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Taft Lauds Tax Reduction Plan

In statement issued after passage of tax reduction measure, he warns President against a veto on ground country cannot have free economy under present tax burden.

Senator Robert A. Taft, Chairman of the Republican Majority Policy Committee, following final passage of the Tax Reduction Bill by Congress, said that 26,191,000 taxpayers will get a 30% reduction in their Federal income taxes through the action of the Republican Congress in passing the Tax Reduction Bill.

Robert A. Taft

Six million nine hundred eighty thousand (6,980,000) persons get cuts in their taxes of between 20 and 30% and 16,495,161 get a 20% cut.

"This most certainly carries out Republican promises of a tax cut," the Senator pointed out.

"According to present estimates, even allowing for a business recession from present volume, there would be an $8 billion surplus in the Treasury in the next fiscal year without this tax cut so there will be plenty of money for debt reduction besides the tax cut," Senator Taft said.

"The tremendous burden of tax-

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Accountants Ignore Economic Costs

By ALDEN RICE WELLS

Security Analyst, J. H. Goddard & Co., Boston

Mr. Wells points out fictitiousness of inventory profits and criticizes accounting practice for assumption prices never change. Cites erroneous conception of prices arising from using dollar as a yardstick for present corporate gains, and neglect of higher costs of capital replacements in depreciation computations. Says taxes are being paid on fictitious profits.

"The inventory profits are fictitious because they give no considerations to replacement costs for both equipment and material. If you sell for $7 a pair of shoes that cost you $5, your so-called profit of $2 will turn out to be no profit at all if it costs you $7 to replace the shoes so you can continue in business. A true profit exists only where there is an actual gain in cash which can be used for expansion of the business or entirely outside the business, in the form of a dividend payment."*

Alden R. Wells

The accounting profession operates on the principle that this $2 profit is not fictitious. The difference of opinion lies closer to important economic and social problems of today than casual reading would indicate. The first example merely discloses the difference in opinion. The following illustration will reveal one of the major effects of following standard accounting procedure:

A shoe store proprietor might own outright a 1,000 pairs of shoes

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*Barron's National Business and Financial Weekly, March 3, 1947.

Freedom and Economic Progress

By WINTHROP W. ALDRICH*

Chairman of Board, Chase National Bank

President, International Chamber of Commerce

Asserting economic liberalism as opposed to aggressive nationalist sentiment might have averted the war, Mr. Aldrich points out International Chamber of Commerce goal is to support free enterprise system by promoting political and economic freedom. Distinguishes between expanding functions of government in a free enterprise economy and totalitarian controls. Calls for more competition in foreign trade and lays depressions to economic nationalism. Denies U. S. recession will mean world depression.

In opening the Eleventh Congress of the International Chamber of Commerce, I should like first to express our deep appreciation to the Swiss National Committee and to the Government of Switzerland for their gracious invitation to convene in the beautiful town of Montreux. We appreciate all the more the cordial hospitality extended to us because we fully realize the special difficulties involved at the present time in entertaining foreign guests. Switzerland has always been a most generous host to international gatherings, and the hospitality accorded the International Chamber is in keeping with its

W. W. Aldrich

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*An address by Mr. Aldrich before the 11th Congress of the International Chamber of Commerce at Montreux, Switzerland, June 2, 1947.

The Financial Outlook

By RAYMOND RODGERS*

Professor of Banking, New York University

Dr. Rodgers sees beginning of a business recession, the extent, severity and duration of which will depend on rapidity with which maladjustments due to high prices and the evils of over-employment are corrected. Contends production costs and profits can and will be cut, and because high cost producers will be driven out, bankers should be selective in making loans. Holds despite some unfavorable factors, economic situation is sound and deposit and commercial loan outlook good.

Raymond Rodgers

Prior to World War I, most banking was a fairly simple, uncomplicated, local business. In those happy days, a man with high character and pleasing personality, who was a shrewd observer of character and a keen judge of *local* values, could look forward to a serene and untroubled life of service to his community. (Of course, some bankers had troubles, but they were usually of their own doing!)

Into these local Edens, World War I brought not one "apple," but many "apples" of change and overthrow of the old order. To enumerate but a few, the Federal Reserve System with its national viewpoint, foreign loans with their emphasis on foreign trade and the

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*An address by Dr. Rodgers before the Virginia Bankers Association, Virginia Beach, Va., May 31, 1947.

Why Business Needs Adequate Reserves

By JOHN M. CHAPMAN
Associate Professor of Banking, School of Business, Columbia University

Dr. Chapman declares management must be extremely careful in good times to set aside sufficient reserves from gross income to counteract effect of business fluctuations, of inflated inventories, of large fixed asset account; and to meet recurrent depression periods and to stabilize employment.

During recent months, many companies have realized sharp increases in earnings, largely as a result of increased sales and higher prices. In a number of cases, net earnings have been quite substantial. In view of the improved financial position of these companies, the question naturally arises: "What can be done with earnings to assure meeting possible future losses or contingencies?"


Dr. J. M. Chapman

Despite current high profits, there are indications that a downturn may be in the offing. Accumulated inventories in some lines, labor trouble, government agricultural subsidies, a large volume of bank credit and of money in circulation, and rising prices—these factors constitute a serious threat to the stability of our economy in the months ahead. Though some of the recent price increases have been necessitated by wage increases, others have been made with wages boosts only as an excuse. Offsetting these inflationary forces somewhat, but enhancing the gloomy outlook, is the strong and growing tendency of many consumers to postpone as many expenditures as possible.

The result of all this is a confused and disturbing situation. Some economists anticipate still higher prices and inflation. Others predict a sharp business recession because the public is not buying all the goods now coming onto the market. If the latter group is correct, many manufacturers, middlemen and merchants will be stuck with large inventories. This, in turn, will lead to a decrease in production—and curtailment of production will be followed by a decrease in employment.

Government Subsidies Boost Prices

Even though it is not possible at this time to predict when—or how severely—a possible recession may come, it is well to consider methods for building adequate reserves to meet any losses which may arise later. As the American Institute of Accountants stated in 1941: "Over the years it is plainly desirable that all costs, expenses and losses of a business other than those arising directly from capital stock transactions be charged against income—but because of conditions impossible to foresee, it often fails of attainment."

The tremendous increase in the cost of living, in the volume of bank credit and of money in circulation are, in part, the inevitable result of government policies not only during the war but as far back as 1933, when steps were taken to increase prices—especially those that related to agricultural commodities. At that time, agricultural prices had declined further than had those of manufactured products. Today (May, 1947) the highest price increases, compared with the average for 1939, are found in agricultural products. Food prices on the average have risen more than 130% since the end of 1939—nearly double the increase in prices of all products exclusive of farm products—while prices of farm products have been considerably greater than even those of food products.

The government, through subsidies, is helping to maintain the prices of food products. At the same time, government buying has helped to boost the prices of grains which are, in turn, reflect-

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Don't Expect 1941 Prices With 1947 Dollar!

By JAMES D. MOONEY*
President and Chairman of Board, Willys-Overland Motors

Asserting most talk regarding high prices is pernicious and unrealistic, Mr. Mooney calls for basic understanding of facts. Says inflated prices are inevitable effect of cheap money, and cannot be talked down by propaganda. Urges as practical steps to reduce prices: (1) increased production; (2) reduction of Federal debt; (3) reduced taxes; and (4) a return to free gold market. Holds free markets and honest money are foundations of progress.

Most of the talk, official and otherwise, that we hear over the radio or read in the papers on the subject of high prices is as pernicious as it is unrealistic.

We might say that the subject is being handled from the viewpoint of deliberate propaganda. The purpose seems to be to make business and industrial management scapegoats in the public mind by creating the impression that management could, if it would, easily and quickly reduce prices just by arbitrary decision.


James D. Mooney

It would be fine if it were that simple, for, if that were true, prices would have been reduced long ago. Nobody knows better than business and industrial management that there is no profit in over-pricing a market.

Whatever the motive back of the campaign the result is to foster misunderstanding of the facts; to arouse distrust and suspicion and to promote public confusion about the real causes of present inflated prices. Just at this time this is a peculiarly harmful disservice to America in that it promotes disunity and misunderstanding when what we need is for all segments of our society to unite in the common battle against inflation. And it is a common battle — for nobody benefits by inflation—consumers, or labor or management, or government.

It is wrong to pit management and labor against each other. Worse, it is stupid, for the fundamental of all things in a free enterprise society such as ours is that everybody shares in prosperity and everybody suffers from inflation—and I mean everybody—labor, capital, management and consumers.

What we need, and need now, is a basic, common understanding of the real underlying economic facts that are causing the present epidemic of inflated prices. Once we get that common understanding, we can arrive at unity of purpose and settle down in practical American fashion to work

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*An address by Mr. Mooney at the Automobile Day Luncheon of the Mid-America Exposition, Cleveland, O., May 24, 1947.

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The Future of the Steel Industry

By WILFRED SYKES*
President, Inland Steel Company

Mr. Sykes, in analyzing probable future steel needs, concludes present capacity is ample for years to come. Estimates present capacity above 91 million tons with annual demand including exports ranging up to 86% of this figure up to 1955. Contends there is no overall substitute for steel and there is iron-bearing material adequate for future needs. Predicts, however, recurring shortages of scrap.

Agriculture is our basic industry. We must all have food. Steel, however, dominates all industry. Modern agriculture could not exist without it. All modern manufacturing would be non-existent without iron and steel. Without iron and steel we could have never risen from the primitive conditions that existed before the industrial age. At the beginning of the 19th Century people starved in the midst of our most fertile areas for lack of means to till the soil effectively and efficiently. Farmers and their families toiled long hours to gain a mere existence. The supply of iron and steel that developed in the eastern states completely changed this picture, and as tools and machinery became plentiful so man was freed from the struggle to keep from starvation. The land could be developed and its riches made available to all. It was iron and steel that made the miracle of America possible.

Wilfred M. Sykes

The great transportation systems grew from the furnaces of the iron and steel mills. Instead of supporting a few hundred thousand Indians in poverty, America became the Mecca of the world, drawing teeming millions to its shores to share in its bounty.

There is no substitute for steel. There is no metal that is produced as cheaply or as plentifully or

(Continued on page 32)

*An address by Mr. Sykes before the 55th General Meeting of the American Iron and Steel Institute, New York City, May 21, 1947.

Concern Grows Over Unwholesome Effects of '34 Securities Act

By EDMOUR GERMAIN

Congress should not extend SEC powers to over-the-counter corporations but should amend Securities Act of 1934 to eliminate profit recapture provision thereof applying to so-called "insiders" of listed companies.

Some of the provisions of the Securities Exchange Act of 1934, it is becoming more evident every day, are having an increasingly unwholesome effect upon the securities market. Market-wise people who have given some consideration to the matter—even those among them who may be strongly inclined to favor the Securities & Exchange Commission and its philosophy—are beginning to realize that there are serious defects in the law which need correction.

The Securities Exchange Act of 1934, it will be recalled, among other things requires officers and directors of registered companies, that is, those whose securities are listed on a national securities exchange, to report all their purchases and sales of the securities of their own companies and subjects the profits which they make out of these transactions within any six months' period to "recapture" by their companies. The SEC now intends to ask Congress to amend the Act so that these requirements may be extended to the officers and directors of the unregistered companies, that is, those whose securities are not listed on a national securities exchange.

From the way the present law affects the attitudes and actions of the officers and directors of the registered companies now, many observers today are of the opinion that instead of extending the statutory requirements in this respect, the Securities Act of 1934 should be amended to eliminate this objectionable feature.

Critics of the SEC have often been unthinkingly accused of wanting to turn the clock back. In the role of the "loyal opposition," even if nothing else, these critics may indeed have something very constructive and worthwhile to contribute to the general discussion on the SEC's powers and SEC regulations generally. These critics probably don't exaggerate one bit when they describe the SEC as bureaucracy intrenched, using the word bureaucracy in the popular sense as meaning something undesirable, bureaucracy interested not only in perpetuating itself but in extending its powers whenever and wherever it can. In any event, bureaucracy—including the

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The Outlook for Gold Mining Stocks

Writer points out price of gold has become a government monopoly and paper currency in relation to gold has been increasing rapidly. Calls attention to rumors of further devaluation of gold dollar, but predicts there will be no increase in price of gold in U. S. and Canada in foreseeable future. Recommends purchase of gold mining stocks as hedge against currency inflation or depression.

A feature of gold-mining stocks is their steadiness in times of depression and security market weakness. Generally speaking, gold-mining stocks, owing to the fixed price of the product, do not advance proportionately with the general market, but they have the merit of being more stable than other stocks in times of market decline.

Leslie H. Bradshaw
Editor
"Investment Timing"

In "Invest-Timing" for Oct. 2, 1945 we said that the prices of both American and Canadian goldmining stocks were already appraising the return of higher earnings expected as a result of resumption of production, and from the investor's viewpoint offered only limited attraction. That opinion has proved correct.

Labor Chief Cost

Although gold mines are somewhat less subject to pronounced changes in costs than industry as a whole, influential factors are the levels of commodity prices and labor costs. Industries in general can recover higher costs by increased sales volume or price adjustments, but gold production is independent of ordinary consumer purchasing power, and the price is fixed for long periods.

While gold stock dividends normally are stable and liberal, it should be remembered that an important portion of dividends represents the return of capital and they are therefore dependent on the life of ore reserves, which is usually an unpredictable factor.

Increase in labor costs, the largest item of expense in gold mining, have been responsible for contraction in profit margins. During the late war, gold mining in this country was shut down by government order, labor being required in other branches of industry such as ammunition plants and shipbuilding. Labor has been slow in returning to the mines, but production is now improving and a recession could help speed the pick-up.

The Price of Gold

The Act of April 2, 1792 established the first monetary system of the United States under the Constitution, and fixed the weight of the gold dollar at 24.75 grains of pure gold, an ounce of gold then being worth $19.39.

In 1837 the gold content of the dollar was reduced, making the price $20.67 per ounce, which for nearly 100 years remained the

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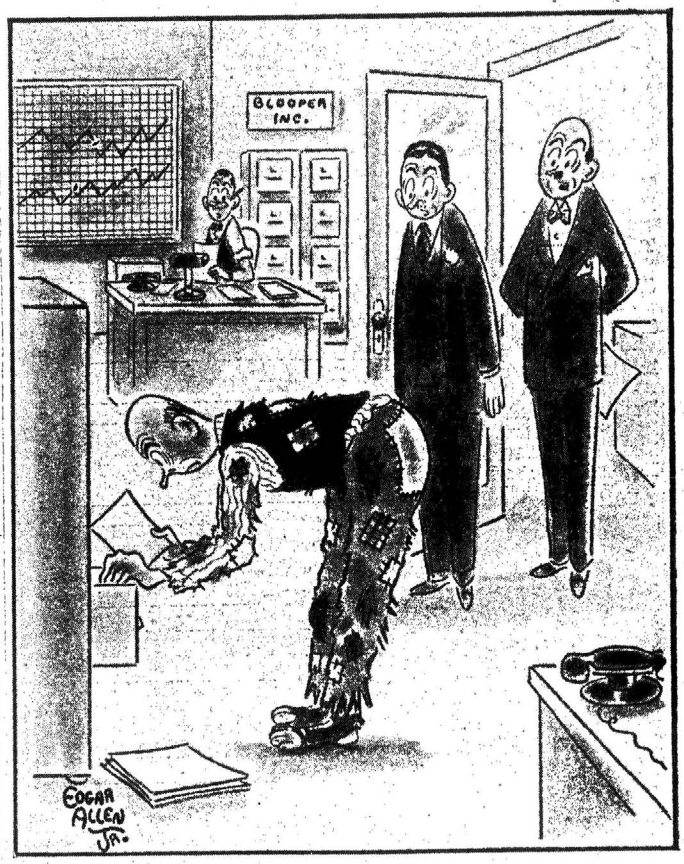
Table 1—PRODUCTION OF GOLD
(in thousands of fine ounces)

	World	U. S.*	Canada	Union of South Africa	Russia & Siberia
1929	19,673	2,208	1,928	10,412	1,100
1932	24,306	2,449	3,044	11,559	1,990
1934	27,318	2,916	2,972	10,480	4,000
1935	30,354	3,619	3,285	10,774	5,000
1936	34,230	4,296	3,748	11,336	6,500
1937	35,723	4,753	4,096	11,735	5,900†
1938	38,030	5,008	4,725	12,161	5,800†
1939	39,485	5,559	5,094	12,822	5,000†
1940	40,907	5,920	5,311	14,038	4,000†
1941	40,818	5,981	5,331	14,386	4,000†
1942	35,582	3,619	4,841	14,121	4,000†
1943	29,541	1,385	3,651	12,800	4,000†
1944	27,075	1,002	2,923	12,277	n.a.
1945	26,590	997	2,651	12,214	n.a.
1946	n.a.	1,750‡	3,200‡	11,800‡	n.a.

