverage of the individual income tax and affects in an important way the role of the tax in the revenue system as a whole. Consideration needs to be given to the question whether an adjustment should be made to take account of higher living costs. It is also necessary to reexamine the alignment of exemptions as between single persons, married couples, and dependents.

(12.) **Family income.** Under present law there are inequalities in taxation of families arising out of the fact that couples in community property States are permitted to divide their community earned and invesment income for Federal income tax purposes, thereby reducing their taxes under the progressive rate schedule. There are also inequalities arising out of the fact that in all States recipients of investment income have opportunities for splitting that income among members of the family, whereas in non-community property States earned income is taxed to the earner. The tax value of income splitting varies with size of income. Couples with not more than $2,000 of net income after exemptions can realize no tax benefit from income splitting, whereas under the graduated rates couples with large incomes may realize substantial benefits. These tax savings have created difficult administrative problems and endless litigation in the field of family trust, family partnerships and various other types of property assignments.

Over a period of years the Congress and the Treasury have both considered means of eliminating or reducing the resulting tax inequalities among similarly situated families, but no adequate solution of the problem has been adopted. One limited approach that has been considered in the past would be to eliminate the tax advantages of the community property system by taxing earned income to the earner and other community property income to the spouse who exercises management and control. A more comprehensive approach to the problem, which has also received Congressional attention in the past, would be to require joint tax returns by husbands and wives. Still another approach, which has only recently been given widespread attention, would be to eliminate tax differences resulting from income splitting between husbands and wives by granting couples in all States the option to divide their combined incomes for tax purposes.

The existing inequalities in taxes on family incomes are significant and call for careful consideration of this problem. It must be recognized that the various solutions that have been suggested would have different but important effects on the revenue yield of the income tax and on the distribution of taxes among different income groups and between married and single persons. It is, therefore, desirable to consider the family income problem in connection with any comprehensive revision of the individual tax.

(13.) **Pensions and annuities.** There are now several million persons who receive various forms of pensions and annuities. With the wartime reduction in personal exemptions and the recent increases in the cost of living, the tax treatment of pensions and annuities has become an increasingly important problem. Under existing law, social security and railroad retirement benefits and certain other kinds of pensions and annuities are excluded from taxable income. These exclusions raise important problems of tax equity. With respect to taxable annuities, there should be a reexamination of the present method of allowing the tax-free recovery of the annuitant's capital contribution. The taxation of pensions and annuities is closely related to proposals for special treatment for aged persons under the individual income tax.

(14.) **Averaging.** Under graduated tax rates, taxpayers with widely fluctuating incomes are required to pay substantially larger amounts of tax than those with stable incomes totaling the same amount over a period of years. Moreover, many taxpayers lose the full benefit of their individual income tax exemptions because in some years they do not have income equal to the allowable exemptions. Such taxpayers are also taxed more heavily over a period of years than those with stable incomes. These inequalities in taxation raise the question whether it is desirable to adopt some method of averaging income over a period of years for purposes of the individual income tax. Averaging may have a significant bearing both on tax equity and on the effects of taxation on incentives to invest in risky business ventures. The adoption of averaging would result in a substantial loss of revenue, and the efects of such a loss in revenue must be compared with the effects of other tax revisions.

(15.) **Credit for earned income.** The Federal income tax has provided a credit for earned income during the years 1924-1931 inclusive and again in the years 1934-1943 inclusive. The earned income credit, however, was comparatively small in amount, and in the Revenue Act of 1943 it was eliminated, mainly on the grounds that the credit was not large enough to justify the complications that it introduced into the tax system. There have, however, been a number of proposals for reinstituting a credit for earned income under the individual income tax. Some proponents of an earned income credit view it primarily as a means of reducing taxes on wage earners, whereas other advocates of an earned income credit are concerned primarily with its effects on the incentives of business executives.

(16.) **Allowances for life insurance premiums and other savings.** There have been proposals to allow a limited deduction under the individual income tax for life insurance premiums. Proposals have also been made to allow a deduction for a limited amount of earned income invested in Federal securities. If such allowances were granted it would probably be necessary to consider a corresponding general allowance for other forms of savings, in order to prevent unfair discrimination between individuals investing their savings in different ways. These proposals for special allowances for saving raise basis equity questions and economic issues as to their effect on savings, investment and consumption.

(17.) **Capital gains and losses.** Under present law gains on capital assets held by individuals and corporations over six months are taxed at rates which do not exceed a maximum of 25%. Losses on such assets are allowed only to the extent of capital gains, except in the case of individuals such losses may be offset against ordinary income to the extent of $1,000 each year. A 5-year carryover of unabsorbed capital losses is allowed.

The tax treatment of capital gains and losses, it has been contended, has a considerable effect on the securities market and the supply of capital. A great many problems have arisen as the result of taxpayers' efforts to convert ordinary income into capital gains entitled to the lower tax rates. The basis for taxing capital gains at lower rates than other income and the limitation on the deductibility of capital losses should be reexamined.

Excises

(18.) **Revision of excise taxes.** The Federal Government now imposes excise taxes on more than 50 commodities or services, most of which were substantially increased or newly imposed to help in the financing of the war. The revision of the excise taxes raises the important policy issue of how large a portion of the total revenue should be raised from excise taxes. This question is closely related to such matters as the level of income tax exemptions. It is now appropriate to reexamine these excises with a view to fitting them together into a coherent system adaptable to our peacetime requirements. Each of the excises imposed should be carefully considered with a view to reducing or eliminating those which are extremely regressive, which enter into business costs, which are unduly burdensome on profits of particular industries, or which are unusually difficult to administer. Revisions of particular taxes will have to be studied in detail so that any changes made will be appropriate in light of the competitive conditions in the various industries.

(19.) **Discrimination between domestic and imported goods.** Last year your Committee gave consideration to the problem of making certain imported merchandise subject to the same internal revenue taxes as similar merchandise of domestic origin and referred it for study to a group consisting of the Joint Committee on Internal Revenue Taxation, the State Department, the Tariff Commission, and the Treasury. Consideration of this problem has involved an analysis of the treatment of such imported products as beer, lubricating oil, and numerous products containing alcohol including medicinal preparations, toilet preparations, flavoring extracts, fruits and food colorings. Determining what constitutes discrimination is complicated by the nature of the tariff schedules which in some cases provide specific rates that may have been intended to compensate for the absence of excise taxes on imported products. The inter-relationship between excises and tariffs thus tends to raise questions involving this country's policies with respect to international trade agreements.

Estate and Gift Taxes

(20.) **Revision of structure.** In the estate and gift tax field there has long been a need for an intensive study and legislative revision of the basic structure, particularly with respect to the relationship between the two taxes and their mutual relationship to the income tax. For the past three years the Treasury Department, with the assistance of an Advisory Committee of prominent tax attorneys, has been exploring the problems in this field, with a view to preparing a comprehensive report for consideration by the Congress. This important task is nearing completion and the report is in the final stages of preparation. It will contain a detailed analysis of the problems involved and recommendations for a revision of the estate and gift taxes, the adoption of which, it is believed, would greatly increase the uniformity, simplicity, and equity of these taxes.

Social Security Taxes

(21.) **Extension of coverage.** The financing of social security and its coverage raise certain important problems which will need consideration in connection with the development of the postwar tax system. As a result of a request of July 27, 1946, from Mr. Doughton, then Chairman of this Committee, the Treasury Department has been carrying on a study of the problems that would be associated with the extension of coverage for old-age and survivors' insurance. Attention has been directed primarily to the difficult technical and administrative problems involved in developing feasible methods for covering self-employed persons and agricultural and domestic workers.

The problems raised in connection with the coverage of both of these groups differ substantially from those involved in the coverage of workers in industry and commerce. At present social security taxes are imposed on wages, the employer withholding the employee tax and remitting it together with the employer tax. In the case of the self-employed, this system is not applicable because there is no employer-employee relationship giving rise to wages, and it is necessary to establish the base on which the self-employed should be taxed and how the tax should be reported to the Bureau of Internal Revenue. Both of these problems raise numerous questions, particularly with respect to the self-employed having very low incomes who are not subject to income tax. While the employer-employee relationship generally exists in the case of agricultural and domestic workers, the majority of the employers either are not accustomed to filing tax returns or are not engaged in business. Moreover, employment generally is highly irregular, prevailing wages are much lower than in industry and may be paid partly in kind. As a result, provision may need to be made for different techniques in order to achieve adequate coverage of these groups. Substantial progress has been made towards recommendations for the solution of these problems.

Technical Matters

In addition to the tax matters of broad and general importance to which I have briefly referred, there are a substantial number of needed technical adjustments of considerable significance that have accumulated during the war years. The Revenue Act of 1942 was the last piece of major legislation in which the Congress undertook to go into such problems to any great extent. Many of these matters pose policy questions of some magnitude and their proper solution will frequently involve technical problems of considerable difficulty and complexity. Among the more important of these items are such matters as the treatment of (a) war losses, which involves primarily the treatment of recoveries of properties lost during the war; (b) cancellation of indebtedness, which is a matter requiring general reconsideration and overhauling; (c) certain types of recapitalizations and reorganizations, to which there appears to be increasing resort as a method of attempting to avoid tax on corporate distributions in situations where there are accumulated corporate earnings; (d) provisions of the tax law the operation of which is affected by the termination of hostilities and of the war; (e) occupational expenses, a problem which involves primarily the difficulty of drawing satisfactory lines between the nondeductible personal expenses of individuals and their deductible business outlays; (f) research and development expenses, involving the question of permitting greater flexibility in the determination of whether such costs should be capitalized or deducted as current expenses; (g) capital gains and losses, in which the problem relates primarily to use of the present provisions, such as section 117(j), in certain instances for tax avoidance purposes; and (h) a number of administrative provisions which require amendment in order to facilitate the administrative operations of the Bureau of Internal Revenue and assist taxpayers, such as elimination of oath requirements on certain return forms, correction of certain statute of limitation provisions, elimination of burdensome and unnecessary reports of small refunds, elimination of irrevocability of the election of the taxpayer with respect to the standard deduction, improvement of the enforcement of reporting and paying by employers of tax collected from their employees under the withholding system, and similar matters.