Source: American Bureau of Metal Statistics.
*Production of Philippine Islands included with the U. S.
†Estimated. ‡Estimated by Standard & Poor's. n.a.—Not available.

BUSINESS BUZZ



"Sneedle Always Puts on That Act When He's Getting Ready to Ask Me for a Raise!"

What Program for America?

By HON. ALBEN W. BARKLEY*
U. S. Senator from Kentucky

Senate Minority Leader states great adjustments are necessary to counteract tremendous war-caused economic upheaval. Pleads for retirement of public debt ahead of "temporary" tax reduction. Holding that real wages have declined in last year, he pleads for voluntary price reduction.

Whether we be business or professional men, whether we be artisans or agriculturists, we are profoundly concerned about the justice and the stability of our own economic system, in order that we may make it powerful and influential in the solution of those world problems, which are international in their scope, and fundamental in their character.

Sen. Alben Barkley

We have just come out of the world's greatest military contest. That contest cost the democratic nations which were fighting aggression and totalitarianism a thousand billion dollars. This was the outlay from their governmental treasuries. It takes no account of the destruction of vast areas and the economic loss involved by the diversion of 30 or 40 million men from productive to destructive activities.

Our share of this governmental outlay was $350 billion, an amount greater than the total wealth of our country three decades ago. We have come out of that world conflict with a public debt of nearly $260 billion, which is an average of more than $5 billion for each of the 48 states in this union.

We have come out of it with prostration and frustration all over the world. Two years after the end of hostilities, not a single peace treaty has been consummated to its final ratification, which justifies the statement of Colonel Starling, during the progress of the war, that President Roosevelt predicted that it would require five years following the end of hostilities to bring about a peaceful settlement of the issues growing out of the war.

I do not call attention to this delay in the adjustment of the issues growing out of the war either in discouragement or impatience. Great progress has been made in clearing away much of the underbrush, which was created, not only by the war, but by long decades and generations of antagonism and misunderstanding among the nations of Europe and Asia, and I have the utmost faith that the voice of mankind will be ultimately heard in such resounding volume as to compel recalcitrant and intransi-

(Continued on page 43)

*An address of Senator Alben W. Barkley at the testimonial dinner to Mr. Morton J. May and the National Jewish Hospital of Denver, Colorado, at the Waldorf Astoria Hotel, New York City, May 24, 1947.

Washington . . . And You

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

It now becomes obvious that dollar international collectivism is to influence 1948 tax policy, will limit—may even prevent—tax relief for business.

* * *

Remember: American dollars must be scattered world-wide for two separate reasons: (1) to shore up Truman's globalizing of the Monroe Doctrine, and (2) to help finance our exports. The alternate, say proponents of this theory: a return to hemispheric nationalism and constricted foreign markets for our business and industry. Congress isn't now—won't be next year—ready to espouse that alternative.

* * *

Truman aides are fashioning for the 1948 Congress a lend, lease and give-away device costing billions. Congress may demur but won't dismantle it. That means more government dollars for relief, for fighting communism, for financing exports and fewer government dollars for tax relief at home.

* * *

Next year, both major parties want a balanced budget and general tax relief. Right now it looks like they can't have both. It looks like they may settle for a balanced budget and general tax revision rather than general tax relief, for tax reform and a juggling of specific tax schedules without much dimunition in the overall tax burden. It's not unlikely that 1948 tax legislation may mean little in terms of net revenue bills to individuals and corporations.

* * *

If you tote a grudge against Federal Power Commission bureaucrats, here's a chance to gloat. Grudgingly and belatedly FPC is admitting defeat in its seven-year fight to seize jurisdiction over the Connecticut Light & Power Co. That's of more than local importance. It's a haymaker on FPC ambition to dictate beyond Congressional intent, to dominate intra-state enterprise.

* * *

Here's the history of the FPC shakedown: (1) in January, 1941, FPC rules Connecticut Light and Power was a public utility within purview of the Federal Power Act, ordered the company to accept FPC controls; (2) Connecticut Light & Power demurred, lost in the Appellate Court, won in the Supreme Court; (3) Supreme Court jurists told FPC to produce more convincing evidence or subside; (4) FPC last week conceded it couldn't prove its claim, vacated its order against the Connecticut company, and subsided with murmured protests.

* * *

FPC will hear more of this Connecticut Light & Power persecution when Congress debates bills walling off FPC from intrastate utility operations. The incident will be cited as proof how FPC (1) distorts congressional intent, and (2) forces private enterprise into costly court defense of inherent rights. Hearings on this restrictive legislation are to

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Bankers' Responsibility In Debt Management

By DANIEL W. BELL*

President, American Security & Trust Co., Washington, D. C. Formerly Under Secretary of the Treasury

Former Treasury executive contends make-up of government debt must be adjusted so as to meet needs of investor groups and to spread holdings among people. Says short-term debt should not be refunded until sufficient capital has accumulated in hands of long-term investors. Warns debt reduction is deflationary and may in depression period be detrimental.

I am, of course, delighted to be here with you today. I am not so sure why I chose the subject, "Bankers Responsibility In Debt Management," because I am certain that most of you realize just what your obligation is in this respect. The commercial banks of the nation have about $70 billion or close to 50% of their total assets and 65% of their earning assets in United States Government securities. This total investment represents more than one-fourth of the total amount of the gross public debt. All you have to do is to look at the figures on your balance sheet to realize your responsibility. I am sure that if you had loans and discounts of individuals and business firms on your books at as high a percentage of your assets as that represented by Government securities, you would feel it highly essential for you to be thoroughly acquainted with all of the economic conditions which affect the various businesses in which you had invested your money. You are, therefore, interested in the national debt—its effect on economic conditions. You are interested in the taxing policies of the Federal Government which are designed to maintain and support the public credit. As a matter of fact, you are interested in all governmental policies which affect the economy of the nation, and which have a tremendous bearing on the management of the public debt.

Daniel W. Bell

Aside from being interested as a banker whose institution owns such a large proportion of the public debt, you are interested in it as a public-spirited citizen. It has been stated by good authority that the national debt will affect the life of every man, woman and child in the United States. It is

(Continued on page 40)

*An address by Mr. Bell before the Virginia Bankers Association Convention, Virginia Beach, Va., May 31, 1947.

Observations . . . .

By A. WILFRED MAY

ECONOMICS MASQUERADE

The Politician in Economist's Clothing

The practice of governmental officials of opportunistically designing their "economic" pronouncements to further their party's political strategy, previously pointed out by this columnist, is continuing ever more intensively and recognizably. For example, it is taken completely for granted as a major premise that the President's action on the pending tax and labor bills will be based entirely on alternative courses of political maneuvering pursuant to straight party politics. The public which is interested in prophesying his action, is unanimously laying its veto bets according to its guess on the cleverest political skullduggery, with complete cynicism and without any regard whatever for the technical merits or economic implications of this epochal legislation. Here again the nation's welfare is being directed according to the "public relations" *motif!*

A. Wilfred May

Just as bad now is the ganging-up of professional economists, largely including former New Dealers, who are far and wide citing and interpreting "facts," and broadcasting prophecies—recklessly and irresponsibly, but uniformly—to fit their political "line." The possibility that a direct result of their whooping-up of a Depression may be the creation of just the communally harmful conditions against which they profess to be fighting, apparently does not concern them nearly as greatly as do their ideological and political objectives.

This "line" now primarily continues the basic outlook of these individuals when they were part of the Wartime Administration. The expedient policy then was to exhibit the post-war specter of a tremendous business collapse with a permanent mass of 8 million unemployed; induced by supposed inability of the masses to consume; over-saving, etc.—the New Deal production-consumption "gap" thesis.

Despite the cold fact that the actual course of events has completely disproved the dire *Goetterdaemerung* expectations; there is no abatement whatever of this agitation—only a little juggling of the alphabetical nomenclature of their organizations. More vehemently than ever is the case being built up for lavish use of government financing to fill the void created by the supposedly disastrous insufficiency of private spending as the creator of production. Otherwise, it is being picturesquely shouted from the housetops by these "objective" economists, we are rushing pell-mell into *the* climactic "bust" of American civilization. ("We, and Mr. Wallace, were wrong about this before only because our timing miscued a little.")

Beating the Drums for Bust

Again the New Deal compensatory spenders are beating the Cassandra drums. Again they are trying to create a panic about a non-existent "bust" in an effort to sell their over-saving thesis, their condemnation of the profit system, and cumulative wage-raising. To establish their basic major premise that we are facing a crucial situation wherein "it is our task to restore whatever amount of *purchasing power* our people may need to purchase the goods which our factories and farms are capable of producing when our work force is fully employed," and to enlarge on government controls, nth degree doom is not only being prophesied for the future, but depicted as actually having already arrived. Thus a Report compiled for and widely distributed by Americans for Democratic Action by Chester Bowles (as chairman), J. K. Gilbraith, Robert Nathan, Paul Porter, Seymour Harris, etc., harps on "distortions," "bust," "a collapse such as followed World War I with widespread unemployment, bankruptcies and foreclosures"; "sustained demand rapidly disappearing"; and "the hard-hit stock market, and economic barometer." And another committee member, Leon Henderson, in a speech published in last week's "Chronicle" speaks of "bankruptcy ahead," "mills closing down," and "retail sales declining" (for which the reactionary Republicans and Southern Democrats are the responsible villains). But, looking at the facts—the official figures readily available to the layman as well as the expert economic interpreter, what do we find to be actually happening? The retail sales, whose "decline" is giving so much alarm, actually according to the Federal Reserve Board, in the nation's department stores in the final week of May, were 15% above the boom level of last year, 52% over two years ago, 170% over 1937, and even 140% above the 1929 boom's sales.

Recession Perspective Distorted

While these economists are quick to point out wherever unit sales may appear to lag, they make the very *material omission* of completely ignoring the fact that even future dollar sales declines will leave activity at levels very high in terms of all normal historical measures.

Looking at some of the other basic business indices of the actual

(Continued on page 44)

New Jersey Bond Club Annual Meeting

NEWARK, N. J.—The annual meeting of the Bond Club of New Jersey will be held at the Down Town Club, Newark, on Wednesday, June 18, 1947, at 12:15 p.m., for the purpose of electing officers and governors for the ensuing year, and to transact such other business as may regularly come before the meeting.

Pursuant to Article 5 of the constitution, a nominating committee consisting of William C. Rommel, J. S. Rippel & Co., Chairman; Wilbert H. Campbell, Campbell & Co.; James B. Kirk, Harris, Upham & Co.; Joseph R. Mueller, Mueller & Currier; and F. Sheppard Shanley, Manning, Shanley & Co., was duly appointed by the Board of Governors. This Committee has submitted the following nominations:

Officers

(To serve for one year)

For President, Alexander Seidler, Jr., National State Bank.

For Vice-President, Stanton M. Weissenborn, Parker & Weissenborn, Inc.

For Secretary, Courtlandt B. Parker, R. W. Pressprich & Co.

For Treasurer, J. William Roos, MacBride, Miller & Co.

Members of Board of Governors

(To serve for three years)

Frank R. Cole, F. R. Cole & Co., retiring President; J. E. Egner and F. Sheppard Shanley.

Ruhr Coal Output Declines

Special to THE FINANCIAL CHRONICLE

WASHINGTON, JUNE 4—According to word received by the "Chronicle" this week from the British Zone of Germany, North German coal production unfortunately is just holding its own, and even shows tendencies to decrease slightly. The latest Ruhr coal output figure (daily basis), that for May 13, is 214,293 tons gross clean hard coal.

How Britain Sees It

By HERBERT M. BRATTER

Correspondent holds that for relief from dollar famine London is pinning hopes on World Bank loans to other countries as well as to itself. Reports Britishers feeling we misunderstand convertibility provision of American loan agreement and are too pessimistic about their ability to meet it.

Despite the volumes being written in our financial press about the hunger for American dollar exchange abroad, it is hard to realize how intently the financial City of London is watching every move relating to the satisfaction of that world appetite. There has been of late a great deal of premature and apparently unfounded talk in London about a "second loan" from America. There is discussion of the "dollar" burden Britain must bear in Germany. There is also the realization that, the more dollars the outside world receives, the better Britain's chances of pulling through the "transition period" without another loan.

Herbert M. Bratter

Thus, the "Financial Times," in commenting approvingly on the fact that with the loan to France the World Bank at last had got started, observed: "From the more selfish viewpoint, this evidence of activity on the part of the World Bank is a welcome development. Little more than two months remains before sterling earned by countries becomes freely convertible. The burden which we shall be called upon to bear will be progressively eased as American capital filters through to the various parts of the world." Stating that possibly Britain's dollars may run out before the transition period is over, that paper adds: "Hence, if the authorities are really in earnest about balancing our external accounts, it is not impossible that we seek a modest loan from the International Bank—despite what has been said to the contrary."

Optimism on Convertibility

Also of very particular interest to financial London is the implementation July 15 of the convertibility clause of the American loan agreement. It is felt in London that this subject is incompletely or incorrectly understood in this country. The British Treasury, it is reported, is not so pessimistic as many about the effects of the convertibility clause.

It is pointed out in London that the coming into force of that clause will not mean the drain on Britain's dollar resources so many Britons fear. This is another way of saying that the outside world is not going to find sterling as convertible as might be hastily presumed. The reference, of course, is only to sterling balances newly derived as a result of current transactions. What is not so well understood, is that to be convertible the purpose to which the dollars furnished by Britain will be applied must also be needed for current transactions. The latter has a double emphasis. The word "current" means that an Indian exporter, for example, cannot transfer the proceeds of a sale to Britain into dollars to be kept in New York. That would be a capital transaction. Secondly, it has been erroneously claimed in London, the dollars must really be needed by the owner of the new sterling balances; that is, no country trading with Britain will be supplied dollars in exchange for newly acquired sterling if that country possesses dollar balances or other assets freely convertible into dollars, since in that case it could not demonstrate "need."

Interpretation of "Net Balances"

Still another indication of a very hard-boiled British attitude toward the obligations assumed in the convertibility clause of the American loan agreement hinges on the interpretation of the clause to mean only "net balances." In the loan agreement nothing is said about net balances. The way is left open to make new sterling balances convertible as they occur, or to set down an arbitrary interval at the end of which each time the books will be balanced and only the net surplus made convertible into hard currency. While the U. S. Treasury has volunteered no statement as to its interpretation of this aspect of the convertibility obligations assumed by Britain under the loan, it seems safe to assume that the British Treasury will take the narrower view, as the city is urging it to do. An editorial in the "Financial Times," of London, a well-informed journal, insists that only net export surpluses accumulating in the form of sterling balances will be convertible. It adds: "That explanation clears a good deal of the ground reassuringly; but it leaves open the issue how the time factor will operate—that

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The World Bank and a Dynamic World Economy

By E. FLEETWOOD DUNSTAN*

Director of Marketing,

International Bank for Reconstruction and Development

Mr. Dunstan states successful World Bank is prerequisite for well-being of both lending and borrowing countries, and for our high standard of living. Reveals France may apply for additional loan this year.

Just before coming down here, in order to refresh my memory—not to give you news—I checked up on apple export figures for the years immediately before and after 1931 when the British pound was forced off gold. As Virginia is one of the two most important apple exporting states, I do not have to remind you how quickly and seriously you were affected. When collapse of the pound sterling was followed the next year by the Ottawa Conference and "Buy British" signs began to appear in every city, town and hamlet of the Empire, your apple industry was dealt another severe blow.

E. Fleetwood Dunstan

In 1931, United States exports of apples to the United Kingdom totaled 9,153,000 bushels. In the next year they dropped to 5,662,000 bushels and by 1934 they were only 3,378,000 bushels or less than 37% of the 1931 figure.

In order to prevent such debacles in the future, there are, as you know, serious efforts being made to find solutions to both monetary and tariff problems through international concert. Even as we meet, the International Trade Organization is holding its sessions in Geneva and delegates of the International Chamber of Commerce are on their way to Montreux, Switzerland, for their coming meeting. I have no doubt you are—and will be—watching these sessions with avid interest.