These above items are illustrative of a number of pressing technical and administrative problems which the Treasury and the taxpayers have encountered in the operation of the Code.

In conclusion I believe that we should approach the importance task of postwar tax revision with an open mind. We need to study and analyze all the major matters that I have mentioned and many more that will arise upon further exploration. We should scrutinize carefully all the present sources of revenue to ascertain whether they are in proper balance. We should also explore all possible sources of new taxes which upon investigation may prove meritorious, and which may relieve pressure in other areas.

The development of a sound postwar tax system constitutes one of the most important steps towards the assurance of continuing prosperity in this country. If production is to continume to increase, if the American standard of living is to improve in the future as it has in the past, the tax system must yield the needed revenue without impeding business and work incentives, without restricting investment and without weakening consumer markets. I wish again to express my pleasure in appearing before this Committee as the work is being initiated on a fundamental revision of the American tax system.

Revision of SEC Proxy Rules

(Continued from page 7)

Commission made certain recommendations to Congress, which if adopted, would extend the proxy rules to companies whose size and dispersion of ownership, in the Commission's opinion, make the application of the proxy rules highly desirable in the interest of the security holders of those companies. No action has been taken on this recommended legislation.

Reasons for Proxy Regulations

The reasons which prompted the decision of Congress in 1934 to give the Commission proxy powers are fairly obvious. The stockholder is the owner of the enterprise—his money has financed it and his investment is at risk. The large corporation has come to be an important characteristic of American economic life. It represents a huge aggregation of capital, derived for the most part from the individual investments of many thousands of security holders. It is impossible, as a practical matter, for stockholders because of their number and wide dispersion over the country to direct the operation of the corporation. Accordingly, the stockholders have delegated to the directors and to the officers the task of management, which includes the formulation of policy and the direction of operations of the business, but have retained the authority to make many important decisions, such as the election of directors, authorization of securities, and the determination of certain other corporate matters. Here again, because of the impracticability of having all stockholders meet in person to make these decisions, machinery had to be created which would permit each to express his individual preference. The proxy has been developed as a device for securing this expression of the stockholder's will. When the proxy is misunderstood by the shareholder, or is abused by the management, this purpose is frustrated.

The proxy powers which Congress has given the Commission, and Regulation X-14 which the Commission has promulgated pursuant to that grant of power, are both predicated on the idea that management is a stewardship which must be directed by the informed judgment of the owners of the enterprise. In accordance with the basic philosophy of full disclosure which underlies all the Securities Acts, the proxy rules are designed to assure that the vote of stockholders on corporate matters is based on adequate and truthful information. One must always appraise the proxy rules and their operation with that in mind. You and I know from experience that it is difficult, if not at times impossible, to inform shareholders fully, but all data and information available and relevant must be made available to them.

Revisions That Have Been Made

Over the years, the Commission has gathered experience with the operation of the proxy rules. In the light of that experience, several changes have from time to time been made in the rules. Initially, the rules were little more than a prohibition against falsehood. Experience with this type of rule showed that it was inadequate. Directors were voted on without a disclosure of their names—an experience, I might say, which I have had myself as a shareholder in certain corporations. Important corporate action was proposed on the basis of sketchy information or none at all. In 1938 the rules were revised, and for the first time affirmative, specific disclosure was required for the general run of corporate action requiring votes. After working with these rules for several years, clarifying and simplifying revisions were made in 1940. At that time the 10-day rule was adopted, requiring the advance filing with the Commission of the soliciting materials.

The last major changes in Rule X-14 were adopted in 1942. In that version, many important changes were made, including the adoption of the specific requirement that stockholders' proposals be set forth in the management's soliciting material. We have now had several years' experience with the present rules. In the main, this experience has been satisfactory. Much of the criticism that was heard when the rules were being considered has proven unfounded. On the other hand some problems have come up which suggest the desirability of revising the present rules. Your suggestions in this connection will not only be appreciated, but are solicited.

Compensation Disclosure

A source of great discontent with the proxy rules is in the requirements for disclosure of compensation. Prior to the 1942 revisions if a nominee for director received one of the three highest aggregate remunerations paid by the company or any subsidiary to any officer, director or employee, that compensation had to be stated in the proxy statement. In addition a statement was required of the aggregate remuneration paid during the year to directors, officers and others in a management capacity. It soon became apparent to the Commission that its requirement did not obtain a sufficient disclosure of the individual salaries of the policy making officials of the corporation. In letters to the Commission, stockholders had evidenced a great interest in this type of disclosure. Because of this, the Commission in 1942 adopted the present rule. In this revision, requirements were added for information as to compensation of officers and others earning over $20,000 per annum, and as to the compensation of individual directors and nominees. It has been urged by many companies that the coverage of the rule is too broad. For example, it requires disclosure of payments to many minor executives and non-policy making officers, salesmen and independent contractors, such as tool designers, architects, attorneys, accountants, advertising agencies and investment bankers. It may be doubted in many cases that a useful purpose is served by such disclosure and, in addition, there may be considerable merit to the argument that in many cases disclosure of the disparity in remuneration paid to various minor executives gives rise to serious intra-corporate personnel problems. This entire matter will be reexamined, and I am informed that our staff is preparing to recommend some change in the requirements to eliminate the necessity of disclosing information not material to stockholders. In this connection it may be of interest to note that in the revision of our basic Securities Act Registration Form S-1, adopted on Jan. 15, 1947, disclosure is required only of (1) the remuneration paid to each director, executive officer, or stockholder owning more than 10% of the stock of the registrant, who receives in excess of $20,000 or 1% of the total assets of the registrant, whichever is smaller, and (2) the aggregate paid to all directors and officers.

Stockholder's Proposals

Some criticism continues of the rule requiring the inclusion of 100 word statements on behalf of stockholder proposals in the management soliciting materials. This requirement is in addition to the requirements for circularizing of stockholder proposals and for making available facilities for mailing stockholders soliciting material. It is my view that the 100 word statement requirement is proper, for it does no more than add a privilege of explaining the stockholder's position if the management proposes to vote against it. It was widely charged when this new requirement was adopted that it would provide a "field day for crackpots." Experience has proved that these claims were entirely unfounded.

We have found that for the most part stockholder proposals are thoroughly pertinent to corporate activities and proper steps for stockholder action. In many cases they have been proposals already adopted by other companies. They have related to such matters as the place of holding meetings, the institution of bonus plans, the expansion of informational reports to stockholders, and the election of independent auditors. In the four years of operation of the proxy rules from 1943 to the close of the year 1946, managements have filed 6,204 proxy statements and during that period there were only 153 one hundred word statements permitted by the Rule, or slightly more than 2%.

Another difficulty noted in our present rules relates to follow-up materials. Such material need not be filed in advance of mailing but must be sent to the Commission only when it is mailed to stockholders. As a consequence, we find that in the heat of a close contest those soliciting proxies frequently go beyond the limits of excusable partisan comment into the realm of misstatement. The advantages derived from the Commission's review of the original material are lost in the flood of misleading unreviewed follow-up material. The Commission is also placed in the position of having to apply for a court injunction to secure a postponement of the meeting and correction of the material in question. This remedy is an extreme one. A better method would be an arrangement for advance perusal, a practice many now use informally.

As you know, all registration statements filed with the Commission under all the Acts which it administers are public from the moment of filing. This is also true of proxy filings under the Public Utility Holding Company Act, but at the present time it is not the practice as to other proxy soliciting material. Comment received from interested persons during the examining period as to material omissions or misstatements has been so helpful in other instances that it may be that a change in the rules making proxy soliciting material public during the 10-day advance filing should be adopted, with resultant benefit to the Commission and to all concerned.

I want to mention one more situation which requires the special consideration of those who prepare proxy materials. Item 5 (1) (4) requires the disclosure of all obligations of a director or officer to the corporation. Under Section 16 (b), a director who makes short-term trades in the stocks of the company is liable for his profits. Not infrequently such a profit is realized by a director or an officer without his appreciating that under the law such profit inures to the benefit of the corporation and that the liability to the corporation must be disclosed in the proxy statement. Our experience has been that when we discover from our records that such a situation exists and call it to the attention of the company, the profit is usually turned over to the company by the director or officer. Under such circumstances disclosure in the proxy statement is not required.

As I have indicated, the basic requirement of the proxy rules is that the solicitation of the proxy shall be accompanied by a proxy statement designed to inform the stockholder of the material facts necessary for the exercise of prudent judgment. The proxy itself is viewed by us as a sort of ballot. As a result of the Rules, the stockholder is given a place to vote for or against each proposal. A forward step has thus been taken in the direction of giving reality in the field of corporate affairs to the fundamental democratic principle of the right to vote. The proxy is no longer a one way ballot, where the only choice is between voting "yes" or not voting at all. But in some instances, we find the proxy has come to resemble a sample ballot of a political party, rather than a straight ballot. Various devices are used to attract the stockholder's "X" into the desired box—oversized boxes, colored type, arrows and explanatory material. These methods seem highly objectionable. The arguing should have been done in the proxy statement. The proxy itself should simply register the stockholder's vote, it should not contain argumentative material.

In our review of the proxy rules we will also give consideration to such matters as the solicitation of proxies for stock held in street names, the activities of professional solicitors, problems arising in proxy contests, duties of issuers to send out opposition material pursuant to Rule X-14A-6, what constitutes new as contrasted to follow-up material, the meaning of "interest in any matter to be acted upon" as used in Item 4 (b), what constitutes an arrangement or understanding for the election of any person as a director, the definition of a material transaction by a director under Item 5 (H), what constitute "related matters" not requiring separate boxes in the proxy form, and other items of less general interest.

I have tried to give you some of the highlights of the problems which arise under the proxy rules. As I am not an expert in the application of the Rules, I hesitate to answer any specific questions concerning them. However, I would be interested in hearing your views on the subject, and I have here with me Mr. Edward T. McCormick, of the Commission's staff, who will endeavor to answer some of your questions. I want to caution you, though, that neither of us is prepared to give any interpretative opinions "off the cuff."

In closing I want to say that we of the Commission believe that the staff and the Commission itself should do all in its power to simplify and accelerate all corporate clearances with the Commission. You may be sure that I shall have that in mind at all times.

Menace of Expanding Government

(Continued from page 5)

appropriated less than $200,000. The Legislatures are now appropriating hundreds of millions annually and the increase during the last 25 years has been several times greater than the increase for the previous century and a quarter. The budget of the City of New York has passed the billion mark. Some of us remember when the first Congress to appropriate a billion dollars in two years aroused such resentment that the "ins" were voted out of office.

That sum is beyond our comprehension, but we deal with billions now as the Legislature of 1797 dealt with thousands and many seem to think that it does not matter much whether the national budget is a few billions more or a few billions less, although profligate spending and excessive taxation always have led to misfortune.

Expansion of Public Services

Of course, the legitimate needs of social progress require the constant expansion of the public services and the necessity for abnormal expenditures required by emergencies does not end with the emergency. Moreover, it is difficult to dispense with offices and bureaus once created, however unnecessary they may become. I learned that after the first World War. Then, as now, an effort to eliminate useless accumulations, that always occur under a spending regime, encountered a false but powerful propaganda to arouse fear that the public services were being impaired. Then, as now, sincere but uninformed persons joined those with axes to grind in protest and even competent department heads added their voices to the chorus. But it was proven then, as it will be proven again, that wholesome trimming of deadwood increases the efficiency of the public services, just as pruning fruit trees improves the quality of the fruit.

Unsound Methods of Taxation

Our unsound and overlapping methods of taxation have contributed greatly to the mounting cost of government. The 16th Amendment opened a prolific source of revenue to the Federal Government which has not only bred extravagence but has enabled the Congress to impose taxes to effect social changes under the delusion that social progress and the general welfare can be promoted by using the power of taxation to destroy, whereas under our system it should be used only to provide revenue for the support of government. Indeed, that is the only use of the power that accords with the Constitution. But the motives of those exercising the power are not open to judicial inquiry; hence the power to tax becomes in fact the power to destroy. Taxation which impairs the incentive to produce, apart from its other evils, dries up the sources of revenue, and experience has shown that there is a point beyond which increases in rates diminish the revenue. If the institution of private property is to be destroyed, it should be done openly and by the deliberate choice of the people, not by subterfuge and indirection, the method by which that is being accomplished, whether so intended or not.

The indirect incidents of unsound taxation fall upon all and most heavily on those least able to bear them. But when the people can be led to believe that a few bear the burdens of government, they are not apt to concern themselves with unsound fiscal policies, although such policies are the fundamental causes of inflation, which inflict injury on the least able to suffer it and which we are now making futile efforts to stop, without attacking the fundamental cause.

Our unsound methods of taxation have led to two other grave evils. The ease with which income and indirect taxes can be collected has more and more caused the localities to lean on the States and the States on the Federal Government for grants in aid of local projects. Waste and extravagence increase, again in arithmetical progression, as the distance increases from the place of spending to the treasury from which the money is obtained. The reason is that, instead of having watchful eyes to check profligate spending, local interest is centered on getting easy money to spend.

Grants-in-Aid

But a far graver evil results from our present methods, which have made it virtually necessary

for the National Government and the States to make grants in aid. That supplies an excuse for the Federal Government to take over State functions and for the States to intermeddle in local affairs. The inevitable extension of Federal power at the expense of state power, together with unnecessary encroachments such as are induced by grants in aid, threatens to break down our dual system and to destroy the spirit and virility of local self-government from which springs the very life-blood of the Republic.

The present tendency is certain to increase and the inevitable end is not difficult to foresee, unless our methods of taxation can be so harmonized that in the main each unit of government can have its own sources of revenue, which do not impinge upon the sources of the others. That would enable the people to fix responsibility for maladministration and cause them to take a greater interest in the public administrations, local, state and national.

Such a system could easily be devised, but political expediency is likely to stand in the way of its adoption. It would require the voluntary action of the Congress, which is not apt to yield sources of revenue, the incidents of which are directly felt only by relatively few.

There is a source of indirect revenue available to the Federal Government which does not violate the principle of taxation most essential in a democracy, that all contribute to the support of their government according to their means, and thus have a sustained interest in maintaining good government. In their quest for new things to tax, the States and the localities are resorting more and more to that method with many variable rates. The Federal Government could apply it uniformly and equitably throughout the country without causing inequalities and dislocations.

Localities Should Have Direct Property Taxes

Obviously, direct property taxes should be left to the localities.

Between those two methods, that of direct property taxes, best suited to the localities, and the indirect method, best suited to the National Government, there are many sources of revenue which, with appropriate action by the Congress and the State Legislatures, could be so apportioned among the units of government as in the main to give each its own sources of revenue without overlapping, and if necessary, there could still be grants to supplement local funds for purposes of State and National concern without impairing the functions of the State and local governments.

The ideal is rarely attained. However easy to devise such a plan, the difficulties in the way of its adoption are so great as to discourage effort. Few have the courage and the tenacity to struggle against seemingly insuperable obstacles, but a few men of the vigor, logic and courage of Governor Dewey could overcome them.

We are told that truth though crushed to earth will rise again, but it will not suffice for it to be proclaimed by the small voice crying in the wilderness. It requires a chorus of vigorous young voices, each having a forum and an audience.

I am not suggesting a campaign issue, for I fear that the slogan "soak the rich" still has too much popular appeal. Other grave problems, both foreign and domestic, are now engrossing attention. A drastic reform of our taxing methods must await a more propitious time, but the demand for revenue is so great that certainly taxation for that purpose alone should speedily be restored.

I am posing a problem which will be solved if at all only by time and consummate statesmanship. The day will come when it can be made apparent to all thinking people that a radical change in our taxing methods is necessary to restore their proper functions to our State and local governments and to preserve our incomparable system of government, which is fast becoming an inverted pyramid. My hope is that that day will not be too late. In all probability, I shall not live to see it.

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.

• Advance Stamping Co., Detroit.
May 14 (letter of notification) 20,000 shares ($5 par) common. **Price**—$5 a share. No underwriting. For working capital.

American Broadcasting Co., Inc., N. Y.
June 27 filed 950,000 shares ($1 par) common stock. **Underwriter**—Dillon, Read & Co. Inc., New York. **Offering**—A maximum of 100,000 shares may be sold by company to persons, firms, or corporations with whom the corporation had network affiliation agreements on March 31. The remainder will be offered publicly. Price by amendment. **Proceeds**—To prepay notes payable to acquire radio station WXYZ, to construct broadcast transmitter for station KGO at San Francisco and for working capital.

American Cyanamid Co., New York
May 13 filed 391,076 shares ($100 par) cumulative preferred, Series A. **Underwriter**—White, Weld & Co., New York. **Offering**—To be offered for subscription by common stockholders on the basis of one share of new preferred for each seven shares of common held as of June 10. Price by amendment. **Proceeds**—To redeem outstanding 5% cumulative preference stock and to finance expansion program.

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 Telephone & Telegraph Co., New York
May 16 filed $200,000,000 40-year debentures, due 1987. **Underwriting**—To be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Proceeds**—To finance the company's construction program and that of its subsidiaries and associated companies.

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.

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.

Bearings Co. of America, Lancaster, Pa.
May 8 filed $500,000 of first mortgage 4½% serial convertible bonds and 60,000 shares ($1 par) common. **Underwriters**—Dempsey-Tegeler & Co. and J. W. Brady & Co., St. Louis, Mo. Price by amendment. **Proceeds**—To repay bank loan and for general working funds.

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.

Beech Aircraft Corp., Wichita, Kan.
May 2 filed $2,000,000 of 4½% convertible sinking fund debentures (subordinated), due 1957. **Underwriter**—Blair & Co., Inc., New York. Price by amendment. **Proceeds**—To be added to working capital and used to finance airplane production program. **Business**—Manufacture of airplanes.

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.

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.

• Bird Machine Co., South Walpole, Mass.
May 15 (letter of notification) 20,000 shares of (no par) common. **Price**—$12.50 a share. To be offered for subscription to common stockholders of record on May 12, 1947, on the basis of one addtional share for each five shares held. Unsubscribed shares will be offered publicly. No underwriting. For additional working capital.

(Continued on page 46)

NEW ISSUE CALENDAR

(Showing probable date of offering)

May 23, 1947

Denver & Rio Grande Western
Noon (EMT) ..... **Equip. Trust Ctfs.**

May 26, 1947

Netherlands, Kingdom of ..... **Bonds**
Owosso Mfg. Co. ..... **Bonds**

May 27, 1947

New England Electric System
Noon (EDT) ..... **Debentures**
P. C. Helicopter Corp. ..... **Common**

June 2, 1947

Popular Home Products Corp. ..... **Common**
Weber Showcase & Fixture Co., Inc. ..... **Common**

June 9, 1947

Michigan Consolidated Gas Co. ..... **Bonds**

June 10, 1947

California Oregon Power Co. ..... **Preferred and Com.**

(Continued from page 45)

Blumenthal (Sidney) & Co. Inc., New York

Aug. 30 filed 119,706 shares (no par) common and subscription warrants relating to 30,000 shares thereof. **Underwriting** — None. **Proceeds** — For reimbursement of company's treasury for funds expended in redemption of 3,907 shares of 7% cumulative preferred on April 1, and for funds deposited in trust for redemption on Oct. 1 of remaining preferred shares. Although it was proposed to offer the stock for subscription to stockholders at $10 per share, company on Sept. 20 decided to withould action.

Bobbi Motor Car Corp., Birmingham, Ala.

Mar. 3 (letter of notification) 60,000 shares ($1 par) common. **Price**—$5 a share. Company proposes to offer 12,997 shares of common in exchange for its unsecured promissory notes in the amount of $64,985 held by distributors of company's proposed products. **Underwriting**, the stock will be sold by officers and directors of the company. For completion of display automobiles now under construction.

Boston Store of Chicago, Inc.