The Dollar Scarcity

But there has been another development in the change-over from war to peace which directly affects Virginia. And that is the serious world scarcity of dollars. It has found reflection, for instance, in the very heavy tax that the British have just placed upon tobacco. Denying the voter his smokes is something no political party would do except in a case of emergency. Well, it has happened. British officials find they have no choice.

The $3,750,000,000 loan granted

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*An address by Mr. Dunstan before the Virginia Bankers Association, Virginia Beach, Va., May 31, 1947.

Letter to the Editor:

Should Investment Bankers Sell World Bank Debentures?

Correspondent writes past experiences prove present foreign lending and World Bank loans will result in heavy losses. Criticizes set-up of World Bank capital and says only cushion for its debentures will be cash from U. S. Treasury. Holds if conditions are sound private investors could supply market for bonds, without aid of Bank.

Editor, Commercial & Financial Chronicle:

In 1932, Professor Lothrop Stoddard, A.M., Ph.D., Harvard, wrote a book entitled "Europe and Our Money." On the dedication page the following sentence appeared. "To the common sense of the American People, which is often deceived but which usually gets wise." After our ill-fated past adventures in foreign lending, one would think that the American people would "get wise" eventually. But apparently such is not so. We are doing it again, on a larger scale than ever. Bretton Woods has taken over where the International do-gooders of two decades ago left off. Only this time there can be no doubt that the majority of the nations that are going to receive our dollars are bankrupt. The last time we only guessed that this was so. Today we know the exact location of every empty sieve through which our billions are going to be poured.

The International Monetary Fund and the World Bank were foisted upon the American people when war-time emotionalism was at its peak. Those who concocted this scheme realized that after the experiences of the 1st World War, American investors would not make any more direct loans to most foreign countries. Nations that could not now qualify for direct loans even at a prohibitive rate of interest, are in this condition because they have proven themselves unworthy of the faith and trust of our people. Those nations borrowed billions of dollars in the twenties (for the same so-called productive purposes as proposed today) and have defaulted right and left on their obligations.

Character is something that we understand in this country. Finland does not need a Bretton Woods or any other trick idea in order to sell her bonds in the United States. The events of the past two decades speak for themselves. No country was more despoiled and impoverished by war and aggression, yet little Finland paid on time, and on the line. The same cannot be said of many of our so-called Allies, now members of the Fund and the Bank, that plead poverty no more distressing than that which Finland knows.

Let us refresh our memory. Let us look before we leap once again into the same cauldron of deceit and default as we did 20 years ago. Here is what our esteemed English friend Mr. John Maynard Keynes wrote in "The Nation" (London) Aug. 9, 1924: "There is on the part of most countries, a strong tendency to default on the occasions of wars and revolutions, and **whenever the expectation of further loans exceeds the amount of interest payable on the old**

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Recent Developments in New York Non-Discrimination Law

By JULIAN J. REISS*

Commissioner, New York State Commission Against Discrimination

Spokesman for New York State Commission Against Discrimination in Employment explains working of new law and expresses gratification at employer cooperation. Says there have been 152 complaints closed on the merits after investigation, and, at present, only 127 are pending. Stresses educational work of Commission and need for careful examination of complaints, particularly in relation to overall pattern of industrial employment. Advocates adjustments through conferences and conciliation, and warns discrimination in employment aids communist movement.

When Mr. Turner appeared here almost two years ago, he gave you the assurance that the State Commission Against Discrimination had no intention of embarking on witch hunts; that we would not develop the work of the Commission into a Gestapo needlessly harassing employers with unwarranted investigations. I am glad to say that the Commission has in no way altered its policy in this respect and I am very happy to have the opportunity this afternoon to tell you something of how the administration of the law has proceeded.

Julian J. Reiss

The Law Against Discrimination recognizes and declares that the right of employment without discrimination due to race, color, creed or national origin is a civil right and it establishes a commission with the power and the duty first to prevent and eliminate discrimination in employment, empowering the Commission to issue enforceable orders. Second, the mandate is given to the Commission to study discrimination in all fields of human relationship and to marshal all the forces of education and moral enlightenment for the promotion of good will and better understanding among the peoples of the state.

Realizing the magnitude of the assignment, the framers of the law empowered the Commission to appoint local community councils consisting of representatives of sound citizenry, drawn from business, from labor, the clergy, and from various religious and racial groups within our state. The Council members gather around a conference table to study problems of human relationships which occur in their own community and to devise ways and means to arrive at their solution. All action on their part must receive prior Commission authorization.

Through the work of these councils the Law Against Discrimination is interpreted to the community and the Commission is kept in constant touch with whatever problems exist and the proposed methods of solution. The powerful force of education is brought into play to promote good will and better understanding. At the present time there are six such councils operating in the state of New York and many others are in process of formation.

The educational work which the Commission is doing with the assistance of the community councils would be a subject for an afternoon discussion by itself. I am going to pass over this and go to the first assignment of the Commision, that of preventing and eliminating discrimination in employment by the issuance of enforceable orders if necessary.

Many people feel that this aspect of the law is unwise for, as they say, you cannot legislate virtue; that tolerance is a virtue and that any attempt to do so would have the same result as did our efforts to legislate the virtue of temperance.

I think it might be well to give this some consideration. The Law Against Discrimination does not strive to legislate the virtue of tolerance but the Commission seeks to promote tolerance by marshaling all the forces of education for that purpose and we only seek to apply sanctions and penalties to acts of intolerance and discrimination when those acts deprive an inhabitant of the state of the fundamental basic right he has to earn a living, without consideration as to his race, color, creed or national origin.

Society's approach to this matter of temperance is sound when we seek to promote temperance by the forces of education and religion and restrict the application of sanctions and penalties to acts of intemperance when those acts inflict an injustice upon an inhabitant of the state such as when a drunkard gets behind the wheel of an automobile or when he goes home and beats his wife and children.

Honesty is another virtue. We seek to promote honesty by education and the forces of religion but we do not hesitate to apply sanctions and penalties to acts of dishonesty such as fraud and embezzlement and grand larceny. The Commission's approach to this matter of intolerance is precisely the same.

A person who has been robbed of his possessions may bring a court action against the aggressor. In the same way the person who has been unjustly deprived of an opportunity to earn his living, because of his race, color or national origin, may file a verified complaint with this Commission. Since the enactment of the law on

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*An address by Mr. Reiss before the Commerce and Industry Association of New York, New York City, May 15, 1947.

Wool and Geneva

Administration making little headway with Congress in eliminating import fee.

WASHINGTON, June 4 (Special to the "Chronicle").—On June 3 Undersecretary of State Will Clayton and Undersecretary of Agriculture N. E. Dodd appeared before the House [illegible] on the wool bill. Clayton reportedly had the support of Dodd in asking elimination from the pending measure of the provision authorizing the imposition of an import fee. According to Congressional informants of this correspondent, the Agriculture Department has been "on all sides of this controversy." In any case, the Administration witnesses in their appearance before the legislators seem not to have made any headway. The House members of the conference at least evidence no disposition to alter the position taken by the House when it passed the bill.

The writer is told that Clayton failed to present any new argument or face-saving formula. It is believed he would be satisfied with an escape clause, such as he suggested in his recent letter to Representative Cooley, but that proposal was firmly rejected by the House when the bill was before it. The formula was that the import fee power should not exist in cases where its use would conflict with an existing or future reciprocal trade agreement to which the United States is a party.

At this writing the conferees are scheduled to hold a second meeting late today, but attainment of agreement at that meeting is not likely. Even a deadlock is regarded here as not entirely inconceivable. Since that would leave domestic woolgrowers unprotected, however, the conferees are expected to reach agreement ultimately.

Atherton, Williams Co-Chairmen of Outing

PHILADELPHIA, PA.—Dudley R. Atherton, Jr., Lazard Freres & Co., and G. Elwood Williams, Pennsylvania Co. for Banking and Trusts, have been appointed co-chairmen of the June 13 outing to be held by Philadelphia Securities Association at Llanerch Country Club.

Joins Cunningham Staff

Special to THE FINANCIAL CHRONICLE

CLEVELAND, OHIO — Charles D. Gentsch has become associated with Cunningham & Co., Union Commerce Building, members of the Cleveland Stock Exchange. Prior to serving in the armed forces he was with Gassman & Co. and Soucy, Swartswelter & Co.

Is Management Disfranchising Stockholders?

By BENJAMIN A. JAVITS*

Mr. Javits asserts American managements are disfranchising stockholders by beclouding their position to public. Urges stockholders' rights be upheld versus labor, government and foreign encroachment.

It is quite important at the present time and in the days ahead for the American stockholders to get more recognition of their importance by management than ever before. Ours is a political system of representative government and on the economic side so is the capitalistic system in this country. The capitalistic system has reached its flowering stage and is now subject to the same rules, ideology and instincts of American democracy as are our political entities. When a voice vote taken at the stockholders' meeting of the U. S. Steel Corporation approves the establishment of a stockholders' committee which "may be available to work with management on labor and government matters," we are making real progress.

Benjamin A. Javits

Our political representatives and political demagogues generally, from Hitler down, have always successfully made capital and succeeded—momentarily it is true but nevertheless succeeded—by being able to point with scorn to businessmen and business executives, especially of large companies, as representing nobody really but themselves. There are millions upon million of Americans who are still goaded and deluded by our own small-time politicians into believing that companies like American Telephone & Telegraph, U. S. Steel, International Harvester, National City Bank, Bank of America, Metropolitan Life Insurance Company, Pennsylvania Railroad and a host of others, are all owned and controlled by Wall Street, viz., by a few selfish and greedy bankers, especially J. P. Morgan, Kuhn Loeb and Dillon Read.

Managements Disfranchising Stockholders

Today American managements are in effect disfranchising stockholders, by not taking a very strong and very active part in making the position of the stock-

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*A talk by Mr. Javits before Investors League Forum, New York City, May 22, 1947.

Public Utility Securities

The American & Foreign Power Plan

A new recapitalization plan for American & Foreign Power was recently filed with the Securities and Exchange Commission. The old plan, filed jointly by Foreign Power and the parent company Electric Bond and Share over two-and-one-half years ago, had been "on the shelf" apparently due to an unfavorable reaction at Philadelphia with respect to the degree of subordination of the Electric Bond and Share interest.

The new plan, which is said to have the blessing of the SEC staff, goes somewhat further than the old plan in reducing the claims of the parent company, and increasing the amount of new stock assigned to public holders of the old securities. Under the old plan Bond and Share would have obtained about 76% of the new common, while under the present plan this drops to 67%. However, under the new plan Bond and Share receives slightly more in senior assets — $8,098,000 debentures compared with $6,368,700 debentures and $1,592,210 cash under the original plan.

If the new plan is approved, the capitalization will consist of $35,000,000 debenture 3½s due 1968, $91,392,000 debenture 4¼s due 1982, and 5,000,000 shares of new common stock. The debenture 3½s will rank ahead of the 4¼s and both bonds will carry sinking funds. The debenture 3½s will be used, together with some Treasury cash, to refund $50,000,000 debenture 5s, and the new 4¼s would be issued to holders of the preferred stock.

Public holders of the old securities (with dividend arrears) would be required to make the following exchanges: The 7% preferred would receive, for each share $110 debentures and 1½ shares of common. The $6 preferred would obtain $100 debentures and 1¼ shares of common. The second preferred stock would receive 1⅕ shares of common, and the present common would receive only 1/25 of a share (the warrants would be cancelled).

Pro forma share earnings on the new common stock are estimated at $2.16. When the earlier plan was published, with only one-half as many shares, pro forma earnings were then estimated at $3.37 a share. Present earnings are therefore somewhat better than in 1944 when the old plan was proposed. What would the new common stock be worth marketwise? Obviously it should be valued in relation to similar issues, but it is difficult to find any holding company stocks which are exactly comparable.

Seasoned utility operating company issues have been selling to average about 12 times earnings, and new issues about 6-9 times earnings. The following table will indicate the values for present securities under the plan, using earnings multipliers of six to eight times pro forma earnings and a value of 95 for the new 4¼% bonds:

	Multiplier 6	Multiplier 7	Multiplier 8	Recent Mkt.
Est. Value of New Com.	$13	$15	$17	
Equivalent value of—				
7% preferred	124	127	130	104
6% preferred	111	114	116	94
2nd preferred	16	18	20	16
Common	.5	.6	.7	3¾

In the calendar year 1946 the consolidated net income for the system has just been announced as $11,079,626 compared with $9,795,899 for 1945, an increase of 13%. Subsidiary revenues gained $10,911,418 while expenses rose $10,138,045. Without adequate details, however, these figures cannot be compared with the estimated pro forma earnings used above.

While the indicated tentative approval of the new plan by the SEC staff is a strong point in its favor, the usual opposition has already made its appearance. Counsel for the Norman Johnson Group of Second Preferred stockholders has termed the plan disappointing and said that they would oppose it. The Group had filed a plan of its own last October which would have treated the 2nd Preferred stock very generously (at the expense of Bond and Share).

It has been anticipated that American & Foreign Power might dispose of some of its properties, particularly those in the Argentine, where International Tel. & Tel. some time ago sold their holdings to the Peron Government for over $90,000,000. However, thus far there have been no important developments, although some of the Argentine properties were "expropriated" by the Province of Cordoba last November and the amount of compensation has apparently not yet been determined. It was also reported some time ago that the Panama subsidiary might be sold to the Government. Any property sales, if resulting in a substantial increase in cash, would doubtless require some change in the proposed plan, possibly by scaling down the amount of new bonds.

Presumably the SEC will announce hearings on the new plan at some time in the near future.

Szymczak Resumes Post at Reserve Board

WASHINGTON, June 4 (Special to the "Chronicle")—Governor M. S. Szymczak, who recently returned here from service abroad as director of the Economics Division in the Office of Military Government for Germany, has resumed his duties as a member of the Board of Governors of the Federal Reserve System. In again making his Reserve position his chief full-time activity, it is understood that Mr. Szymczak is following President Truman's over-ruling of the earnest pleas of Generals Lucius Clay and Frank Keating for the Governor's continued assistance in the critical occupation economic problems in Germany.

M. S. Szymczak

"U. S. private credit has a role to play in the reconstruction of the European economy," said Mr. Szymczak today. "This is true even in Germany, where already some progress has been made in economic reconstruction. Further and more progress must be made. Some private credit for processing of U. S. cotton is now being discussed in Germany by our cotton shippers. Other similar plans will be discussed in connection with German reconstruction. By the end of this year or early next year, private financing to aid in the over-all export-import program of the American-British Military Governments will no doubt take form.

"As the German economy is rebuilt by the Germans on a peaceful basis, and comes to make its full contribution to the rest of Europe, U. S. private credit will find increased opportunities in other European countries for sound long-range investment, helpful to world stability."

Dorsey Brown Again Heads Balt. Exchange

BALTIMORE, MD.—J. Dorsey Brown, of J. Dorsey Brown & Co., was re-elected President of the Baltimore Exchange at the annual meeting, to serve for a second consecutive one-year term.

J. Dorsey Brown

Harrison Garrett, Robert Garrett & Sons, and Benjamin H. Griswold 3rd, Alex. S. Brown & Sons, were elected to the governing committee for two-year terms, and John Redwood, Jr., Baker, Watts & Co., was re-elected to the committee for the same period.

The governing committee will meet on June 9 for organization and election of other officers of the Exchange.

Russia and Peace

By COL. HERBERT G. KING

Member, New York Stock Exchange

Col. King points out Russia, despite her apparently unfriendly attitude to U. S., wants financial asssitance rather than war. Urges public cease worrying about war, and let Secretary Marshall handle Russian situation.

Some years ago my friend, Sir Henri Deterding, of Shell Oil invited me to a conference with General Maxmilian Hoffmann, the victor over the Russians at Tannenberg and Brest-Litovsk, Arnold Rechberg, then called the German Zaharoff, Alfred Rosenberg and George Bell, the man who later staged the Reichstag fire and who was subsequently murdered by the Nazis because he knew too much. I remember the General, with great emphasis, declaring that communism was the greatest danger that had threatened Europe for centuries and that unless it was crushed, it was bound to spread. At the time, he was possessed by a wild dream of a united attack by France, Germany and Great Britain on the Soviet Union and had become a fanatic on the subject of Communism. However, his sincerity left such an impression on me that later when I had occasion to be present at some of the receptions given by the Soviet Ambassador at Washington and gazed upon the sumptuous display of food and drink and brilliant uniforms of the Soviet officers and diplomats that I had to pinch myself to see if I were not really dreaming.

Col. Herbert G. King

I imagine a lot of people today feel just as confused about Russia as I did. The basic strength of the Soviets has been that all the outside world was their enemy. Here they are now, having emerged from a devastating war, victorious over their two greatest enemies and about to sit at the peace table with their allies and friends. True, they have had to pay a very great price for their victory. Their losses have been staggering and they have endured all the ravages of war, famine and desolation. However, they now find themselves occupying a strategic position, with Stalin the most powerful human being in the world, in the driver's seat.

Strange as it may seem, Europe appears to be in a situation very analogous to that in which it found itself when the Congress of Vienna convened in 1814. Just as the key to the outcome of their problems then was to be found in the characters of Alexander, Castlereagh, Metternich and Talleyrand, so today we can get a glimpse of the future from our knowledge of the qualities of Marshall, Stalin and Bevin. The latter we can almost eliminate, because Great Britain now finds herself in a position where her interests are very closely aligned with those of the United States and it is to her best advantage to stick very close to us.

It was my good fortune during

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Present Problems of Trust Funds Investment

By J. H. WEEDON*

Asst. Vice-President, First National Bank, Chicago

Mr. Weeden explains functions of trustees and "prudent man rule" in making investments. Cites difficulties in adjusting investments in interest of both beneficial and remainderman, and gives illustration of investment of $50,000 fund. Concludes common stocks cannot afford in future any degree of value stability, and stresses need of proper timing in making investments for yield or for stability.

Since the earliest days, a trustee has been charged with a duty to protect the principal amount of the funds entrusted to his care; he was expected "to invest in such a manner as would insure reasonable security and a fair interest." Courts and legislatures thereupon, with obvious distrust of the abilities of trustees to discharge this obligation, set about to prescribe what type of investment a trustee should buy. Most States had severely restrictive laws governing the type of security legal for trusts and, for the most part, investments under the various statutes were limited to Government, municipal, and State bonds, first mortgages, and first mortgage bonds. In simple language, a trustee was charged with a responsibility on the one hand and on the other hand told how he should discharge that responsibility.

I do not believe that the concept of the basic responsibility of a trustee has changed; he is still expected to protect the corpus of the estate and to keep funds invested at a fair rate of interest. But the concept of how he shall accomplish this discharge of his duties has, it seems to me, changed very considerably.

Prudent Man Rule

At the present time, 19 States have adopted the so-called Prudent Man Rule of Investments, which is patterned on the Massachusetts rule first laid down in 1830. For you who are not conversant with the rule it may be stated as follows: "All that can be required of a trustee to invest, is the he shall conduct himself faithfully and exercise a sound discretion. He is to observe how men of prudence, discretion, and intelligence manage their own affairs not in regard to speculation but in regard to the permanent disposition of their funds considering the probable income, as well as the probable safety of capital to be invested." You can see that this precept is quite different from the restrictive precept formerly placed upon a trustee. The shackles have been removed, and the trustee is now free to consider the "trend of the times," with prudence, and — always with prudence — to select those invest-

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*An address by Mr. Weedon before the American Institute of Banking Convention, Detroit, Mich., June 3, 1947.

Sees Treasury Debt Redemptions Drain on Spending Power

National City Bank of N. Y. points out current redemptions come from government surplus and not from accumulation of excess cash reserves as in 1946, and this will result in some drain on spending, since it reduces bank deposits. Reports investment funds still in plentiful supply, but notes decline in genuine risk capital.

The June issue of the "Monthly Bank Letter," published by the National City Bank of New York, contains a review of the effects of recent Federal financing and the money market. The article says:

With the scheduled cash redemption of $1 billion of the certificates of indebtedness which mature on June 1, the Federal Government will bring its retirement of public marketable debt since the turn of the year up to a total of $7½ billion. This is more debt retirement than had been anticipated six months ago for all of 1947. The June certificate redemption should bring the total Federal debt down to $257 billion, $3 billion below the figure foreseen for June 30, 1948 in the President's budget last January.

While this $7½ billion of debt retirement falls short of the $23 billion redeemed in the last 10 months of 1946, it has a radically different meaning for the economy as a whole. The debt redemptions in 1946 were accomplished almost entirely by drawing down idle government deposits held in War Loan account with the banks; the actual intake of tax and other revenues last year exceeded the cash outgo by no more than $1 billion.

In contrast, debt this year is being paid off primarily from a cash surplus, which means with money withdrawn from the spending stream, through taxation of multifarious forms, sales of surplus property, and other receipts. Some of the debt retired is held by the general public and redemptions put the money back where it can be spent or reinvested. But the greater part of the securities paid off are held by the Federal Reserve and commerical banks and the result is a reduction in the money available for spending or investing in the hands of the people.

The Drain on Spending Power

The government's net drain on spending power has been a good deal heavier than is indicated by the amount of the budget surplus. This comes about, first, because cash income is regularly much greater than "net receipts" under the budget, and, secondly, because actual cash outgo is frequently less than total budget expeditures. The tax collected for accumulating the old age pension fund is an example of a tax which is not counted in "net budget receipts" but which still drains spending power out of the economy. The issuance to veterans of deferred leave bonds, due some years hence, provides on example of "budget expenditures" which do not represent immediate cash outlays.

In the first four months of 1947, the government cash income exceeded its cash outgo by $4.4 billion, equivalent to an annual rate

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Mortgage Loans Rise

Caution on writing off the current year as a loss in solving the housing shortage is voiced by the officers of the United States Savings and Loan League, nationwide organization of the savings and loan associations which traditionally furnish from a third to a half of the money which moderate and low income families use to build homes.

W. W. McAllister

By the end of 1946, Walter W. McAllister, San Antonio, the League's President points out, the amount of savings and loan association advances going into new home construction had passed the previous ten-year peak (reached at the close of 1941) and the first few months of the current year have been far ahead of the identical 1946 months in construction lending by these institutions.

He adds that the policy of many associations in paying out money for new construction requires that the homes be pretty far along in process before the disbursements start to be made. He therefore sees in the mounting dollar volume of reported home construction loans an indication that more homes complete enough to move into are going to be built this spring than last.

"It is certainly far too early to count 1947 as a big disappointment in the production of homes," said Mr. McAllister. "While home purchase loans by the associations continued to decline from October through February (latest month for total report), the loans to build new houses picked up in January and have been climbing.

"For the first time since figures began to be gathered on a monthly basis by the Federal Home Loan Bank Administration, the associations lent as much as $103,868,000 in the two middle winter months to finance new homes. The 1947 figure compares with $61,673,000 in the same two months of 1946, a gain of 67%.

"Even in such a non-seasonal building month as February, this year's construction loans reached $52,723,000, which was more than in March of 1946. This does not look as if the building of homes is slowing down to anything like the low point which the alarmists seem to be trying to establish. Even allowing for some rise in the cost of building since this time last year, it is obvious that a 37% increase in dollar volume has mainly to be accounted for by the fact that more new houses are under way."

In a recent bulletin to the League's 3,600 member associations all over the country, Morton Bodfish, Chicago, Chairman of its Executive Committee, said:

"Even with fewer new homes begun in April than some had hoped, it is obvious that there were enough starts to push the GI loans volume into new high dimensions for 1947."

Public and Private Construction Outlook

By THOMAS S. HOLDEN*

President, F. W. Dodge Corporation

Mr. Holden sees construction industry situation similar to that following World War I and asserts first phase of shortage has passed and peacetime production is being stepped up. Sees price stabilization approaching and says we can avoid a depression in next ten years if building expansion maintains its normal relationship to national income. Scores public construction through deficit spending and urges more municipal spending for improvements.

Recorded statistics offer a choice among three theoretically possible patterns of postwar public construction activity. Perhaps a brief summary of the three will give a clue to the one most likely to be followed in the future we now face.

Thomas S. Holden

First, let us examine two tabulations of planned postwar construction projects. From September, 1942 through May, 1945, F. W. Dodge Corporation maintained a statistical record of contemplated postwar projects in the 37 eastern States. At the end of May 1945, the cumulative total amounted to $15,746,000,000. Of this total 73% represented contemplated public construction. Dodge discontinued this particular cumulative series after May, 1945. However, the "Engineering News-Record," having started a similar series covering the 48 States in January, 1943, has continued it as a cumulative backlog series up to the present time. As of the end of February, 1947, the cumulative total was $37,515,000,000, of which 77% represented public construction.

A mere recital of these two sets of figures is adequate proof that they do not indicate either the relative magnitudes of public and private construction needs or the probable future relationships between the two, whatever value they may have as indicators of other phases of the construction picture. An extended period in which public construction dollars would outnumber private construction dollars 3 to 1 is quite inconceivable for the American economy as we know it.

Another statistical record we might examine is that of the 1930-1939 decade, a period in which public construction was a factor of much discussion and relatively high significance. According to the over-all estimates of the Department of Commerce, total construction expenditures during that decade were $48,421,000,000, of which just over $20,000,000,000, or 41.4%, covered public construction.

Even these figures must be viewed in perspective for sound interpretation of their significance. The apparently large volume of public construction in the 1930 decade, a period in which every conceivable stimulus was applied in order to attain maximum volume, was only 3% greater than the public construction volume of the preceding decade, 1920-1929. The percentage of public construction expenditures to total construction expenditures was high because private construction was very low. Private construction expenditures in the 1930 decade were 60% less than in the preceding decade. Few people, if any, would recommend the construction activity pattern of the 1930's as a model to be followed, or consider it as a likely trend for the next ten years.

There remains a third alternative pattern for examination and appraisal, the construction record of the decade 1920-1929. That decade was a postwar period. It started with a backlog of deferred construction demands, it went through early phases of reconversion, price inflation and deflation. It was a period of general expansion of the American economy. In many quite important respects it records a situation similar to the present one.

In Price Stabilization Phase

At the present moment we are in the same phase of postwar recovery that we were in in the year 1920, the price stabilization phase. We have completed the first phase of shortages and rapid stepping up of peacetime production. It is to be hoped that the postwar price inflation and major labor disturbances characteristic of early postwar recovery are also behind us. Fortunately there are a number of reasons for believing that the present phase, commodity price and construction cost stabilization, will pass without the serious deflationary aspects of the 1920-1921 depression. I consider the current recession in construction activity as a necessary adjustment of an unbalanced market situation

(Continued on page 37)

*An address by Mr. Holden at annual conference of the Municipal Finance Officers Association, New York City, May 26, 1947.

Fund and Bank Jottings

(From Our Washington Correspondent)

Two Foreign Missions visiting Washington have been in contact with the Fund and Bank. The Italians are expected to apply for a World Bank loan of perhaps $250,000,000.

* * * *

More Than One European Office of the World Bank will probably be established, President John McCloy has indicated.

* * * *

Poor Market for Recent Foreign Bonds is interpreted in two ways in Washington. One view is that it is a bad sign for the forthcoming issues of World Bank securities, while the other interpretation is the opposite: "Investors naturally prefer an obligation backed by 45 nations to one backed by just one borrower, and therefore will wait until Summer when the first World Bank offerings will be made. It is only another couple of months."

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London Site of September Meeting of Fund and Bank Governors won't be changed, according to Mr. McCloy.

* * * *

Bank Executive Director Beyen returned recently from several weeks in Europe.

* * * *

World Bank Management thinks its job no picnic. But, taking advantage of May weather, the Bank had a **picnic** in Washington's Rock Creek Park. The attendance record was nearly perfect.

* * * *

IBRD are the initials on special books of matches used by directors of the International Bank for Reconstruction and Development. Neither the fact that the matches and covers are blue nor that the initials are printed in silver is viewed as having any special significance.

* * * *

Whether the Truman Doctrine is having any effect on the World Bank's lending plans the reader is free to guess for himself. One thing, however, seems predictable: No loan to Poland or Czechoslovakia will be announced before the Bank approaches the U. S. investor with its first securities this Summer. . . . This is not to imply that from the standpoint of the Truman Doctrine Poland and Czechoslovakia are in the same category. Czechoslovakia may be described as a "borderline case."

* * * *

Colombia Is Believed Seeking Bank Loan. World Bank circles will not be surprised if Colombia one of these days formally indicates its intention to apply for a World Bank loan.

There has also been some talk about Brazil in a similar connection.

Chile's application is said to be marking time, under pressure of the bondholders, until the atmosphere clears.

Dealer-Broker Investment Recommendations and Literature

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

City of Philadelphia Bonds — Valuation and appraisal—Stroud & Company, Incorporated, 123 South Broad Street, Philadelphia 9, Pa.

Also available is a valuation and appraisal of **Railroad Equipment Certificates.**

Industry Performance in the Stock Market, 1919-1921—Memorandum and table showing action of the market as a whole and of a number of industry groups in the 1919-1921 cycle—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Ten Low Priced Dividend Paying Stocks—List of companies in diversified industries which appear attractive for growth and market appreciation — Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

Tire and Rubber Industry — Study covering the six largest companies in the field—Smith, Barney & Co., 14 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.**

Cities Service Co. — Detailed memorandum — Bear, Stearns & Co., 135 South La Salle Street, Chicago 3, Ill.

Deep Rock Oil Corporation — Memorandum — Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Eastern Corporation — Memorandum—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Colorado Milling & Elevator Co.** and **Bird & Son, Inc.**

Engineers Public Service — Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Also available is the **"Fortnightly Investment Letter"** containing information on New York, Chicago & St. Louis, Cities Service Company, Chicago, Burlington & Quincy, and Southern California Edison. A special memorandum on **The Babcock & Wilcox Company** many also be had for the asking.

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.

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.

Long Bell Lumber Company—Brochure containing complete analysis from 1935-1946 available on request to investment securities dealers, bankers and financial institutions—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

National Distillers Products Corp. — Memorandum — A. M. Kidder & Co., 1 Wall St., New York 5, N. Y.

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

Northern Pacific Railway — Memorandum — Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a leaflet of current **Railroad Developments.**

Pacific-American Investors, Inc. —Detailed memorandum — Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

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.** and an analysis of **Rome Cable Corp.**

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

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

Wilcox-Gay Corporation — Detailed memorandum — Aetna Securities Corporation, 111 Broadway, New York 6, N. Y.

Also available is a memorandum on **York Corrugating.**

The Outlook for Oil

Two Standard Oil officials tell of major problems in petroleum demand and supply over next few years. Foresees unprecedented demand but express confidence in creating new supplies.

Two Standard Oil (N. J.) company executives expressed belief on May 10 that the petroleum industry's major problem at present is to lay plans and build facilities to satisfy unprecedented demands for oil.

In discussing the outlook before a meeting of directors of the Independent Petroleum Association of America at Jackson, Miss., L. F. McCollum, coordinator of producing, and Howard W. Page, head of the Coordination and Economics Department of the Standard Oil Company (New Jersey), said that the problem was created not by lack of crude supplies, but mainly because of these reasons:

Inability to do sufficient drilling during the war years and to carry on normal replacement and expansion of pipeline and refinery capacities;

Shortages of materials for new equipment;

The fact that the postwar demand for oil products rose to record levels instead of dropping off as had been expected.

While Mr. McCollum asserted that in face of probable requirements over the next few years the oil industry is "really up against it to satisfy growing demands," he expressed conviction that it would not fail to solve its problem.

"But even with good breaks," he said, "it is going to take lots of hard work, common sense, and cooperation on the part of everyone."

Mr. Page predicted a continuing increase in demand for oil products throughout the world during the next five years. His forecast exclusive of Russia, was for a rise of 2,100,000 barrels daily by 1951, or of 30% over 1946, which would bring the total demand up to 9,400,000 barrels a day.

Howard W. Page L. F. McCollum

By areas, he forecast for the five-year period an increased demand of 23% for the United States, 32% for the rest of the Western Hemisphere, and 50% for the Eastern Hemisphere.

"New transportation and refining facilities are under way," he said, "but, with material shortages and slow deliveries, very little new capacity will become available before the end of next winter."