Sept. 10 filed 30,000 shares ($50 par) 5% cumulative preferred and 500,000 shares ($1 par) common. **Underwriters**—Paul H. Davis & Co. and Stroud & Co., Inc. **Offering** — Preferred will have non-detachable stock purchase warrants for purchase of 30,000 shares of common stock of the total common, 375,000 shares will be offered for sale for cash. 30,000 shares are reserved for issuance upon exercise of warrants attached to preferred and 95,000 shares are reserved for issuance upon exercise of outstanding warrants. **Price** — By amendment. **Proceeds**—Net proceeds, together with other funds, will be used to pay the company's 2% subordinated note in the principal amount of $5,268,750 and accrued interest. Offering date indefinite.

Bowman Gum, Philadelphia

Sept. 27 filed 268,875 shares ($1 par) common. Underwriter—Van Alstyne, Noel & Co., New York. **Price**—$7.125 per share. **Proceeds**—Stock is being sold by shareholders who will receive proceeds.

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.

California Electric Power Co., Riverside, Calif.

May 5 filed 80,000 shares ($50 par) preferred stock. **Underwriting**—To be determined by competive bidding. Probable bidders include Dean Witter & Co.; Blyth & Co., Inc.; Otis & Co. **Proceeds**—To finance expansion and improvement program. Bids expected early in June.

California Oregon Power Co. (6/10)

March 26 filed 60,000 shares ($100 par) cumulative preferred and 408,000 shares ($20 par) common. **Underwriters**—To be determined by competitive bidding. Probable bidders include: First Boston Corp. and Blyth & Co. Inc. (jointly); Merrill Lynch, Pierce Fenner & Beane and Harriman, Ripley & Co. (jointly). California Oregon will sell all of the preferred and 18,000 shares of the common, Standard Gas & Electric Co. (parent,) will sell the remaining 390,000 shares of common. **Bids**—Bids for the purchase of the securities scheduled for May 20 has been postponed to June 10.

Canadian Breweries Ltd., Toronto, Canada

May 14 filed 200,000 shares (no par) common stock. Underwriting, none. **Offering**—To be offered to common stockholders of record June 2. **Proceeds**—For general funds to finance expansion program of company and Canadian subsidiaries or to reimburse treasury for expenditures already made.

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 Arizona Light & Power Co., Phoenix, Arizona**

May 20 filed 160,000 shares ($25 par) $1.10 cumulative preferred stock. **Underwriters**—The First Boston Corp. and Blyth & Co., Inc. **Offering**—Company will offer four shares of new preferred in exchange for each share of $7 and $6 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—Proceeds will be used to redeem unexchanged shares of old preferred at $110 plus accrued dividends. The balance will be used to finance the company's construction program.

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 (Ohio) Economy Drug Co.**

May 16 (letter of notification) 12,000 shares ($10 par) common. **Price**—$12.50 a share. No underwriting. For retirement of bank loans and for working capital.

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.

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.

● **Consolidated Edison Co. of New York Inc.**

May 21 filed $60,000,000 refunding mortgage bonds series C, due 1972. Underwriting to be determined by competitive bidding. Probable bidders: Halsey Stuart & Co. Inc.; Morgan Stanley & Co. Proceeds to redeem at 101½ company's $35,000,000 20-year 3½% debentures due 1956 and to repay $24,050,000 short-term bank loans. The balance will be added to the company's treasury.

● **Consolidated Natural Gas Co., New York**

May 15 filed 545,672 shares ($15 par) capital stock. **Underwriting**—None. **Offering**—The shares will be offered to the common stockholders on the basis of one share for each five shares presently held. Price by amendment. **Proceeds**—Proceeds, together with other funds, will be used to purchase additional shares of four operating companies, Peoples Natural Gas Co. (Penna.), Hope Natural Gas Co. (W. Va.), East Ohio Gas Co., and New York State Natural Gas Corp.

Continental-United Industries Co., Inc.

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 $8.75 per share. **Proceeds**—Company, which is selling 50,000 shares, will apply proceeds to general funds.

● **Cooperative Wholesale Association, Inc., Columbus, Ohio**

May 15 (letter of notification) 150 shares ($100 par) Class A common, 1,000 shares ($50 par) Class B common and 4,700 shares ($50 par) preferred. The Class A common and preferred will be sold at par; the Class B common will be issued to "customers as evidence of their share of patronage refunds upon business transacted with the issuer." No underwriting. For operating capital.

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.

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.

● **Daniels & Fisher Stores Co., Denver**

May 14 (letter of notification) 2,000 shares of common on behalf of Bosworth, Chanute, Loughridge & Co., Denver. **Price**—$39.50 a share. To be sold through Bosworth, Sullivan & Co., Denver.

● **Dayton Power and Light Co.**

May 16 filed 100,000 shares ($100 par) Series A, cumulative preferred and 75,000 shares ($100 par) Series B cumulative preferred. **Underwriters**—Morgan Stanley & Co., New York, and W. E. Hutton & Co., Cincinnati. O. **Offering**—The Series A preferred will be offered on a share for share basis to holders of the company's presently outstanding 100,000 shares of cumulative preferred, 4½% series, while the Series B preferred will be sold to the public through the underwriters. The underwriters also will offer publicly unexchanged shares of Class A preferred. **Price**—By amendment. **Proceeds**—To finance construction and to redeem unexchanged shares of old preferred at $107.50 a share.

● **Denton Industries, Inc., Denton, Texas**

May 13 (letter of notification) certificates representing 1,200 shares ($25 par) common. **Price**—$25 a share. To be offered through Otis Lee Fowler, of Denton, a licensed securities dealer. To acquire sites and to construct buildings for occupancy by industries locating in Denton.

Disticraft, Inc., Chicago

May 8 (letter of notification) 15,000 shares Class B common. **Price**—At market. All or part of the securities may be sold through Bennett, Spanier & Co., Chicago, as agent. The shares are being sold on behalf of three officers of the company.

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.

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.

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.
Mar. 28 filed 60,000 shares of $10 par common. **Underwriters**—To be determined by competitive biding. Probable bidders include Harris, Hall & Co. (Inc.); Otis & Co.; Kidder, Peabody & Co. The stock is being offered by East Coast Public Service Co., parent. Bids for purchase of the stock scheduled for May 19 has been postponed indefinitely.

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.

● **El Dorado Oil Works, San Francisco**
May 15 (letter of notification) 3,238 shares of capital stock, being offered by executors of the estate of Wm. B. Reis, deceased. To be sold at market. Underwriters will be supplied by amendment.

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.

Fairport Materials Corp., New York
April 29 (letter of notification) 2,250 shares (no par) $5 cumulative preferred and 22,500 shares (1c par) common. **Price**—$100.50 per unit, consisting of one share of preferred and 10 shares of common. **Underwriter**—Eastman, Dillon & Co., New York. To purchase machinery and equipment and for other working capital requirements.

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.

Franklin Mining Co., Denver
May 7 (letter of notification) 50,000 shares ($1 par) common, of which 25,000 shares will be offered at $1 and 25,000 shares at $1.25. **Underwriting** — Investments Supervisors, Inc., and two officers of the company. For payment of balance of property lease and mine development.

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.

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.

Glatfelter (P. H.) Co., Spring Brook, Pa.
May 14 filed 6,243 shares 5% ($100 par) cumulative first preferred. **Underwriter**—Stroud & Co., Philadelphia. **Price**—By amendment. **Proceeds**—For plant development program. In addition, company said it also proposes to sell at a later date $3,000,000 first mortgage 3½% sinking fund bonds due 1967 to the New York Life Insurance Co. and 40,000 shares of ($10 par) common to Provident Trust Co. of Philadelphia and P. H. Glatfelter, trustees for Sundry Trusts, at $12.50 a share.

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.

Greil Drug & Chemical Co., Pittsburgh
May 5 (letter of notification) 150,000 shares of common stock. **Price**—$1. **Underwriter**—Willis E. Burnside & Co., Inc., New York. Proceeds to buy all assets of Mid-State Pharmacal Co., Inc. of Bedford, Ind., which makes a complete line of over 150 drug items, and for additional working capital. Expected to be blue-skied in states of New York, Penn., Ohio, Indiana, Georgia and Alabama. Offering will be made to dealers by the underwriter upon the corporation securing approval from various State Securities Commissions.

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.

● **Harlem Hotel Co., Inc., New York**
May 15 (letter of notification) 12,000 shares ($25 par) capital stock. **Price**—$25 a share. No underwriting. To design hotel and purchase site.

Hartfield Stores, Inc., Los Angeles
June 27 filed 120,000 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 $5 a share. **Proceeds**—Company is selling 50,000 shares and stockholders are selling 75,000 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.

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.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 3,000,000 shares ($3.50 par) capital stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: Lehman Brothers; Goldman, Sachs & Co., and The First Boston Corp. (jointly); Halsey, Stuart & Co. Inc. (bond only); Harriman Ripley & Co., and Dillon, Read & Co. Inc. (stock only). **Proceeds**—For debt retirement, finance new construction and for working capital.

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.

● **Jewel Tea Co., Inc., New York**
May 16 filed 75,000 shares ($100 par) cumulative preferred. **Underwriters**—Lehman Brothers, and Goldman, Sachs & Co., New York. **Price**—By amendment. **Proceeds**—To reimburse company for redemption of old preferred and added to general funds for general corporate purposes. **Business**—Operation of chain food stores.

Kentucky Utilities Co., Lexington, Ky.
May 9 filed $24,000,000 of first mortgage bonds, Series A, due 1977, and 130,000 shares ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders for securities include Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds); Union Securities Corp. and Merrill Lynch, Pierce, Fenner & Beane (jointly) and Lehman Brothers and Lazard Freres & Co. (jointly). **Offering**—Bonds will be offered publicly while preferred stock initially will be offered in exchange for its outstanding ($100 par) 6% preferred and ($50 par) junior preferred. The basis of exchange will be one share of new preferred for each share of 6% preferred and one share of new preferred for each two shares of junior preferred. Shares of new preferred not issued in exchange will be sold at competitive bidding. Price to be determined by competitive bidding. **Proceeds**—Proceeds from the sale of new bonds will be used to redeem $21,000,000 of 4% first mortgage bonds, due 1970, at $105. Proceeds from the sale of new preferred will be used to redeem unexchanged shares of old preferred.