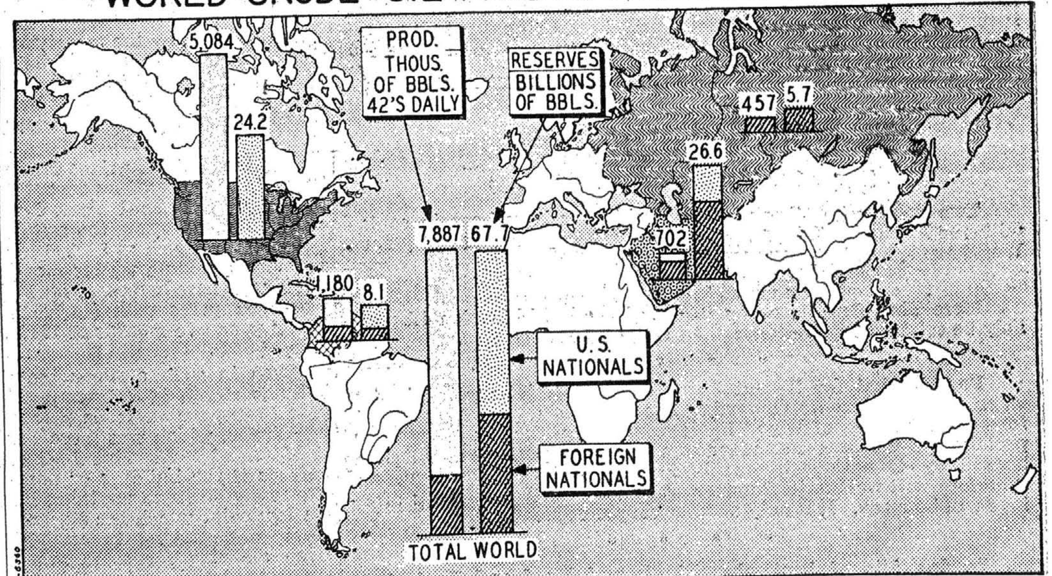
Mr. Page also pointed out that natural gas and coal, which are now competitive with crude oil as a source of heating fuels, may become competitive with crude oil as raw materials for conversion to gasoline and other petroleum products, thus helping meet the expanding worldwide demand.

Mr. McCollum, in discussing the world oil picture, said there are several fundamental differences between domestic and foreign oil developments and operations. He pointed out that the rate of development of foreign reserves—which has been very slow as compared with those of this country—is controlled by three factors: world requirements for crude oil, foreign government requirements for revenues, and concession requirements similar to lease obligations in this country.

"In practically all instances," he said, "you not only have to develop the properties but you must lay pipelines, build marine, freight, and oil terminals, construct refineries, operate tankers, and provide bulk plants and filling stations—and all for the purpose of marketing the crude. To serve these facilities, you must build highways, railroads, camps, hospitals, schools, and modern industrial establishments — sometimes whole cities—where jungles and deserts often existed formerly.

"As all this cannot be done on the spur of the moment, development of foreign crude reserves and crude production requires careful planning and a long, long time."

WORLD CRUDE OIL PRODUCTION AND RESERVES



With William C. Roney Co.

DETROIT, MICH. — George H. Williams has become affiliated with Wm. C. Roney & Co., Buhl Building, members of the New York and Detroit Stock Exchanges.

With Interstate Secs. Corp.

Special to THE FINANCIAL CHRONICLE

CHARLOTTE, N. C.—Bruce St. John has become associated with Interstate Securities Corp., Commercial Bank Building. Mr. St. John was formerly with First Securities Corporation.

Otis & Co. Offers Upper Peninsula Power Pfd.

Otis & Co. of Cleveland and associates are offering today 10,000 shares of Upper Peninsula Power Co. cumulative preferred stock 5¼% series at $104 per share to yield about 5.05%.

The company was organized in February, 1947 to acquire Houghton County Electric Light Co., Copper District Power Co. and Iron Range Light & Power Co., all serving with electricity territory in the Upper Peninsula of Michigan.

The properties are being acquired from Consolidated Electric & Gas Co., Middle West Corp. and Copper Range Co., which will be the principal owners of the new company's common stock.

Proceeds from the sale of the preferred stock and $3,500,000 of first mortgage bonds, together with the new company's entire common stock, will be used to acquire the three companies being merged into the new company.

Pennsylvania Brevities

Warner Company and Wawaset Securities Merged

At special stockholders' meetings held last Thursday, approval was given for the formal merger of Wawaset Securities Co. into its operating subsidiary, Warner Company, and the distribution of the former's holdings of 241,800 shares of Warner Company common to Wawaset stockholders in the ratio of 1.9 shares of Warner Company common for each common share of Wawaset.

Warner Company, producers and distributors of sand, gravel, central-mixed concrete and manufacturers of limestone products for agricultural and chemical use, recently embarked upon a $5,000,000 expansion program designed to increase its productive capacity by 30%. The management foresees capacity operations over the next five to seven years.

The distribution does not increase Warner Company's outstanding capitalization of 475,000 shares of common stock, nor the applicable earnings thereon which, in 1946, amounted to $2.92 per share. Present dividend policy is conservative and will probably remain so over the short term since it is the management's desire to finance its expansion program out of current earnings.

Despite a deferment of deliveries of central-mix concrete caused by the recent strike of cement mill employees along the eastern seaboard, Warner Company operations for the current year are reported to be substantially ahead of the comparable 1946 period in both gross and net The company customarily issues semi-annual reports.

The distribution of Warner Company shares formerly held by Wawaset will begin next week. Investment dealers believe that the broader market afforded by the increase of the "floating supply" of Warner common may lead the management to seek listing on the Philadelphia and New York Stock Exchanges.

* * *

Valley Forge Parkway

Construction of a high-speed dual lane highway leading from the heart of Philadelphia to Valley Forge and by-passing all heavily populated areas has won the full support of all civic and community associations along the Main Line. The State Department of Highways, by purchase, has already acquired an 80-foot right-of-way from Philadelphia City Line to Green Lane, West Manayunk, the eastern end of the proposed parkway. Leading into the city, the drive will be a continuation of the Benjamin Franklin Parkway and the West River Drive.

Henry R. Hallowell, partner of Hallowell, Sulzberger & Co. and President of the Merion Civic Association, states that his organization is "convinced that this is the only low cost entrance to the city, as virtually no crossroads would be involved and the whole territory through which the highway passes is of a rural nature involving low cost condemnation." The Main Line group declared that the proposed parkway would become part of a system which in the not distant future should include tapping into an extension of the Pittsburgh-Harrisburg Turnpike.

* * *

United Gas Improvement Co.

Pennsylvania investment dealers are recommending United Gas Improvement common stock as an under-valued equity. It is pointed out that, although the company is in substantial compliance with the provisions of the Public Utility Holding Company Act, there are a few additional steps yet to be taken. These are easy to define and do not present any difficult financial problems. The adjustments necessary are considered to be facilitated by the type and value of the company's assets and the simple capital structure which consists solely of 1,566,378 shares of capital stock.

Viewed on the theoretical basis of immediate liquidation, the underlying asset value of the common appears to be in excess of $34 per share. Net current assets plus investments in marketable securities have an estimated value of about $19 per share which is only slightly below present market price. This figure gives no consideration to the substantial value of consolidated operating properties. Over a period of time, as the company completes its simplification, it is believed that a more realistic relationship can be expected between the indicated net value of underlying assets and the market price of the stock.

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Philadelphia Co. Sweats It Out

Throughout May, hearings continued before the Securities & Exchange Commission in proceedings which will determine whether the $370,000,000 Pittsburgh utility holding company will be permitted to retain all or most of its operating subsidiaries or whether it will be compelled to reduce itself to a simple gas company utility.

During the month, Philadelphia Company was granted permission to present its own reorganization plan in conjunction with hearings on the simplification order entered against the company by the SEC on Dec. 5.

Under the company plan, it is proposed that Standard Gas & Electric Co., which owns stock control of Philadelphia Company, would be merged with the latter into a single company. The new Philadelphia Company would then become the owner of nine companies, including Duquesne Light Co., Allegheny Steam Heating Co., Cheswick and Harmar R. R. Co., Equitable Gas Co., Pittsburgh & West Virginia Gas Co., Kentucky & West Virginia Gas Co., Equitable Auto Co., Equitable Real Estate Co., and Pittsburgh Railways Co.

Philadelphia Company has thus far based its argument in favor of retention on the allegation that the nine companies which it proposes to retain constitute a closely related group, that the public interest is well served and that operating economies are substantial under unified management.

One of the insupportable "complexities" cited by the SEC in its simplification order has to do with the Pittsburgh Railways Co. now consisting of 53 corporate entities operated under trusteeship. All factions at interest are agreed that a reorganization of the railways system is an immediate "must." The one important factor yet to be determined is the extent, if any, to which Philadelphia Company claims in respect to the railways shall be subordinated to public holdings.

Straws in the wind indicate complete subordination, leaving Philadelphia Company in control and with what equity remains after public claims have received prior treatment. The big prize consists of some $23,000,000 in cash piled up by the Trustees since 1938. The present hearings, which will continue throughout June, are expected to resolve the major problems.

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Penn Mutual Life

Now entering its second century, Penn Mutual Life Insurance Co., founded May 25, 1947, marked its centenary with dinners held simultaneously in 86 cities where its general agencies are maintained. Feature of the nationwide observance was a national telephone hookup with 10,000 miles of wire tied into Philadelphia's Convention Hall, where the celebration originated in the home office.

John A. Stevenson, President, was the main speaker. Response greetings were extended by William H. Nicolls, general agent at Grand Rapids. Celebrants included 1,200 employees from the home office and a national field force of more than 2,000 men and women.

* * *

New P. B. A. President

George Porter Shotwell, President of the Williamsport National Bank, has been elected President of the Pennsylvania Bankers Association. Mr. Shotwell has spent his entire business life in the banking business, starting as messenger boy for the Steelton National Bank 38 years ago.

"The longer I am in the banking business," he said, "the more I appreciate the value of publicity and public relations between the bank and the community."

He will foster an expanded effort on the part of P. B. A. to spread the story of banking throughout the state during the coming year.

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P. U. C. Appointees

Governor James H. Duff last month filled two vacancies on the Pennsylvania Public Utility Commission, bringing the agency up to its full five-member complement for the first time since October, 1945. He named B. Frank Morgal of Camp Hill, Cumberland County, whose term expired April 1, to a new 10-year tenure and John B. Conly, Pittsburgh, to fill the unexpired term of the late Ralph W. Thorne, whose appointment would have expired April 1, 1949.

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Announcement has been made by Alan Wood Steel Co. and Jessop Steel Co. that they have integrated their technical and manufacturing facilities for the production of stainless steel sheets.

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Philco Corp.

Record first quarter sales of $50,187,000, exceeding previous high of $49,132,000 in fourth 1946 period, were announced by Philco Corp. in reporting $1.10 a share earnings for the quarter. John Ballantyne, President, said that while first quarter sales and earnings levels have been maintained so far in second quarter, increasing competition is making itself felt and "sellers' market is definitely over." He reported $1,300,000 inventory reserve against possible price declines has been established out of first quarter earnings.

* * *

Penna. Power & Light Co.

C. E. Oakes, President of Pennsylvania Power & Light Co., told stockholders at the annual meeting that company contemplates the sale of $20,000,000 to $25,000,000 securities before the end of 1948 in connection with company's $115,000,000 five-year construction program. He said operating revenues for first four months of 1947 were up 9% over year ago. Earnings for the four-month period were equivalent to 87 cents per share.

Inv. Women's Club Elects

PHILADELPHIA, PA.—The annual election of Investment Women's Club of Philadelphia resulted as follows: President, Marguerite A. Campbell, A. C. Wood, Jr. & Co.; vice president, Marjorie A. Dechert, White, Weld & Co.; treasurer, Sarah Jean Wagner Montgomery, Scott & Co.; secretary, Jane A. Crispin, Stroud & Co.

Joins Howard, Labouisse Staff

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Geo. B. Riviere has been added to the staff of Howard, Labouisse, Friedrichs & Co., Hibernia Building, members of the New Orleans Stock Exchange.

Joins Foelber Patterson

(Special to THE FINANCIAL CHRONICLE)

FT. WAYNE, IND.—Homer L. Casebere is with Foelber-Patterson, Inc., Lincoln Bank Tower.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Continental Insurance Co. and Fidelity-Phenix Fire Insurance Co. are the two top companies in the America Fore group. Their stocks, listed on the New York Stock Exchange, are prime favorites with insurance stock investors.

As of Dec. 31, 1946 the two companies compared in size as follows:

	Total Admitted Assets ($000)	Policy-holders' Surplus ($000)	Unearned Premium Reserves ($000)	Consol. Liq. Value $
Continental	157,283	112,596	34,168	66.86
Fid.-Phenix	129,876	93,694	26,775	74.57

On May 28, 1947 Continental closed at 45¼ and Fidelity-Phenix at 48. Comparative dividend yield, earning ratios and liquidating value ratios are as follows:

	Dividend Yield	Earning Yield	Market to Liq. Value $
Continental	4.4%	9.3%	.68
Fidelity-Phenix	4.6%	10.0%	.64

It will be observed that Continental is the larger company, but that at current market prices the investor gets a little more for his money in Fidelity-Phenix.

The following table compares the six year earning record of each company. Earnings are on a consolidated basis; underwriting profits and investment income are before Federal income taxes, but total net operating profits are after these taxes.

Six-Year Record of Earnings and Dividends Per Share

CONTINENTAL INSURANCE CO.

	Net Und. Profits $	Net Inv. Income $	Total Net Op. Prof. $	Dividends $
1941	1.38	2.56	3.77	2.20
1942	1.23	2.53	2.92	2.00
1943	2.69	2.53	3.82	2.00
1944	1.45	2.71	3.20	3.00
1945	1.96	2.84	3.61	2.00
1946	1.64	3.07	4.22	2.00
6 yr. Aver.	$1.73	$2.71	$3.60	$2.03

FIDELITY-PHENIX FIRE INSURANCE CO.

	Net Und. Profits $	Net Inv. Income $	Total Net Op. Prof. $	Dividends $
1941	1.87	2.89	4.52	2.20
1942	.85	2.86	3.04	2.20
1943	3.30	2.91	4.53	2.20
1944	1.60	3.09	3.64	2.20
1945	1.87	3.22	3.93	2.20
1946	1.66	3.54	4.81	2.20
6 yr. Aver.	$1.86	$3.09	$4.08	$2.20

Average net investment income of Continental covered average dividends 1.35 times; average total net operating profits, after Federal income taxes, covered dividends 1.80 times. Undistributed earnings retained in the business, averaged $1.57 per share annually, equivalent to a total of $9.42 for the six-year period, an amount equal to approximately 22.5% of consolidated liquidating value at the start of the six-year period.

In the case of Fidelity-Phenix, average net investment income covered dividends 1.40 times, and average total net operating profits 1.85 times. The annual amount of earnings retained in the business was $1.88 per share, equal to a total of $11.28, equivalent to approximately 25.5% of consolidated liquidating value at the start of the period.

These comparisons, also, are moderately in favor of Fidelity-Phenix.

From the April lows of 1942 to May 28, 1947 the comparative market performance has been as follows:

	Continental	Fidelity-Phenix
April 1942 Low	31	30
May 28, 1946	45¼	48
Appreciation	46%	60%

Including dividends disbursed over the same period the comparative gains are as follows:

	Continental	Fidelity-Phenix
Asked Price, 1942 Low	31	30
Dividends	$10.00	$11.00
Asked Price, May 28, 1947	45¼	48
Tot. gain ($)	24¼	29
Tot. gain (%)	77.5%	96.7%

It will be noted that currently Fidelity-Phenix sells 2¾ points higher than Continental, but that at the low of the 1942 market the relative position was reversed, Fidelity-Phenix selling one point below Continental. The former's market gain since 1942 has been substantially better than the latter's, and when dividends are included, the difference in favor of Fidelity-Phenix is even more favorable.

Thus, even though Continental is the larger company and both are under the same management, Fidelity-Phenix, based on the record over the past six years and on current statistics, gives the investor moderately better value for his money.

To Show Diorama of Future Philadelphia

PHILADELPHIA, PA.—In panorama and diorama, an exhibit covering 50,000 square feet and costing $300,000 will soon be shown to Philadelphians of today. The display will serve to visualize the $302,400,000 five-year program of improvements drafted by the City Planning Commission. At longer range, it will depict a magic mirror in which 300 years of Philadelphia's growth from William Penn's "Greene Countrie towne" to the tricentennial metropolis of 1982 may be observed.

E. Hopkinson, Jr.

Edward Hopkinson, Jr., senior partner of Drexel & Co. and Chairman of the City Planning Commission, whose civic improvement program will be translated in three-dimensional form, calls the exhibition "a sort of stockholders' report."

"Philadelphians will see in dramatic, understandable form the ideas and proposals of the forward-looking businessmen and public officials who are charged with directing the growth of the Nation's third city."

It is planned to open the display on Sept. 8 at Gimbel Brothers where it will remain until Oct. 15 before becoming part of a permanent exhibit. It is pointed out that its cost will amount to one-tenth of 1% of the estimated cost of improvements planned here in the next six years.

On Brennan Staff

ST. JOHN, N. B., CANADA—Archibald R. F. Read is with F. J. Brennan & Co., Ltd., 85 Prince William Street.

With W. C. Pitfield

FREDERICTON, N. B., CANADA — Vinton F. Bishop has joined the staff of W. C. Pitfield & Co., Ltd.

Peacetime Conscription Opposed

Harry Fleischman, Socialist Party National Secretary, says it is like "curing cancer with cough drops."

"When President Truman's hand-picked Commission on Universal Training proposes peacetime conscription for national security, it acts like a quack doctor trying to cure cancer with cough drops," Harry Fleischman, National Secretary of the Socialist Party, declared in a statement on June 3.

Harry Fleischman

The Socialist leader added that "The Commission warns of the horrors of atomic war and the staggering burden of decentralizing and putting underground vital industries. But instead of urging American leadership for universal disarmament to avoid atomic war, it proposes reliance upon a system—peacetime conscription—that has never in history stopped war, but has only succeeded in promoting it.

"Truman's Commission argues that universal military training would make the United Nations more effective because it 'would reassure the peace-loving countries of the world' that we are not 'stripping ourselves of the strength necessary to support our moral leadership and are thus encouraging powers that may not share our peaceful aims to plan campaigns of aggression.'

"Peacetime conscription has never promoted international understanding and peace. It will irritate but it will not scare Russia. As Hanson W. Baldwin, the nation's leading military analyst, points out: 'The men in the Kremlin are impressed not by American mass manpower which they can outmatch, but by American industrial strength, technical skill, and air and naval power.' And it will also enable Stalin to win the sympathies of millions as the alleged victim of capitalist preparations for war against the Soviet Union.

"Universal military training means international insecurity, not national security. It must be rejected by the American people for a policy of leadership for universal disarmament and an end to imperialism to give the world time to work out an international federation of cooperative commonwealths which alone can insure permanent peace."

Employees of Ward, Gruver & Co. Choose UFE As Collective Bargaining Agent, 10 to 7

Election held last Thursday second victory in as many weeks for union. Previous win was as Drysdale & Co. Union apparently changing tactics in concentrating now on smaller firms. Office Employees International Union, also AFL, seeking elections among employees of three local banks, at one of which, Lafayette National Bank of Brooklyn, Financial Employees Guild, CIO, is also seeking jurisdiction.

The employees of Ward, Gruver & Co., stock brokers of 40 Exchange Place, in a State Labor Board election last Thursday voted, 10 to 7, in favor of the United Financial Employees, AFL, as their collective bargaining agent. The victory was the second for the union in as many weeks. On Wednesday of the previous week, the union won an election, 21 to 18, certifying it as collective bargaining agent for the employees of Drysdale & Co., stock and bond brokers of 71 Broadway.

Negotiations looking to a contract were opened between the union and Drysdale & Co. yesterday, but negotiations between the union and Ward, Gruver & Co. are not expected to get under way until sometime next week.

The elections at Drysdale & Co. and Ward, Gruver & Co. seem to indicate a change in the tactics of the union. Up to this point, the union has been trying to organize the employees of the larger Wall Street brokerage houses. Now apparently, the union has decided to concentrate on the smaller firms. In the union's eyes, a contract is a cotract, whether with a large or a small company.

Among the larger firms, the union has made progress so far only at A. M. Kidder & Co. It has met defeat at the hands of such companies as Harris, Upham & Co., and Carl M. Loeb, Rhoades & Co. Of course, the union has contracts with the New York Stock Exchange, the New York Curb Exchange and the New York Cotton Exchange. In fact, it is at the various exchanges where its strength is really concentrated.

The UFE hasn't got a contract yet with A. M. Kidder & Co., though most differences between the union and the firm are ironed out. A decision in the wages question is expected to be handed down soon by Louis K. Comstock, prominent member of the Commerce & Industry Association, who is serving as arbiter on the issue. Mr. Comstock said more than a week ago he might be ready with a decision in about ten days or so but that in any event it would not take him more than 30 days to decide what to do.

The Office Employees International Union, AFL, brother organization to the UFE in the financial field but on the banking end, is pressing the State Labor Board for elections to determine collective bargaining agency among the employees of three local banks, one of them, the Public National Bank & Trust Co., with headquarters in the Wall Street district. The State Labor Board will conduct a hearing tomorrow at 10 a. m. on the union's request for an election among the employees of the Public National and its branches, and another hearing tomorrow at 2:30 p. m. on the union's request for an election among the employees of the various local branches of the Household Finance Corporation.

A hearing was held yesterday by the State Labor Board at the union's request for an election among the employees of the Lafayette National Bank and branches of Brooklyn, and another hearing is scheduled for June 13. A two-way fight for jurisdiction is developing in this case since the Financial employees Guild, CIO, rival organization to the AFL unions in the New York financial field, is likewise seeking certification as collective bargaining agent for the same employees.

Admits J. M. Frankel

Jay W. Kaufmann & Co., 120 Greenwich St., members of the New York Curb Exchange, have admitted J. M. Frankel to limited partnership in the firm.

Presbyterian Church Opposes Peace Draft

Also approves United Nations as instrument of reconciliation of U. S. and Soviet Union.

At Grand Rapids, Mich., on May 28, the General Assembly of the Presbyterian Church in the United States of America ended its 159th meeting by adopting resolutions condemning compulsory peacetime military training and approving the United Nations to be the rightful instrument for reconciliation of differences between this country and the Soviet Union. The delegates defeated a minority report favoring military service as presented by the Rev. Mark H. Penoyer of McNary, Ariz., who served as an Army chaplain and said that he was keeping faith with the many who had expressed their feelings to him before giving their lives in the war.

The Assembly then voted almost unanimously to adopt the majority report, reaffirming "its opposition to the establishment of compulsory military training during peacetime."

The Assembly recommended voluntary enlistment as the proper means of maintaining an adequate Army and Navy except in time of war, and gave its support to the Landis Bill calling for the international abolition of peacetime conscription, and in addition urged President Truman and Congress to support world-wide disarmament through the United Nations.

Jack Jones Pres. of Hartley Rogers, Seattle

SEATTLE, WASH.—Elevation of Jack E. Jones to the Presidency of Hartley Rogers & Co., 1411 Fourth Avenue, has been officially announced.

Jack E. Jones

Coincident with the promotion of Mr. Jones were those of Girton Viereck as Vice-President and Edward Hartley, Secretary-Treasurer. The firm opened an office in Seattle in 1929 in its present location in the 1411 Fourth Avenue Building. In 1932, Mr. Jones was transferred from the San Francisco office to the Seattle office where he established its trading department. He was elected Vice-President in 1934 and later, Manager, continuing to supervise its trading department.

Mr. Jones was graduated from the University of Oregon with a degree in economics in 1929. His local civic activities have included his present Vice-Presidency of the Mt. Baker Community Club. He is also one of five members of the executive council of the National Security Traders' Association.

Mr. Viereck joined the Hartley Rogers organization as a salesman in 1939 and is now in charge of the firm's municipal department. He was graduated from the University of Washington where he was President of the ASUW for the 1930-31 term.

Mr. Hartley became a member of Hartley Rogers & Co., in 1930, and is well known in the investment field in the Pacific Northwest. He is a graduate of Yale and served in World War I as an Army officer. He is a son of Roland H. Hartley, former Governor of Washington.

Bank Economist Sees End of Export Boom

D. W. Michener, of Chase National Bank, says lack of exchange and U. S. high prices are exerting restrictive influence on foreign trade.

Speaking at a luncheon meeting of the Export Managers Club in New York City on June 3, D. W. Michener, Associate Director of Research of the Chase National Bank, predicted the approaching end of the export boom which has been going on since the end of the war. Although he stated that exports in March were at the peak rate of $16 billions annually, this was due to shortages of goods abroad, and this rate could not continue because of lack of ability of foreign nations to pay in dollars as well as the high prices of American wares.

D. W. Michener

With foreign buyers exhausting their balances and gold reserves here and United States imports paying for less than half of the export totals, the only prospect of heavy foreign selling is through loans and gifts. Despite gifts abroad, indications now show that the United States is not going to equal the $7,000,000,000 total spent abroad that balanced American trade last year.

The measures to protect dollar exchange which are being taken abroad show how serious the problem is, Dr. Michener stated. He pointed out that Great Britain will have allocated all her United States loan by the end of this year and will have spent it all by the end of 1948.

H. W. Wilson Joins World Bank Staff

E. Fleetwood Dunstan, Director of Marketing, International Bank for Reconstruction and Development, announces that H. Warren Wilson, Vice-President, Union Securities Corporation, will be associated with the Bank on a temporary basis to assist the New York office in connection with the distribution of securities.

Mr. Wilson, who is a veteran of World War I, and is Chairman of the New York Group Legislation Committee of the Investment Bankers Association, has a broad background of investment banking experience. He graduated from Dartmouth in 1918 and attended the Amos Tuck School of Administration and Finance. He was associated with Dillon, Read & Co. Inc. from 1921 to 1927, and for the 17 following years was associated with Smith, Barney & Co. and their predecessor organizations in a supervisory capacity in connection with the firm's nationwide distribution of securities.

Nystrom Looks for More Competition With Severer Regulation

Marketing expert tells sales executives there is still an "urge for bureaucracy" but says business and industry will rally to support of free enterprise. Foresees higher rather than lower prices in event of depression.

Speaking on the topic, "What Is New in Selling," Dr. Paul H. Nystrom, Professor of Marketing at Columbia University and President of the Limited Price Variety Stores Association, told the Sales Executive Club in New York City on June 3, that business was in for still greater regulation, but that the people in the end will rally against the challenge of communism.

Paul H. Nystrom

With the passing of wartime controls over the economy, "the urge for bureacracy may bring on some new agency, perhaps more or less like the National Recovery Administration," Dr. Nystrom declared. "In the next few years we will see attempts at stabilization of prices, higher wages and the biggest management-labor problem this country has ever experienced."

He added that although the economic situation may be marked by the biggest labor-management problems the country has ever experienced, business and industry would continue to support the American methods of free enterprise in response to the challenge from Russia and Communism. "Americans think best and work best when under challenge," he commented.

Dr. Nystrom predicted that while costs will go down with stiffer competition the outlook is for continued high production costs. In the event of a business recession, he added, both political parties will act to take care of the unemployed first through existing unemployment compensation funds and later through a "bigger and better WPA" than in the thirties and thus high production costs and high prices will continue.

Accordingly, concluded Dr. Nystrom, increasing competition and higher costs and prices can be looked for in the months ahead.

With Lawrence Cook & Co.

Special to THE FINANCIAL CHRONICLE

CLEVELAND, OHIO — Joseph G. Russell, Jr., has become connected with Lawrence Cook & Co., Fidelity Building.

With F. J. Brennan Co.

HALIFAX, N. S.—Laurence G. Guptill is with F. J. Brennan & Co. (N. S.) Ltd., 25 George Street.

Railroad Securities

It is difficult for most rail analysts to understand the market action of a stock like Atchison, Topeka & Santa Fe in recent months. Down from a high of 99 earlier this year and a peak of 121 in 1946, the stock recently sold as low as 66. With the improvement in general market sentiment last week the stock staged a recovery to 75. Even at that level the present $6.00 dividend rate affords a return of 8% and it hardly seems likely that there is any widespread apprehension as to continuation of this distribution. Apparently investors are hesitant to recognize the basic improvement that has taken place in Santa Fe's credit standing in recent years.

As for the present and the visible future, everything is highly favorable. During the early months of the year the road's gross suffered severely from the year-to-year decline in passenger revenues. This was to be expected as in the opening months of 1946 passenger business was at a peak with the redeployment of troops at its height. Also, it is a temporary phenomena as the 1946 passenger revenues started to drop off sharply in the second quarter. Even with the decline in passenger revenues, earnings for the first four months of 1947 amounted to $4.50 a share on the common stock, a dip of only $0.52 from year earlier levels. In both March and April the earnings this year were above 1946 results.

Santa Fe has not such a pronounced seasonal pattern of earnings as many western roads. Nevertheless, the first part of the year is normally the period of low earnings, with most of net operating income accruing in the last half of the year. On the average for the 10 prewar years 1932-1941 only 10.52% of net operating income came in the first four months. If that seasonal pattern were followed this year, and non-operating income were no higher than that of last year, earnings on the common for the full year 1947 would top $33.00 a share. It is obviously highly unlikely that any such record will be attained this year. It does seem probable, however, that 1947 earnings will top the 1946 level of $13.52 a share.

Car loadings in May were about 9% to 10% above a year ago, a wider gain than that registered in April. Passenger revenues probably declined less sharply in May than in April. On this basis it seems likely that cumulative earnings for the five months at least caught up with the 1946 results and perhaps surpassed them. Traffic gains as compared with a year ago are almost certain to continue for a number of months to come at least. Santa Fe is the largest carrier in the country of winter wheat. The winter wheat crop is estimated as the highest on record and will start to move in heavy volume late this month and in July. Considering the world food situation it is expected that adequate cars to move the record crop will be made available.

With the background of earnings already accumulated and the favorable traffic outlook for the summer months it is difficult to see how earnings this year could run much, if any, below the $16-$18 a share range. Such earning power could hardly warrant any apprehension as to the continuation of the $6 dividend rate. As a matter of fact, less than a year ago, when the outlook was far more clouded, there were many investors and analysts who were looking towards the possible increase in dividend disbursements. Certainly such a policy would not be too fantastic in the light of the company's finances and debt structure.

Santa Fe has retired all of its maturing and callable debt during recent years. There are now outstanding only two bond issues (exclusive of regular serial equipment obligations) in the aggregate amount of $203,155,500. Both of the issues run to 1995, are non-callable, and carry coupons of 4%. The 1,241,728 shares of 5% non-cumulative preferred stock are also non-callable. In comparison with the relatively modest debt (reduced by more than $100 million since 1941) the company reported net working capital of $132,021,000 as of the end of March, 1947. Barring an increase in the dividend or declaration of an extra later in the year this might well be increased above $150 million by the end of the year. Obviously such a reserve is out of proportion to combined fixed and contingent charges of less than $9 million a year.

COMING EVENTS

In Investment Field

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

June 6, 1947 (Chicago, Ill.)
Bond Club of Chicago, 34th Annual Field Day at the Knollwood Club, Lake Forest, Illinois.

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

June 6, 1947 (Pittsburgh, Pa.)
Bond Club of Pittsburgh 22nd Annual Spring Outing at the Longue Vue Country Club.

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

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

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

June 13, 1947 (Connecticut)
Security Traders Association of Connecticut annual outling at the Country Club of Avon, in Avon, Conn.

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 14-18, 1947 (Canada)
Investment Dealers Association of Canada Annual Convention at Jaspar Park.

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 (New York)
New York Security Dealers Association 1947 Summer Outing at Engineers' Golf Club, Roslyn, Long Island.

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 Association 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 1, 1947 (Mamaroneck, N. Y.)
New York Stock Exchange 48th Annual Golf Tournament at the Winged Foot Golf Club.

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

July 11, 1947 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Silver Jubilee and 25th summer outing at Llanerch Country Club, Havertown, Pa.

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.

Sept. 20, 1947 (Chicago, Ill.)
Municipal Bond Club of Chicago Outing.

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

Joins Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Paul H. Watson has become affiliated with Capital Securities Co., 2038 Broadway.

With J. A. Hogle & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—David C. Dodge II has become connected with J. A. Hogle & Co., Equitable Building.

Convery With Goodbody

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Goodbody & Co., New Penobscot Building, have added Edgar L. Convery to their staff. In the past he was with Alison & Co. and Paine, Webber & Co.

With Moreland & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Hugo A. Post is with Moreland & Co., Penobscot Building, members of the Detroit Stock Exchange.