● **Kitsap County Hospital Foundation, Bremerton, Wash.**
May 12 (leter of notification) $75,000 20-year income bonds. **Price**—$1,000 and $100 per bond. No underwriting. For operation of hospital.

Kuhlman Electric Co., Bay City, Mich.
April 28 (letter of notification) 30,000 shares of 5½% cumulative preferred ($10 par). **Price**—$10 a share. **Underwriter**—White, Noble & Co., Detroit. For working capital.

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.

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. Offering indefinitely postponed.

Lerner Stores Corp., Baltimore, Md.
May 2 filed 100,000 shares ($100 par) cumulative preferred. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, N. Y. Price by amendment. **Proceeds**—To retire 31,870 shares of 4½% preferred at $105 a share and to repay $4,500,000 bank loan.

(Continued on page 48)

(Continued from page 47)

Libby, McNeill & Libby
April 30 filed 100,000 shares (no par) preferred stock. **Underwriter** — Glore, Forgan & Co. **Offering** — Stockholders of record May 19 will be given the right to subscribe to the new stock at the rate of one share of preferred for each 36 shares of common owned. Rights expire June 2. **Proceeds**—The money will be used to complete a plant at Sunnyvale, Calif., and for other corporate purposes. Offering temporarily postponed.

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.

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.

● **Manhattan Bond Fund, Inc., New York**
May 19 filed 1,500,000 shares of capital stock. **Underwriter**—Hugh W. Long and Co., Inc. **Price**—Based on market price. **Proceeds**—For investment. **Business**—Investment business.

● **Manhattan Coil Corp., Atlanta, Ga.**
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at part and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment. **Business**—Manufacture of automotive ignition replacement parts and manufacture of rubber products.

Manontqueb Explorations, Ltd., Toronto, Can.
April 10 filed 300,000 shares ($1 par) common. **Underwriter**—Name to be supplied by amendment. **Price**—40 cents a share. **Proceeds**—For exploration and development of mining claims. **Business**—Mining.

Mays (J. W.) Inc., Brooklyn, N. Y.
Feb. 28 filed 150,000 shares ($1 par) common. **Underwriter**—Burr & Co., Inc., New York. Price by amendment. **Proceeds**—Of the total, 100,000 shares are being sold by seven stockholders. The remaining 50,000 shares are being sold by the company, which will use its proceeds for general corporate purposes.

Mercantile Acceptance Corp. of California, San Francisco
Mar. 26 (letter of notification) $146,900 10-year debentures, 4% series. To be sold at face amounts of $100, $500 and $1,000. **Underwriter**—Guardian Securities Corp., San Francisco. For payment of short term notes or for other corporate purposes.

Michigan Consolidated Gas Co. (6/9)
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 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. **Bids**—Tentative plans call for bids June 9.

● **Mid-Continent Airlines, Inc., Kansas City, Mo.**
May 14 (letter of notification) 30,601.4 shares of common. **Price**—$7.50 a share. No underwriting. To be added to working capital.

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.

Mississippi Power & Light Co., Jackson, Miss.
May 2 filed $8,500,000 of first mortgage bonds, due 1977. **Underwriter**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp. and W. C. Langley & Co. (jointly); White, Weld & Co. and Shields & Co. (jointly). **Proceeds**—Approximately $6,000,000 will be added to cash funds and will be used in part to finance additional construction. The remaining $2,500,000 will be put in trust under the terms of its mortgage and deed of trust.

Missouri Edison Co., Louisiana, Mo.
May 7 filed 80,000 shares ($5 par) common. **Underwriter**—Blair & Co., New York. **Price**—$10.50 a share. **Proceeds**—Shares being sold by L. F. Rodgers, Dallas, Tex., Treasurer and principal stockholder, who will receive proceeds.

● **Mitchell Mining Co., Inc., Mount Vernon, Wash.**
May 12 (letter of notification) 300,000 shares of stock. **Price**—15-cents a share. **Underwriting** — Cecil Buy Brewer, of Mt. Vernon, Wash. and officers and directors of the company. To equip and enlarge mine.

Morris Plan Corp. of America, N. Y.
Mar. 31 filed $3,000,00 debentures. **Underwriter**—Eastman, Dillon & Co., New York. Price by amendment. **Proceeds**—To retire outstanding bank loans.

Murphy (G. C.) Co., McKeesport, Pa.
June 13 filed 250,000 shares of common stock (par $1). Underwriter—Smith, Barney & Co. Price by amendment. Proceeds—Redemption of outstanding 4¾% preferred stock at $109 a share plus dividends. Indefinitely postponed.

● **National Mines, Inc., Carson City, Nev.**
May 16 (letter of notification) 29,900 shares ($10 par) common. **Price**—$10 a share. No underwriting. To purchase mines and for development of same.

Netherlands (Kingdom of) (5/26)
May 9 filed $20,000,000 10-year 3¾% external sinking fund bonds of 1947, due 1957. **Underwriter**—Kuhn, Loeb & Co., New York. Price by amendment. **Proceeds**—To purchase products and services for reconstruction of the Netherlands in Europe and its economy.

New Brunswick Oilfields, Ltd., Fredericton, New Brunswick, Canada
April 2 filed 300,000 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**—Purchase of the New Brunswick Properties of New Brunswick Gas & Oilfields, Ltd.

New England Electric System (5/27)
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. **Bids Invited**—Bids for the purchase of the securities will be received up to noon (EDT), May 27 at office of New England Power Association, 441 Stuart St., Boston, Mass.

Nopco Chemical Co., Harrison, N. J.
May 9 filed 25,000 shares ($100 par) cumulative preferred, series A. **Underwriter**—Paine, Webber, Jackson & Curtis, New York. Price by amendment. **Proceeds**—To repay $1,500,000 bank loan and for working capital.

Nutrine Candy Co., Chicago
May 8 filed 100,000 shares ($1 par) common. **Underwriter**—Stifel, Nicolaus & Co., Chicago. Price by amendment. **Proceeds**—The offering is being made by three stockholders who will receive proceeds.

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). **Price**—Preferred $25 per share. Warrants for common stock may be exercised through April 1950 at 10 per share, through April 1952 at $11 per share and through April 1957 at $12 per share. **Underwriter**—Mitchum, Tully & Co. **Proceeds**—To repay bank loans and for additions and betterments.

Ohio-Apex, Inc., Nitro, W. Va.
April 22 filed 75,000 shares ($1 par) common. **Underwriter**—Doolittle, Schoellkopf & Co., Buffalo, N. Y. Price $9.50 per share. **Proceeds**—Shares are being sold by six stockholders who will receive proceeds.

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.

● **Olesen (Otto K.) Co., Hollywood, Calif.**
May 15 (letter of notification) 11,460 shares ($5 par) capital stock, being offered by Otto K. Olesen, Hollywood; and options to purchase 11,460 shares of the same stock, being offered by Thomas H. Corpe, Dana H. Bennett, Charles M. Jones, Max Hebgen, Dan H. Hill and A. Ronald Button, all of Hollywood; and A. W. Benton, of Burbank, Calif. **Price**—$6.25 per common share upon exercise of option and $2 per option. No underwriting.

● **Owosso Manufacturing Co., Benton, Ark. (5/26)**
May 16 (letter of notification) $200,000 first mortgage 5% serial bonds, due 1948-1959. **Price**—$1,015 per unit. **Underwriters**—Hill, Crawford & Lanford, Inc.; Southern Securities Corp., and E. L. Villareal & Co., Little Rock, Ark. **Proceeds**—To retire loan, to purchase plant equipment and to reimburse working capital.

● **P. C. Helicopter Corp., New York (5/27)**
May 20 (letter of notification) 3,000 shares of capital stock (no par). Price, $100. Underwriting, none. Design and production adaptation of two helicopters of certain specifications.

Peninsular Telephone Co., Tampa, Fla.
May 12 filed 16,079 shares (no par) common. Underwriting—None. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each ten shares held as of June 9. The company has not determined whether to make a public offering of unsubscribed shares. **Price**—$33 a share. **Proceeds**—For plant expansion and improvements and for general corporate purposes. **Business**—Telephone service business.

● **Pennsylvania Transformer Co., Pittsburgh**
May 19 (letter of notification) 3,000 shares of 5% cumulative 2d preference stock (par $100). Price, $100. Underwriting, none. Offering may be withdrawn unless 2,000 shares are subscribed for within 40 days. To reduce bank loans and provide additional 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.

● **Pittsburgh Club Investment Co., Inc., Idaho Falls, Idaho**
May 12 (letter of notification) 250 shares each ($100 par) preferred and ($100 par) common. **Price**—$100 a share each. No underwirting. To purchase equipment and improve property at Henry's Lake, Ida.

Popular Home Products Corp., N. Y. (6/2-6)
May 9 (letter of notification) 75,000 shares of common stock (par 25c.) and 5,000 shares on behalf of Raymond Spector, President. **Price**—$3.75 per share. **Underwriter**—Eric & Drevers and Hill, Thompson & Co., Inc., New York. Proceeds will be advanced to Staze Inc., a wholly owned subsidiary, and used to eliminate factoring, to purchase packaging materials more advantageously, for working capital, etc.

● **Precision Industries, Inc., Colorado Springs, Colo.**
May 14 (letter of notification) $27,500 ($100 par) common and $10,000 ($100 par) 5% cumulative preferred. **Price**—$100 per share. No underwriting. To retire indebtedness and for working capital.

● **Process Engineering Inc., Somerville, Mass.**
May 15 (letter of notification) 1,400 shares (no par) common. **Price**—$50 a share. No underwriting. For general corporate purposes.

● **Public Service Co. of Colorado, Denver**
May 16 filed $40,000,000 first mortgage bonds, due 1977, and $7,000,000 convertible debentures due 1962. **Underwriters** — Bonds will be sold at competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc. The First Boston Corp., and Blyth & Co., Inc., and Smith, Barney & Co. (jointly). The debentures will be offered for subscription to the company's ($20 par) common stockholders on the basis of $8 of debentures for each share of common held. Following the sale of bonds and debentures, the company intends to offer 160,000 shares of ($100 par) new preferred stock. **Proceeds**—The offering is in connection with a comprehensive refinancing program which provides for refunding of all the company's funded indebtedness and all presently outstanding 7, 6 and 5% first preferred stock. In addition part of the proceeds will be uesd to finance a $9,000,000 construction program.