Revised Railroad Reorganizations Called For

By W. WENDELL REUSS*

Partner, McLaughlin, Reuss & Co.
Members, New York Stock Exchange

Mr. Reuss argues in favor of measure to amend Section 77 of the Bankruptcy Act as it affects railroad securities to permit creditors to receive better treatment and to protect stockholders. Points out operating and financial conditions have improved since reorganization plans were presented and urges pending reorganizations be referred back to Interstate Commerce Commission. Cites detailed changes in capitalization of leading rails undergoing reorganization.

I am convinced that the proper course now is to come out wholeheartedly in support of the proposition to so amend Section 77 as it affects railroad securities, that the still remaining "old" bondholders may be given an opportunity to receive materially better treatment—as the present, up-to-date figures would seem so clearly to make feasible.

W. Wendell Reuss

To support my conviction, let us first refer to the **Rock Island** reorganization.

On Oct. 31, 1940, the Interstate Commerce Commission approved the initial Rock Island Reorganization Plan, fixing the effective date as of Jan. 1, 1941.

In August, 1941, the Interstate Commerce Commission approved a modification of this Plan, with a new effective date of July 31, 1941; subsequently, the effective date was advanced to Jan. 1, 1942.

Then, two years later, the Interstate Commerce Commission issued a second modification of the plan, with the effective date further advanced to Jan. 1, 1944.

Herewith attached, in the form of Schedule A, is a comparison of the Rock Island's "old" capitalization outstanding as of these various effective dates, together with selected financial facts and newly proposed capitalizations as of the same dates; also given are the current figures for the "old" capitalization and selected financial data.

This schedule shows:

(1) At the time of the first effective date—Jan. 1, 1941, the road's total cash and equivalent amounted to only $10,730,804, with net working capital at $10,615,519;

As of Jan. 1, 1947, six years later, the total of cash and equivalent was $78,679,250, and net working capital $77,720,849—**notwithstanding intervening elimination of the $11,499,168 R.F.C. loan (and accrued interest thereon), a $21,364,832 reduction in receivers' and trustees' certificates (now equipment trust certificates), and $34,279,750 of pay-**

(Continued on page 22)

*Statement by Mr. Reuss before the Reed Subcommittee of the Senate Interstate and Foreign Commerce Committee, Washington, D. C., May 23, 1947.

An Eastern R. R. Consolidation Plan

By CHARLES C. HENKEL

Writer analyzes possible railroad consolidations in Trunk Line territory. Suggests a four-system plan of: (1) Pennsylvania with Norfolk & Western; (2) Chesapeake & Ohio with New York Central; (3) Baltimore & Ohio with Wabash; and (4) Erie with Nickel Plate System.

The Young plan for the Chesapeake and Ohio to secure control of the New York Central is more logical from a traffic standpoint than the former proposal to merge the Chesapeake & Ohio and the Nickel Plate. The Big Four Division of the New York Central is the natural extension of the Chesapeake & Ohio Lines to the gateway cities of Chicago, Peoria and St. Louis.

C. C. Henkel

The Central's vast network with its complete coverage of the industrial cities in the Great Lakes region, would also provide better and more direct routes for the distribution of C. & O. coal. However, any advantages which the C. & O. tail might secure from being permitted to wag the New York Central dog could be obtained by a traffic agreement between the two carriers and probably at far less ultimate cost to the C. & O. stockholders. The much larger Pennsylvania sunk several millions in the attempt to control the destinies of New Haven, Boston & Maine, Lehigh Valley, Wabash and Seaboard Air Line.

Both the Pennsylvania and the New York Central have already been developed into well coordinated systems with a most complete coverage of the territories they serve, and both are about as large as is possible for efficient and economical management. In fact, both roads have found their ownership of numerous light branch lines to be considerable of a burden in recent years, due to the changed transportation picture resulting from the competition of highway carriers.

Under the Young Three Trunk Line Consolidation Plan the Pennsylvania would be a huge system of 18,850 miles, loaded down with not very profitable rail lines having little or no relation to its main lines and from which they could expect little or no additional traffic, except at the expense of such secondary routes, which can ill afford to lose any of their present traffic if they are to render satisfactory service to the communities along their lines. Although the Pennsylvania has the largest gross earnings of any American railroad and serves the greatest traffic producing territory on earth, with the shortest and most direct routes, it is unlikely that it could get through the next depression without going into receivership if loaded down with the Lehigh, Wabash, Nickel Plate, Wheeling, etc. The Chesapeake & Ohio-New York Central would also be a huge system of

(Continued on page 21)

NSTA Notes

GEORGIA SECURITY DEALERS ASSOCIATION

The annual meeting of the Georgia Security Dealers Association was held on May 30. A business meeting was held at a breakfast at the Piedmont Driving Club in Atlanta at which time Eugene R. Black

J. Fleming Settle John F. Glenn Julian R. Hirshberg R. C. Mathews, Jr.

of New York, Executive Director of The International Bank for Reconstruction and Development, addressed the Security Dealers and a number of invited guests consisting mainly of bankers and other business executives of Atlanta.

At the conclusion of the breakfast, the Security Dealers moved over to the Brookhaven Country Club for their annual outing. Golf, tennis and other outdoor sports were participated in, followed by a dinner at eight o'clock.

J. F. Settle was re-elected President for the ensuing year, John F. Glenn and Julian R. Hirschberg were elected Vice-Presidents, and R. C. Mathews, Jr., was re-elected Secretary and Treasurer. Mr. Settle is President of J. H. Hilsman & Co., Inc.; Mr. Glenn is a member of the firm of Courts & Co.; Mr. Hirschberg is President of Norris & Hirschberg, Inc., and Mr. Mathews is Assistant Vice-President of The Trust Company of Georgia.

In addition to the four officers, Messrs. Thomas M. Johnson, Sam L. Varnedoe, Walter James and Wayne Martin were elected members of the Executive Committee. Mr. Johnson is President of Johnson, Lane, Space & So., Inc. of Savannah, Mr. Varnedoe is President of Varnedoe, Chisholm & Co., Inc. of Savannah, Mr. James is Secretary of Clement A. Evans & Co., Inc. and Mr. Martin is Vice-President of Milhous, Martin & Co.

SAN FRANCISCO BOND TRADERS ASSOCIATION—OUTING AS REPORTED BY OUR ROVING REPORTER, EDWIN L. BECK

The San Francisco Bond Traders Association outing, held May 24 and 25 at the "Agua Caliente" (Sonoma County), California, was pronounced a huge success.

The boys were out in full force and enjoyed every minute of their stay—some arriving Friday night to be sure to get started on the "fiesta" early Saturday. The activities included golf, swimming, baseball, ping-pong and relaxing under the old palm and shady oak trees.

Visitors from Los Angeles were Larry Pulliam, Weeden & Co.; Steve Turnure, Turner-Poindexter & Co.; Tommy Akin, Akin-Lambert Co.; Jack Hecht, Butler-Huff & Co.; Dick O'Neil, Fairman & Co.; and Bill Davies, Butler-Huff & Co.

Music was furnished by Armando Etiopi and Mac McCarty, who played steadily from Saturday noon until Sunday evening with just a few hours out for sleep. All the gang sang like they never sang before with these two boys leading with great gusto.

The San Francisco Bond Club also has some talented members who deserve special mention:

Ted Baker, Dean Witter & Co., a hot violin player.

Ernie Blum, Brush, Slocumb & Co.—on the piano, what class!

James M. Stewart, Wilson, Johnson & Higgins, a guitar tickler.

This threesome did some real hard work entertaining.

Bob Ross of Hill Richards & Co. and Ernie Blum of Brush, Slocumb & Co. made a piano duet that really clicked.

Houston Hill, Jr., J. S. Strauss & Co., is a dancer Arthur Murray could use to advantage, all 6 ft. and 2 in. of him.

Tony Bottari, Blair & Co., and Jack Egan, First California Co., are tops for stories and funny stuff.

Tony was asked how he ever could climb that steep hill up to his house. He replied, "I simply read the paper going up hill and before I know it I'm home!"

Fireworks kept the boys awake and no sleeping was the rule.

Clif Morrill, Walston, Hoffman & Goodwin, when ordering scotch and soda would specify "Without those fire crackers in it, please!"

Bob Bourne, Conrad, Bruce & Co., was trying hard to induce a fellow to play 18 holes of golf with him. The other trader looked so tired and said, "I don't think I could make it all around." Whereupon Bob offered to carry him the last nine holes. Such pep!

The soft ball game was played by Upper and Lower Montgomery Street teams. They didn't keep score because no one had enough fingers and toes to count the runs at 5 p.m. and besides no one gave a hoot. It was swell fun!

Earl Thomas, Dean Witter & Co., was given an egg shampoo by a fellow fun-maker. He reported it cost him exactly $5 to get that hair right again (some fun)! But Earl took it with that great smile of his that wins friends, etc.

Lou Spuller, Elworthy & Co., did a grand job as the picture-taker at this party, and deserves three cheers from all the gang.

To the owners of the hotel at Agua Caliente, Sonoma County, California, Eddie and Pattie Levitt and to Tommiee and Josie Aleccia, thanks a million for all the swell attention, meals and courteous treatment by the entire staff. It was superservice that made the party a huge success.

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago is having their annual golf party, luncheon and dinner, Saturday June 14, at the Acacia Country Club, Joliet and Wolf Road, LaGrange, Illinois. The Club has purchased a 32-inch trophy to be awarded annually to one of its own members who scores low gross.

The Club expects to have a good attendance from out of town and has gone to a great deal of effort to make this an outstanding, successful day for members and guests.

John C. Rogers of Hickey & Company is General Chairman, Hal Oldershaw, Blyth & Company is Chairman of the Golf Committee and Elmer Erzberger, Smith, Burris & Company, is Chairman of the baseball.

NSTA CONVENTION SPECIAL

As the "Convention Special" nears the Eastern Seaboard, two cities will act as hosts to the delegates, wives, and friends attending the National Security Traders Annual Convention.

On their way to Boston, The Baltimore Security Traders Association will pick them up on Saturday morning, August 9th. After breakfast, they will be taken on a cruise down Chesapeake Bay to see historic Baltimore Harbor, Fort McHenry, and the Naval Academy at Annapolis. Refreshments will be served on board followed by a seafood luncheon on the return of the ship.

Leaving Baltimore that afternoon at 4:45, they will arrive in Philadelphia at 6:15 the same evening. The Investment Traders Association of Philadelphia has arranged for rooms at the Bellevue Stratford Hotel for those who wish to depart from train travel for a night, and their schedule contemplates a cocktail party to be followed by a buffet supper with dancing and a floor show. That night convention members will sleep on board the train or at hotels, and Sunday morning there will be church services at the Philadelphia Navy Yard followed by a showing of the Navy Yard and a tour of the city. They will leave Philadelphia at noon on Sunday, and after stopping in New York for 15 minutes, will arrive at the convention city of Boston after having had dinner on the train.

Monday morning in Boston will feature the Past Officers Breakfast to be followed by a meeting of the National Committee and the official luncheon. The afternoon will be taken up by the Municipal Forum at 3 o'clock and a cocktail party at 6:30. Separate entertainment has been provided for the ladies during this time.

Tuesday morning will be "Open House" in the financial district, and Tuesday afternoon will feature a tour of historical spots in and around Boston with optional golf. Tuesday night will be free.

Wednesday will include an afternoon cruise of Boston harbor together with a shore dinner.

On Thursday, there will be various forum meetings ending with a cocktail party, dinner, and dancing.

The Registration Fee for members of N.S.T.A. will be $35, $50 for non-members, and $25 for ladies.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will celebrate its Silver Jubilee with its 25th Summer outing at Llanerch Country Club, Havertown, Pa. July 11. An elaborate program has been planned by Thomas F. O'Rourke, Stroud & Co., General Chairman, assisted by Chas. J. Brennan, Blyth & Co., Vice-Chairman. Activities include New York-Philadelphia competition in golf for the Stroud Cup; soft ball, and free-foralls in bocce and horseshoes.

Guest reservations will be handled by John I. Willer, Buckley Bros.

SECURITY TRADERS ASSOCIATION OF CONNECTICUT

The annual outing of the Security Traders Association of Connecticut will be held on June 13, 1947 at the Country Club of Avon in Avon, Connecticut.

Committee consists of: John E. Graham, Brainard-Judd & Co., Hartford, Chairman; George Eisele, Coburn & Middlebrook, Hartford; Robert Bligh, Fahnestock & Co., Torrington; L. O. Ritter, Paine, Webber, Jackson & Curtis, Hartford.

Golf, refreshments, prizes and a very well represented gathering is promised.

The committee requests that reservations be made as soon as possible.

Hargrave Chairman of Chi. Exchange Board

CHICAGO, ILL.—The Board of Governors of The Chicago Stock Exchange has announced the election of Homer P. Hargrave as Chairman of the Board.

Homer P. Hargrave

Mr. Hargrave has been a general partner of Merrill Lynch, Pierce, Fenner & Beane, in charge of the firm's Chicago office since 1940. Born in Danville, Indiana, April 30, 1895, Hargrave holds college degrees from both Central Normal College and Indiana University. After the first World War, in which he served as a captain of infantry, he began his LaSalle Street career with the firm of William H. Colvin & Company, Chicago, in 1919. In 1926 Colvin & Company became a part of E. A. Pierce & Company, which firm, through mergers and consolidation, has become known as Merrill Lynch, Pierce, Fenner & Beane.

Mr. Hargrave is Vice-President and director of the Chicago Better Business Bureau, a member and director of the Board of Trade of the City of Chicago, a member of the Chicago Mercantile Exchange, a member of the Mid-Day Club, Chicago Club, Casino, Old Elm and Glenview.

Also elected to serve as Governors for the period of three years were:

John W. Billings, Floor Member; Walter J. Buhler, Floor Member; Ralph W. Davis, Paul H. Davis & Co.; Norman Freehling, Freehling, Meyerhoff & Co.; Hulburd Johnston, Hulburd, Warren & Chandler; James J. McNulty, Ames, Emerich & Co.; Charles R. Perrigo, Hornblower & Weeks, and Robert F. Schenck, Floor Member.

Canadian Securities

By WILLIAM J. McKAY

The Canadian economy like the Canadian climate which largely governs its course, is subject to abrupt changes. In attempting therefore to draw conclusions from economic statistics covering any one period of the year the casual observer is immediately on the wrong path.

For example, by projecting the Dominion trade figures for the first quarter of this year it could be demonstrated that Canada's adverse trade balance with this country is increasing to such an alarming degree that the Dominion's exchange reserves will be almost entirely dissipated by the end of the year. This, however, is by no means the case. During the first quarter of the year it is normal that Canadian imports remain on a high level while exports are at their lowest ebb.

On the other hand during the second quarter, spring thaws release a mighty avalanche of Canadian exports which could not move during the winter months. Moreover at this time the Canadian winter season rise in imports commences to diminish. The situation is further improved during the summer months by the Dominion's great invisible export—the tourist traffic. In this instance also there is the same characteristic of sudden reversal. For the most part Canadian travel in this country is concentrated in the winter months whereas the movement in the opposite direction mostly takes place in the short summer season. Thus during the coming months the appearance of the Canadian situation can undergo another somewhat bewildering change.

The Canadian free dollar market which constitutes the Canadian economic barometer in this country is consequently subject to extreme fluctuations. In the past week in addition to the adverse influence of the March trade figures there was the unexpected announcement of the redemption of $64 million Montreal Light Heat & Power bonds, a portion of which is in the hands of U. S. holders. As a result the free dollar which had just commenced to register the effects of the early tourist demands reacted violently from 7¼% bid to 10% offered.

In view of the attractive discount, the bulk of the tourist traffic purchases this year should be effected in the free market. Consequently this heavy volume of demand concentrated in the space of a few months is likely to cause another abrupt turn in this market. This erratic behavior of the Canadian unofficial dollar is not only disconcerting to the investors in Canadian securities in this country, but is also detrimental to Canadian interests. In addition to the impairment of U. S. investor confidence the failure on the part of the Canadian authorities to control the course of the free dollar will result this year in a loss of valuable U. S. dollar exchange. Although the unofficial market was originally devised for tourist demands and capital transactions between non-residents only, there have already been occasions when Canadian official dollars have been supplied to this market. Consequently any official intervention in the opposite direction would at times be not only logical but also beneficial to Canadian and U. S. mutual interests.

During the week the weakness of the free dollar following the Montreal Light Heat & Power redemption announcement caused a sympathetic decline in Dominion internals. In the external section of the market there was an almost complete absence of activity and price changes were negligible. As a result of continuing rumors concerning the price of gold, Canadian gold stocks were in steady demand.