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.

Public Service Co. of New Hampshire
May 12 filed $4,500,000 of first mortgage bonds, Series B, due 1977. **Underwriter**—To be determined by competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lazard Freres & Co. and White, Weld & Co. (jointly); Kidder, Peabody & Co., and Blyth & Co., Inc. (jointly). **Proceeds**—To finance in part a proposed $26,868,700 construction program.

Quebec Gold Rocks Exploration Ltd., Montreal
Nov. 13 filed 100,000 shares (50¢ par) capital stock. **Underwriter**—Robert B. Soden, Montreal, director of company. **Price**—50¢ a share. **Proceeds**—For exploration and development of mining property.

Refrigerated Cargoes, Inc., New York
Feb. 3 filed 25,000 shares ($100 par) 6% cumulative preferred and 25,000 shares (no par) common. **Underwriter**—John Martin Rolph, Vice-President and director of company. **Price**—The stocks will be sold at $105 per unit consisting of one share of preferred and one share of common. **Proceeds**—To be used in organization of business.

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.

● **Sayles (R. W.) & Son, Inc., Litchfield, Conn.**
May 15 (letter of notification) 1,000 shares ($10 par) 6% cumulative preferred and 100 shares ($5 par) common. **Price**—$10 a preferred share and $5 a common share. **Underwriting**—Putnam & Co., Hartford, Conn. To complete erection of a storage warehouse and garage and to replenish working capital.

Seaboard Container Corp., Philadelphia
May 9 filed 75,000 shares ($20 par) 5% cumulative convertible preferred and 75,000 shares ($1 par) common. **Underwriter**—Herrick, Waddell & Co., Inc., New York. **Price**—$20 a preferred share and $9 a common share. **Proceeds**—The company will receive proceeds from the sale of all the preferred and 25,000 shares of the common. The remaining shares of common are being sold by stockholders. Company will use its proceeds to redeem $250,000 of 5-year debentures and to repay a $450,000 bank loan. The balance will be used to finance construction of a new plant at Bristol, Pa.

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 Fork Mining & Leasing Co., Inc., Spokane, Wash.**
May 13 (letter of notification) 175,000 shares of stock. **Price**—5 cents a share. To be sold through company directors. For mining equipment.

● **Southern California Gas Co., Los Angeles**
May 15 filed $12,000,000 first mortgage bonds, 2⅞% series, due 1977. **Underwriting**—To be sold at competitive bidding. Probable bidders include Blyth & Co., Inc.; Halsey, Stuart & Co., Inc.; Harris Hall & Co. (Inc.); Merrill Lynch, Pierce, Fenner & Beane; White, Weld & Co. **Proceeds**—To construct natural gas pipe line connection to the Hugoton-Panhandle Fields, Texas, and to reimburse company treasury for construction expenses.

Standard Factors Corp., New York
May 7 (letter of notification) 4,500 shares (no par) 75c cumulative preferred. To be offered to holders of debenture bonds and Class A common in exchange for their securities on the basis of $100 of bonds in exchange for five shares of preferred and $25 in cash, and two shares of Class A stock in exchange for one share of preferred. No underwriting.

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.

● **Stroehmann Brothers Co., Williamsport, Pa.**
May 14 (letter of notification) 9,080 shares of capital stock (par $25). Price, $25. Underwriting, none. Working capital and general corporate purposes.

Sussex County Distillery Co., Inc., Quarryville, N. J.
May 7 (letter of notification) $180,000 10-year 7% debenture bonds and 54,000 shares ($2 par) common. **Price** $800 per unit, consisting of one $500 bond and 150 shares of common. No underwriting. For retirement of outstanding loans and for additional working capital.

Swern & Co., Trenton, N. J.
Aug. 28 filed 195,000 shares common stock (par $1). **Underwriter**—C. K. Pistell & Co., Inc. **Offering**—Company is selling 45,000 shares, and eight selling stockholders are disposing of the remaining 150,000 shares. **Price**—$10.50 a share. **Proceeds**—From 45,000 shares sold by company will be applied to working capital initially. Offering date indefinite.

Textron Inc., Providence, R. I.
Feb. 28 filed 300,000 shares ($25 par) 5% convertible preferred. **Underwriters**—Blair & Co., Inc., New York, and Maxwell, Marshall & Co., Los Angeles. Price by amendment. **Proceeds**—For payment of $3,950,000 of bank loan notes; purchase of two notes issued by a subsidiary, Textron Southern Inc. in the amount of $1-000,000 each, and for working capital. Offering date indefinite.

Toledo (O.) Edison Co.
Oct. 25 filed $32,000,000 first mortgage bonds, due 1977, and 160,000 shares of ($100 par) cumulative preferred. **Underwriters**—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; and Smith, Barney & Co. Price to be determined by competitive bidding. **Proceeds**—Net proceeds together with $4,-500,000 bank loan and if necessary, the $5,000,000 to be contributed by its parent, Cities Service Co., will be used to redeem outstanding debt and preferred stock, involving a payment of $53,906,590, exclusive of interest and dividends.

Tucker Corp., Chicago
May 6 filed 4,000,000 shares ($1 par) Class A common. **Underwriter**—Floyd D. Cerf Co., Chicago. **Price**—$5 a share. The underwriting discount will be 70 cents a share. **Proceeds**—To lease and equip manufacturing plant at Chicago, and for other operating expenses. **Business**—Manufacture of automobiles.

● **20th Century Fox Film Corp., New York**
May 21 filed 234,300 common shares, which have been purchased or are purchasable by 24 option holders. No underwriting. Offering—The option holders who exercise or have exercised their options plan to offer the shares to the public. **Price**—At market. **Proceeds**—Company said it granted options to certain of its executives to purchase 240,000 shares of its common stock 5,700 of which have lapsed, at price varying from $13 to $25.87½ a share. Options to purchase 169,400 of these shares already have been exercised. If all the options are exercised proceeds to the company would be $4,636,-875, including $3,027,475 already received. Proceeds will be added to working capital and used for general corporate purposes. Darryl F. Zanuck, Vice-President in charge of production, is the largest option holder and plans to offer 100,000 shares to the public. The option was granted to Zanuck on April 16, 1940, to purchase 100,000 common shares at $13 a share. At that time the stock was selling around $10⅝.

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.
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. **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 scheduled for May 21 has been postponed.

Utah Chemical & Carbon Co., Salt Lake City
Dec. 20 filed $700,000 15-year convertible debentures due 1962, and 225,000 shares ($1 par) common. The statement also covers 112,000 shares of common reserved for conversion of the debentures. **Underwriter**—Carver & Co., Inc., Boston. **Price**—Debentures 98; common $3.75 per share. **Proceeds**—For plant construction, purchase of equipment and for working capital.

Vauze Dufault Mines, Ltd., Toronto, Canada
Mar. 31 filed 500,000 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. **Price**—50 cents a share. **Proceeds**—For general operating expenses.

Victory Gold Mines Ltd., Montreal, Canada
Nov. 13 filed 400,000 shares ($1 par) capital stock. **Underwriter**—Paul E. Frechette. **Price**—25 cents a share. **Proceeds**—For developing mining property. **Business**—Acquiring and developing mining properties.

● **Vitalex Process Co., Philadelphia**
May 14 (letter of notification) 650 shares of 5% non-cumulative preferred (par $100) and 1,000 shares of common (par $10). Presently to be offered 500 common shares in exchange and conversion of presently outstanding common. To be sold for cash, 600 units of one share preferred and ½ share common at $105 per unit. Working capital, purchase of inventory and equipment. No underwriting.

● **Washington National Insurance Co., Evanston, Ill.**
May 19 filed $600,000 of participations in employees retirement plan. **Underwriting**—None. **Offering**—Under the plan those eligible employees who elect to become participants and depositors will deposit in the Fund 5% of their compensation, but in no case more than $250 per year. **Proceeds**—For retirement fund. **Business** — Insurance business.

● **Watson (H. S.) Co., San Francisco**
May 14 (letter of notification) 500 shares of ($50 par) common. **Price**—$50 a share. No underwriting. For working capital.

Weber Showcase & Fixture Co., Inc. (6/2-6)
Mar. 31 filed 108,763 shares ($5 par) common. **Underwriters**—Blair & Co., Inc. and Wm. R. Staats Co. **Offering**—Shares will be offered for subscription to Weber's common stockholders. Certain shareholders have waived subscription rights. The unsubscribed shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—To retire preferred stock and to reduce bank loans.

● **Wellington Fund, Inc.**
May 20 filed 800,000 shares ($1 par) common. **Underwriter**—W. L. Morgan & Co. Price based on market price. **Proceeds**—For investment. **Business**—Investment business.

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.

White Transportation Co., Inc., Asheville, N. C.
May 5 (letter of notification) 2,000 shares ($100 par) 5% cumulative preferred. **Price**—$102 a share. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg, Va. To retire present preferred bonds and for expansion purposes.

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.

Wooden Shoe Brewing Corp., Minster, Ohio
May 6 (letter of notification) 30,000 shares of stock. **Price**—$10 a share. **Underwriter**—The First Cleveland Corp., Cleveland, O. For working capital.

(Continued on page 50)

Prospective Security Offerings

(NOT YET IN REGISTRATION)
● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

(Only "prospectives" reported during the past week are given herewith. Items previously noted are not repeated)

(Continued from page 49)

● **Baltimore & Ohio RR. (5/27)**
Company will receive bids up to noon May 27 at Room 1304, 2 Wall Street, New York for the purchase of $6,110,000 equipment trust certificates, to be dated June 1, 1947 and due in ten equal annual instalments of $611,000 each on June 1, 1948-1957. Probable bidders include: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler, and Shroud & Co., Inc. (jointly); Harriman Ripley & Co. and Drexel & Co. (jointly).

● **CEM Securities Corp. (Del.)**
On May 28, 1947, at 12:30 p.m., EDT, a total of 25,000 shares of the common stock (no par) of the corporation (now held by the executors of the estate of Charles E. McManus, deceased) will be offered at public auction, at the auction block of Adrian H. Muller & Son, at the Exchange Salesroom, No. 20 Vesey Street, New York.

● **Coast Counties Gas & Electric Co.**
May 16 company was authorized by the California P.U. Commission to dispose of 140,000 shares of series A 4% ($25 par) preferred stock without competitive bids. Of the issue, 75,000 shares are to be allocated for exchange, share for share, for the company's 5% preferred. The remainder, plus unexchanged shares, are to be underwritten by a syndicate headed by Dean Witter & Co.

Denver & Rio Grande Western RR. (5/23)
Bids will be received up to noon (MST) May 23 by the company at 201 Rio Grande Bldg., Denver 1, Colo., for purchase of $1,530,000 equipment trust certificates, Series K, to be dated July 1, 1947 and due in 30 equal semi-annual instalments Jan. 1, 1948 to July 1, 1962. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **International Bank for Reconstruction and Development**
May 17 reported that the Bank may issue between $150,000,000 and $250,000,000 of debentures with an interest rate of around 3%, plus ½% brokerage commission. The debentures may be sold between June and October with investment bankers and dealers distributing the issue.

● **Public Service Co. of New Hampshire**
During 1947 company expects to raise an additional $3,800,000 through the issuance of common stock and use proceeds to replace $2,200,000 short-term borrowings and to provide additional cash for construction.

● **Public Service Corp. of New Mexico**
May 21 company plans to market by competitive bidding 20,000 shares of cumulative preferred stock (par $100) and $6,800,000 of first mortgage bonds. Net proceeds would be used to redeem $5,492,000 of first mortgage bonds of four constituent companies and to pay a $1,000,000 bank loan. The remainder would be available for the company's refunding and improvement program. Probable bidders include Blyth & Co., Inc.; The First Boston Corp. and White Weld & Co. (jointly); Otis & Co.; Glore, Forgan & Co.

● **Rochester Gas & Electric Corp.**
May 21 the corporation (subsidiary of General Public Utilities Corp.), has petitioned the SEC for authority to offer at competitive sale $16,677,000 first mortgage bonds and $5,000,000 of preferred stock. The money would be used to redeem $7,657,000 of mortgage bonds, to pay a $3,500,000 bank loan and to finance new construction. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley & Co.

● **Thermoid Co.**
May 20 stockholders voted to increase $2.50 cumulative convertible preferred from 55,000 to 120,000 shares to increase common from 975,000 to 1,500,000 shares (par $1) and to extend option to purchase 24,250 common shares (held by F. E. Schuter, President and Thermoid Manager's Group Inc.) from April 16, 1948 to April 16, 1951.

Unregistered Securities

(Continued from page 3)

bill which constitutes an amendment to Section 12 of the Securities and Exchange Act of 1934 and which, in effect, would extend these provisions to the unregistered securities of corporations having at least three million dollars in assets and at least 300 security holders.

Part of the functions of the Securities and Exchange Act of 1934, the Maloney Amendment thereto, and the organization of the National Association of Securities Dealers, was the the regulation of the over-the-counter market.

For many decades, side by side, but possessing numerous differing characteristics, two markets have been flourishing, the auction market in registered (listed) securities and the over-the-counter market.

The auction market has been developed and controlled by club arrangements, called Exchanges, wherein special privileges have been accorded to those in a position to pay for membership.

This membership was and is in itself a flourishing and speculative commodity, perhaps the better term is a vacillating commodity and a so-called seat on the Exchange is the subject of market variations and brings different prices at different times.

The over-the-counter market grew along entirely different lines. The privilege of trading therein and when acting as agent, receiving a commission therefor, was in nowise dependent upon membership in any special organization or, for that matter, in any organization at all.

The method of trading, the surrounding practices, all grew up, as it were, in the medium of trade custom and usage.

No one and no group created fiats by which trading in unregistered securities was governed.

Actual growth was the yardstick.

As these markets took form and emerged, they acquired numerous characteristics which at times were contrasting.

Those who gained knowledge of these characteristics selected the markets best suited for the intended purpose.

We have never heard or seen it contended that, overall, one market is more honest than the other. Clearly, such a contention would be stupid since both markets are frequently used by the same firms and the same individuals.

The SEC, however, sees the bogey-man of evil hovering around unregistered securities and feels it a duty to shoo him away.

It would become the champion of preventive fraud.

Not content with a system of public education in the securities field, the SEC would turn custodian of our ethics and make fraud impossible of commission.

The SEC concern is difficult of understanding. The continuous waving of the shibboleth "in the public interest" lacks sincerity and sometimes acts as a cover for ineptitude.

The ancient "widows and orphans" gag is utterly outworn.

By and large, the public, generally, is in informed body. In such matters where it lacks information, it goes to an appropriate expert—to the cobbler to fix its shoes, to the architect and builder to erect its homes, and to the financial adviser to create and protect its securities portfolios.

Choosing a securities medium should be an act of absolutely individual volition. If I want registered securities in my portfolio, that should be my privilege. If I prefer to deal in unregistered securities, that should be a matter of my personal wish. I should be permitted to invest or to speculate just as I see fit. As no one compels me to choose one market or the other, so I should be left free to adopt the medium of the club-regulated auction market or the over-the-counter market developed through trade custom.

This mess of government in business, this paternalism which seeks to prescribe and dominate control in the securities field, is a grave threat to our national welfare.

Today it's the securities field and tomorrow it may be industry generally that will have the fetters placed upon it. Having two roads, each of which leads to the same point and being familiar with both, why may the public generally not be free agents and determine upon its own course?

Why should the SEC foster the one rule as against the other? Why should it attempt to interfere with the market that for decades has had a specific growth through custom.

When a man knowingly seeks to invest in a market where the type of disclosure with respect to registration and proxy statements differs from contrasting requirements of another market, it is his absolute privilege to follow his own choice.

These are matters of individual preference and no legislation should change them.

The few knaves in the securities field will not be changed by legislation.

Securities dealers are a forthright body of men. The SEC error is its failure to treat them as such.

We contiune to advocate, in the public interest, the curtailment rather than the extension of SEC powers.

Wall Street Notes Interest in Bonds of Enemy Countries

(Continued from page 6)

these assets of theirs, only an incomplete listing was obtained, it is reported, and so the Treasury Department today is in no position to know which bonds available here now were looted or brought over or sent here by enemy nationals. If trading had been permitted right along, it is argued, there would have been more inducement to conform with the request to list ownership.

The SEC is convinced it acted wisely in asking the exchanges and dealers not to make markets in these bonds after the outbreak of hostilities. American investors were thereby protected from the sort of wild gyrations which the Sterling bonds went through in London, it points out. There is, of course, both a pro and a con to this subject. American bondholders and the dealers with whom they do business, so far as can be ascertained, are practically unanimous in thinking that a free market in these securities all through the war would have been extremely desirable. They can't see why, that is, trading was ever stopped in the first place. Some of them, however, do point out that since trading has been stopped and for so long it might be better now to wait until the bonds can be serviced before permitting trading in them again.

Undoubtedly, it will be high considerations of state as much as the general aims and purposes of the SEC which will determine the what and the when of this question. The SEC is known to be acting in consort with both the State Department and the Treasury Department in this whole matter. Treaties must be ratified before much can happen. Meanwhile—since the Treasury Department back in 1942 permitted bondholders to claim losses of 100% for income tax purposes—the Government agencies take the view the bondholders aren't really worrying. In certain hardship cases, particularly where the settlement of an estate was being

held up because of the enemy bonds, the SEC has made special allowances, it says. However, it points out, too, it has had only a few, a very few, requests for action of this kind.

Ever since discussions over the terms of the Italian Treaty began, the New York Stock Exchange and the SEC have been in numerous conferences preparatory to resuming trading, it has been hoped, in the listed government and corporate bonds of Italy. What is happening in connection with the Italian securities will probably serve as a pattern for the bonds of all other enemy countries. Here the SEC is insisting upon "full" (the emphasis upon the word full is the SEC's) disclosure of all pertinent financial data concerning the securities in question. The Italians have been slow to comply with the request and the result is that trading in Italian bonds have still to start. Treaty-making to full disclosure is the path on which enemy bonds will have to travel, apparently, to get back to the market.

The market in enemy bonds showed some signs of life on Tuesday when a $1,000 Japanese bond changed hands with SEC permission, a trade consummated in the usual way by one of the regular dealers in foreign securities on the "Street" and one in which a bank was involved on the selling side.

Despite all the Government's much publicized concern for the foreign interests of the American bondholders, the Government, according to many of the bondholders anyhow, is really not doing what it actually can to substantiate their claims at points where such help would be of material aid to them. In the new treaties being drawn up with the various nations in the European zone most affected by the war, for instance, the claims of the bondholders are supported in a negative kind of way, reflecting, so the bondholders think, the influence of Russia. Clauses pertaining to the rights of bondholders read something to the effect that nothing, the fortunes of war or the provisions of the treaty, should be understood to stand in the way of the claims and rights of the bondholders.

No British Loan Request

WASHINGTON, May 20 (Special to the "Chronicle,"—Asked about the prospect of a second Loan to the United Kingdom, Secretary of the Treasury at his press conference today replied, "We have had no request."

With Hunnewell & Co.

Special to THE FINANCIAL CHRONICLE

BOSTON, MASS. — Louis J. Blute has joined the staff of Hunnewell & Co., 49 Federal Street, members of the New York and Boston Stock Exchanges and other leading exchanges.

UFE Wins Election At Drysdale, Loses at Harris, Upham & Co.

(Continued from page 8)

and viewpoint on labor policies and problems in a temperate manner, without threat of economic reprisal or coercion. The Union in its campaign literature used forceful language similar to that of which it now complains, and, in fact, closed its campaign on the day of the election with a leaflet detailing its answer to the employer's letter point by point. The employees were therefore confronted on both sides by argumentative appeals to their judgment. If they were swayed by any of the arguments presented, this was a legitimate consequence of free speech and presumably one of its purposes. Free speech is not to be limited to ineffective speech."

Discussing the "free speech" issue and its bearing upon the case, Father Kelley said:

". . . I question whether free speech should enable an employer to thwart the Board in its statutory duty to ascertain the representatives of the employees. Furthermore, I see no reason for departing from the test consistently used by the Board in proceedings such as this. Nor do I see a need for discussing the facts of the case in terms of 'free speech' or 'coercion.'

"However, even assuming that the test in a proceeding such as this—interference with the integrity of the Board's election process—is the same as in an unfair labor practice proceeding—interference, restraint or coercion of employees in the exercise of their right freely to choose their own representatives—I am convinced that the letter is not privileged and that the election herein should be set aside. . . .

"A very simple issue is involved herein—whether under all the circumstances, the employees had an opportunity to exercise their right of free choice in the election on Sept. 5, 1946. The employer's actions and statement cast a substantial doubt on that question, and I am unable to reconcile the holding of the majority with the previous decisions in which they have joined me.

"Even if the test were whether the employer interfered with its employees' rights, as might constitute interference in an unfair labor practice proceeding, my answer would still be that the election herein should be set aside. I am unable to join my colleagues in an indiscriminate usage of so important a right as that of freedom of speech."

Large Balance of Payments "Gap"

WASHINGTON, May 21 — The Department of Commerce today announced its calculation of the gap between exports and imports during the first quarter at $3 billion. Exports were $4.9 billion and imports $1.9 billion.

Favors Direct Investments Abroad

W. Randolph Burgess tells London American Chamber of Commerce experience demonstrates it is sounder than loans of money. Foresees long prosperity ahead.

In an address in London, England, before the American Chamber of Commerce there, W. Randolph Burgess, Vice-Chairman of the Board of the National City Bank of New York, recommended investment of American capital abroad as aid in world recovery. He pointed out that "the experience of the 20's and 30's demonstrated that direct investment by business abroad is far sounder than loans of money and, in the search for principles to govern our lending, I suggest we turn to England's experience in the half century before World War I." Mr. Burgess, however, acknowledged that in the past "direct investments ran into trouble, but much less than the heavy losses on loans."

W. R. Burgess

On the willingness of private capital to enter foreign fields, Mr. Burgess stated that business, like banks is now equipped for such operations. "They know problems," he said. "They have trained people and they will avoid some old mistakes."

In speaking of domestic conditions Mr. Burgess predicted some decline in prices and in income, but said any readjustment or recession is likely to be brief and mild. "Unfilled demands for goods are so great, and the available funds are so ample," Burgess said, "that if we can get over the hurdle of readjustment quickly we ought to have a long period of prosperity ahead.

"To get through such an adjustment without a decline in prices and income," Burgess continued, "would be a miracle. The important new opinion is that our readjustment — our recession — is likely to be brief and mild. That is because it has been so widely foreseen and planned for by business and banking."

The Battle of Sterling Balances

By PAUL EINZIG

Dr. Einzig reports in negotiations regarding liquidation of Sterling balances, Britain is not likely to press counterclaims against India and Egypt and demand a scaling down of debts.

LONDON, ENG.—Within the next few weeks negotiations with India and Egypt are expected to be resumed. Since the preliminary talks earlier this year, British attitude has stiffened considerably. Then it looked as though the government might be inclined to accept terms far beyond the country's capacity. This was due in part to the general Socialist attitude towards countries with a lower standard of living. Many Socialists felt that it would not be right to scale down debts owed to Indians who are much worse off than Britons. They ignored the argument that in existing conditions any improvement in the standard of living in India would only be temporary, as it would soon be counteracted by the increase of the birth rate which, under conditions prevailing there, inevitably follows any such improvement, so that the net result of heavy sacrifices on Britain's part would be merely additional millions of half-starved Indians.

Dr. Paul Einzig

Another reason why the government was disinclined to show a firm hand was the fear that it might interfere with the delicate political negotiations with India and Egypt. Rather than antagonize these two countries, the government abstained from indicating its intentions of putting forward counterclaims. It looked as though Britain were heading towards a policy of financial appeasement for political purposes. The members of the government, whose main concern was friendly relations with India and Egypt, were distinctly inclined to press for a conciliatory attitude in the matter of the balances.

Mr. Dalton, whose chief concern was the effect of such an attitude on the Treasury's foreign exchange resources, was for a long time almost alone in favor of a firm policy. He received support, however, from unexpected quarters. A small but active group of Conservative Members of Parliament began a campaign in favor of a firm policy of hard bargaining. Although they attacked Mr. Dalton for his reluctance to come out with a categorical statement in favor of putting forward counterclaims, he was delighted, for these attacks materially strengthened his hands in the Cabinet. He was now placed in a position to argue that the opposition would make political capital out of agreements granting too liberal terms to the creditor countries. As a result he was able to make some casual statements to the effect that debt funding agreements must take into account Britain's excessive economic war efforts. Much as he would have liked to go further, he could not do so for a long time. Even in his Budget statement he confined himself to vague generalities.

Most of the Conservative Members who took up the matter earlier this year had lost active interest in it, as they thought that they had forced Mr. Dalton to go as far as he was likely to go at this stage. They decided therefore to rest on their laurels. This was done with the approval of the Conservative leaders who, with the notable exception of Mr. Churchill himself, never took a very keen interest in the campaign. Colonel Crosthwaite-Eyre, who initiated the campaign, continued to pursue it almost single-handed. His persistence eventually bore its fruits. Although a young "backbencher" who only entered Parliament at the general election of 1945, he has managed to force the government's hand in what is after all a matter of major policy.

Under the barrage of his persistent questions to the Chancellor of the Exchequer, supported by a growing volume of publicity in the Press, Mr. Dalton decided to take his courage in both hands, and to commit the government definitely to a policy of refusal to conclude debt agreements without a substantial scaling down of the amount. In a speech made at the annual dinner of the Brazilian Chamber of Commerce in London, Mr. Dalton stated this policy in unmistakable terms. It is known that he spoke without consulting the Cabinet, and that some of his colleagues were very worried about the reaction to his speech abroad. And when the indefatigable Crosthwaite-Eyre, anxious to exploit his victory, put down a question to the Prime Minister, to ask whether Mr. Dalton's statement represented the government's policy, pressure was brought to bear on him from various influential quarters to withdraw his question, for fear that Mr. Attlee might not adequately back up his Chancellor of the Exchequer, or at any rate the latter might get into serious trouble for having spoken out of turn. With his usual persistence, Crosthwaite-Eyre left the question on the paper, however.

Fortunately for Mr. Dalton and for the cause of scaling down the sterling balances, the speech committing the government had a very favorable press. It is difficult to recollect any other action of the Labor Government which received such a unanimous praise in newspapers of every kind. The large majority of the government's supporters in the House, too, was greatly relieved that they would not have to face the unpopularity of too costly debt settlement terms. They were pleased with their Mr. Dalton for having disarmed with one stroke the Conservative campaign which might otherwise have caused them much embarrassment. The Chancellor of the Exchequer's move was distinctly popular both in the press and in the Socialist Party. In the circumstances opposition to his policy within the Cabinet has melted away, and on May 12 the Prime Minister, in his reply to Crosthwaite-Eyre definitely confirmed that Mr. Dalton's speech expressed government policy.

The first major engagement in the "battle of sterling balances," which was fought out in the British Parliament and behind the scenes of British politics, has thus ended in a victory of the policy of scaling down the debts. Creditor governments will have to take this into consideration. They can no longer build their hopes to receive full payment on the indifference of the British public which would enable some members of the British Government to indulge in financial appeasement.

Fund Jottings

By Our Washington Correspondent

Harry White is going to the New Hampshire countryside for a rest. Then he is expected back in Washington, his plans being—reportedly—to act as a "money doctor" to foreign governments and counsellor to corporations.

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Silver study by the Fund is more or less pro forma. The resolution governing it is not too tight.

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News leakages, such as the recent item about Ethiopia having started application for Fund help, annoy the Fund management very much. They suspect embassies with leaking. Also, on such occasions, a canvass is made of the whole shop in the Fund, to try to trace a leak. European organizations cannot get used to American press ways. Gutt is of course a European in this regard.

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Fund reports must be published for each quarter, but should not be looked for too promptly, since they will contain statistics on Fund holdings of members' currencies. However, some disclosure of Fund transactions may be made earlier in the periodic reports of central banks, and there is nothing the Fund can do about that.

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Mexican-American Stabilization Agreement reportedly would permit Mexico to draw—up to $50,000,000—interest free for a three-month period. The amount is more than double what the Mexicans could get from the Fund in a comparable period. Past US-Mexican stabilization agreements have not been used by Mexico, but the present one is thought likely to be used, because of the prospective changes in Mexico's balance of payments.

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The Fund without doubt is fully apprised of the content of the Mexican-American agreement. In any case, it goes without saying that the United States would not be a party to violation of the letter or spirit of Bretton Woods. None the less, it might be argued that this is another instance of bypassing an international organization, however justified the step may be for reasons of propinquity. One Fund official points out world dollars shortage is so great that any bilateral efforts toward meeting it are welcome to the Fund from the standpoint of removing pressure on the Fund.

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There is a strong suspicion, which the Fund's spokesmen do not confirm, that the Fund wanted the text of the Mexican-American agreement made public. Whether it will be, still remains to be seen.

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While the agreement mentioned above differs from bilateral trade and monetary agreements in force in Europe, for instance in having no "tied" clauses, one may wonder whether the United States would not be in a better position to protest against foreign bilateral arrangements if it allowed all existing bilateral stabilization agreements to which this country is a party to expire.

Whether Mexico would in case of need turn first to the Fund or to the United States depends on the length of time Mexico may need the help. In the Fund, the longer a member remains indebted, the higher is the cost to the member.

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The Fund is experimenting with the circulation internally of the balance of payments estimates for a number of countries monthly. If the experiment warrants, these will eventually be published on some periodic basis as yet undecided.

INDEX

For detailed index of contents see page 3