Julien Collins Nominated to Head Investment Bankers Association of America

Julien H. Collins, President of the Chicago investment banking firm of Julien Collins & Co., has been nominated as the next President of the Investment Bankers Association of America, it was announced by Edward Hopkinson, Jr., Drexel & Co., Philadelphia, President of the Association. Named with Mr. Collins were the following nominees for Vice-President: Hazen S. Arnold, Braun, Bosworth &

Julien H. Collins

Hazen S. Arnold

Robert W. Baird

H. H. Dewar

Carey S. Hill

Laurence M. Marks

Co., Toledo; Robert W. Baird, The Wisconsin Co., Milwaukee; Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio; Carey S. Hill, Hill, Richards & Co., Los Angeles; and Laurence M. Marks, Laurence M. Marks & Co., New York.

Nominations, made by the board of governors of the Association, are considered tantamount to election in the I. B. A., which will act on the ticket at its annual convention scheduled for November 30 to December 5 at the Hollywood Beach Hotel, Hollywood, Florida.

Mr. Collins served as a governor of the Association from 1940 to 1943. Then in November 1943 he was elected a Vice-President and has been returned to office each year since. He has also served since 1943 as Chairman of the Education Committee, which inaugurated and has been in charge of the Association's program for recruiting and training youg men for the investment banking business. In addition, he has served as Chairman of the Membership Committee, on the Finance Committee, and as Chairman of the Central States Group of the I. B. A.

Following service as an ensign in the Navy during World War I, Mr. Collins graduated from the University of Illinois with a B. S. degree in 1919. He first became associated with the Harris Trust and Savings Bank, Chicago, where he remained from 1919 to 1935, serving as Manager of the bond department from 1931 to 1935. In 1935 he became a Vice-President and director of Harris, Hall & Company, Chicago investment bankers, and continued in that capacity until 1945, when he organized and became President of Julien Collins & Company.

Eccles Favors Federal Reserve Guarantee Of Term Loans

Tells House Banking Committee this type of financing is needed by small business and would not bring Reserve Banks in competition with private banks. Expresses opposition to tax reduction on ground it is inflationary and also urges end of Reconstruction Finance Corporation.

Chairman Marriner S. Eccles of the Federal Reserve Board appeared before the House Banking and Currency Committee on June 3 in support of House Bill 3268 which would substitute for the current authority of Federal Reserve Banks to make direct loans to business a provision which would enable the Reserve Banks to guarantee in part term loans made by chartered banks to small and medium size businesses. In the course of his testimony, Chairman Eccles denounced the tax reduction bill as inflationary. He also expressed opposition to the theory that higher interest rates are an anti-inflation remedy, and advocated abolition of Reconstruction Finance Corporation.

Marriner S. Eccles

His formal statement to the House Banking and Currency Committee follows:

I am glad to have an opportunity to appear here this morning in order to urge the passage of H. R. 3268.

The bill has two sections. The first one repeals section 13b of the Federal Reserve Act and provides for the return to the Treasury of approximately $139 millions that was set aside from the gold increment to enable Federal Reserve Banks to make direct loans to industrial and commercial businesses. The second section of the bill substitutes for the direct lending authority a provision which would enable Federal Reserve Banks to guarantee in part loans by chartered banks, particularly to small and medium-size businesses that need capital for periods up to 10 years.

It is important to emphasize that the principal purpose of the bill is to make term loans especially to smaller businesses for the purpose of providing them with necessary capital that they could not otherwise obtain. It will fill a gap in private financing that now exists in enabling these enterprises to obtain essential financing. The costs of going to the capital markets for small business are prohibitive. Likewise, many banks properly feel that they cannot extend some term credits for from five to ten years without some protection as provided by this bill. It amounts to a form of spreading the risk by providing insurance for a fee. It is not the purpose of this bill, however, to provide guarantees for either short or long-term financing which banks can and should extend without assistance.

The basic need of the smaller, independently owned business enterprises is for long-term funds. Some businesses need funds for modernization of plant and equipment and additional facilities. The need also arises from the sharp increase in prices and greatly expanded volume of business resulting in a much larger volume of accounts receivable and of inventories. Because of these various factors many enterprises whose financing needs have ordinarily been met through current borowings now need a funding of their short-term obligations into a term loan.

Need for Small Term Loans

Owners of small enterprises, as a rule, prefer to obtain funds on a loan rather than on an equity basis because they do not wish their stock ownership to be diluted or to run the risk of losing control of the business. Term

(Continued on page 43)

ABA Spokesmen Oppose Guarantee of Loans

Earl R. Muir and Kenton R. Cravens tell House Banking Committee banks are capable of meeting credit demands, without Federal aid. Oppose government engaging in banking business.

On June 4, two spokesmen for the American Bankers Association appeared before the House Committee on Banking and Currency in opposition to H. R. 3268, which would give the Federal Reserve Banks authority to guarantee loans of chartered banks up to 90% and for as long as a period of ten years when made to private concerns and individuals. At hearings of the Committee on the previous day, Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System strongly urged the passage of the measure.

Earl R. Muir

Kenton R. Cravens

Mr. Earl R. Muir, President of the Louisville (Ky.) Trust Company and Kenton R. Cravens, Vice-President of the Mercantile-Commerce Bank and Trust Company of St. Louis were the two ABA spokesmen, and both pointed out the dangers of the government engaging directly or indirectly in the banking business.

"The American banking system," Mr. Muir told the Committee "has the facilities, the funds, the desire and the willingness to meet the credit demands of this nation. To superimpose on these adequate facilities agencies for governmental guarantees of credit will do much to destroy the initiative of the individual small businessman and may ultimately lead to the complete destruction of our system of private enterprise."

Mr. Cravens added to this "We are opposed to government banking on the grounds that it uses tax money free of charge and in turn pays no taxes and therefore represents an unfair advantage on a competitive plane, and more important it is the first step toward the nationalization of our banking system and the end of free enterprise."

Congressional Survey Reports Falling Prices and High Wages

House-Senate Committee "on the Economic Report" releases summary of a questionnaire on business trends this year. Bulk of replies show expectation of mild recession.

A Congressional Economic Committee, under Chairmanship of Senator Robert A. Taft (R.-Ohio), issued on June 3 a summary of the results of a questionnaire sent out through Dun & Bradstreet to leaders in manufacturing, finance, labor, farmers and distributors, inquiring into the present economic situation and trends. According to Sen. Taft, the purpose of the inquiry was to enable the Committee to form "some idea of what economic trends are, whether they are dangerous, whether they look toward greater or less prosperity, and if toward less prosperity, what can be done about it."

"It was felt," said Sen. Taft, "that men engaged in any industry should be good authorities on the future of their own industry. We hope this survey will be of assistance to us when we begin hearings."

According to the survey, there was a majority opinion that between now and the end of the year, prices of most goods will fall but wage rates will rise. A majority held there would be a slight decrease in employment, a decrease in hours worked per week, higher inventories, greater plant capacity, and reduced profits.

Construction costs were reported as preventing maximum employment, while high food and raw materials prices prevented drop in living costs.

As to the tenor of the replies, 60% from manufacturers of producers' goods predicted increase in net sales, 52% expected an increase for their industry and only 37% an increase in general business; 61% of consumer goods producers expected increases in their businesses.

Reports from labor leaders were more pessimistic than those from business. Most groups, outside of labor, favored raising rent ceilings, reducing Federal aid to housing, eliminating Federal support of farm prices, reducing income taxes and reducing public works expenditures.

Senator Taft asserted the inquiry indicates "talk of a recession is due more to external propaganda than internal evidence."

He reported that his Committee on June 23 would start hearings on the general economic situation, including wage levels and price trends. These hearings are scheduled to last several weeks.

New York Stock Exchange Weekly Firm Changes

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

William H. Hartnett, Edward H. Morfeld and Morris M. Moss retired from partnership in Friedman, Brokaw & Samish, St. Louis, on May 31.

Henry C. Keenan, a member of the Exchange, withdrew from partnership in Edward A. Viner & Co., New York City on June 2.

Alfred P. Parker, member of the Exchange, died on May 28.

Transfer of the Exchange membership of Frank A. Shea to Frank A. Shea, Jr., will be considered by the Exchange on June 12.

Record Attendance Is Forecast for Outing

The Bond Club of New York is prepared for a record attendance of Wall Streeters at the annual Field Day which will be held on Friday (June 6) at the Sleepy Hollow Country Club, Scarborough, N. Y. According to William G. Laemmel, Chemical Bank & Trust Company, Chairman of the Field Day Committee, the turnout for the event is expected to surpass that of last year which marked the revival of the Field Day after a wartime five-year lapse.

There is particular interest this year in the "Bawl Street Journal," the club's humorous newspaper, which will be distributed at the outing. Those who have had an advance look at the paper declare it is the best edition ever printed with business, financial and political "news" and comment handled with spicy and sparkling satire. This year the "Bawl Street Journal" is on public sale and may be ordered in advance at $1 per copy from Norman Smith at Merrill Lynch, Pierce, Fenner & Beane.

The Field Day program includes the usual elaborate program of sports, including golf, tennis, softball and horseshoe pitching.

Gerald J. Weir With L. D. Sherman & Co.

Gerald J. Weir has become affiliated with L. D. Sherman & Co., 30 Pine Street, New York City. Mr. Weir was previously utility trader for Amos Treat & Co.

Roy Chapin, Others Join R. C. O'Donnell

DETROIT, MICH.—Roy F. Chapin, member of the Detroit Stock Exchange, Charles J. Boigegrain, Edward R. Gaynor, and Edward C. Smith have become associated with R. C. O'Donnell & Co., Penobscot Building, members of the Detroit Exchange.

Roy F. Chapin

Mr. Chapin was formerly partner in Chapin & Co., with which the others were also associated.

George W. Ward Joins Staff of Ward & Co.

George W. Ward has become associated with Ward & Co., 120 Broadway, New York City. Mr. Ward was formerly manager for Amos Treat & Co.

Mutual Funds

By HENRY HUNT

"Dollar Averaging"

Most stock market technicians are bearish today. A year ago, at the top of the market, many of these same price prognosticators were bullish. They were wrong then—possibly they are right today. Yet there is a surprising lack of unanimity among their current predictions. Some forecast an extreme low for the Dow-Jones Industrial Average of 125 to 135, more are in the 135-150 bracket, while others pick about 155 for the low. A few, your correspondent included, believe that we saw the the low point of the market on May 17, when the Dow-Jones Industrial average closed at 163.21.

Assuming that one of the above groups is right and that stock prices rally substantially after they hit bottom, the present would appear to be a good time for the investor with surplus cash to start "dollar averaging."

"Dollar averaging" may be defined, for the uninitiated, as the investing of the same amount of dollars periodically in the same security, thus enabling the investor in terms of acquired shares, to make his larger purchases at low prices and his smaller purchases at high prices.

In actual practice, the investor with $10,000 in surplus cash today could invest $1,000 monthly over the next 10 months in a security that fluctuates with the general market and be pretty sure of obtaining his shares at a fairly low average cost.

"Dollar averaging" works best in a volatile issue or in an investment fund comprised of low priced common stocks which inevitably moves faster, both up and down, than the Dow-Jones Industrial Average. For the more conservative investor, however, "dollar averaging" could well be applied to the purchase of a balanced fund or a fund designed primarily for income.

Chesapeake and Ohio Sets Pace

Full page ads of R. R. Young's C. & O. Railroad titled "Why the Railroad Can't Afford **Not** to Modernize!" made good reading last week for owners of railroad equipment shares. Excerpts from the ad follow:

"The C. & O. is replacing every old sleeping car, day coach and diner, on all our main lines, with modern streamlined cars.

"Last August one of the C. & O. lines, the Pere Marquette, installed two ultra-modern trains on its run between Detroit and Grand Rapids. Since they have been in operation the new trains have carried **85% more** passengers than old trains carried over the same route during the same period of the previous year—when traffic was still swollen by war emergencies. In less than four years, at the present rate, the increase in passenger receipts will equal the total cost of the trains!

"Modern equipment is not a luxury that only a few fortunate systems, like the C. & O. can afford. Even a bankrupt railroad can borrow money today to buy such equipment at 2% interest."

THUMBNAIL SKETCH—NO. 1

Massachusetts Investors Trust

Organized in 1924—less than a generation ago—"M.I.T." ranks today as the oldest and largest of the mutual or "Boston type" funds. Partly as a result of its size (total assets close to $200,000,000), it also affords the lowest annual expense ratio of any fund in the business—less than one-third of 1% last year.

"M.I.T." is a common stock fund and follows a policy of being close to 100% invested at all times. Its portfolio leans toward equities of the more conservative type.

Massachusetts Investors Second Fund, with assets of about $15,000,000 is under the same management. Portfolio is similar to that of "M.I.T." but a minor portion of assets is invested in small, relatively unknown companies. Cash holdings at year-end (17.8%) were also larger.

"M.I.T." is currently offered around $26 a share to yield nearly 4½%, based on payments from investment income alone during the past 12 months. The first quarter 1947 payment was 27% larger than a year ago, as a result of increased dividends on the underlying stocks.

Wellington Portfolio Changes:

In an "Interim Investment Report" Wellington Fund comments on its portfolio changes during the past couple of months. Increased common stock purchases were made in the following issues.

Gulf Oil
Standard Oil of Indiana
Standard Oil of New Jersey
Commercial Credit
C. I. T. Financial
Great American
Fidelity Phenix Insurance
Continental Insurance
Continental Cas.
Westinghouse
DuPont
North American Co.
Standard Brands
American Tobacco

Initial purchases were made in United Airlines, Eastern Airlines Texas Co., American Insurance of Newark and General Public Utilities.

Stocks sold on balance included:
Youngstown Steel Door
Deere & Co.
Bankers Trust
National City
Kennecott
A. O. Smith
Corn Products
Rayonier

As of May 21, the company's $39 millions of assets were divided approximately as follows: Cash and Governments 29%; Investment Bonds & Preferreds 21½%; Common Stocks 40½% Appreciation Bonds and Preferreds 9%.

Notes:

Captioned "Chester in Wonderland" **Selected Investments Company** of Chicago states, "Chester Bowles thinks we can avert depression by rolling back prices 10% & increasing wages 15c an hour."

Distributors Group has a new folder on "Dollar Averaging" and recommends its application to **Investing Company Shares** and **Aviation Shares.**

The I. C. A. Distributors have a new folder showing the 13-year record of **Investment Company of America.**

"Trust and Estates" Magazine is running a series of five articles on Mutual Funds written by Alec B. Stevenson.

Is Management Disfranchising Stockholders?

(Continued from page 7)

holder very clear to the American public. This proposition divides itself into several parts:

(a) What is the attitude of American management towards stockholders?

(b) What is the effect of that attitude within the United States, politically and economically?

(c) What is the effect outside of the United States, politically and economically?

As to question "a," there are three groups of managements:

One is the group of managements that understands fully the value and importance of giving the greatest freedom and play to stockholder relationship.

The second is the group that does just enough not to disfranchise the stockholders.

The third is the group that all but keeps the stockholders from voting.

This last group, although I have no figures, is in the minority. The middle group is in the majority and the first group is very much in the minority. My plea is to the middle group and to the third group. The middle group must recognize and very soon that the greatest help they can give to the maintenance of the American system and way of life is to act on the principle that every large public corporation is a part of the democratic machinery of this nation.

It often surprises me to see businessmen quite anxious to keep the competitive system alive because they want the lift of challenge, of pressure, of being watched. But with regard to stockholders, they want to be monopolists of power. Most managements would be very much better off if they gave more details of their business to stockholders and brought stockholders more into the business of the company, so that the stockholders could give real aid to managements. The day of corporate managements standing alone is gone.

Managements Have Missed the Boat

Managements have missed the boat, time after time, in matters involving governmental regulation and control and in matters involving their relationship with labor by not enlisting the aid of stockholders. It is inconceivable that a company like the A. T. & T. with a stockholders' committee at its elbow, representing 700,000 stockholders, would have as much trouble with its labor people as it recently did. It is inconceivable that that could have happened in the coal or railroad situation or in the electrical industry, or in the steel industry or other industries where serious strikes have done tremendous damage if managements tied their stockholders to themselves effectively. To that extent the stockholders have been disfranchised. I cannot use the word "disfranchised" in its technical sense. It must be used in its broad sense.

Must Deal With Labor

There is one other thing particularly that I wanted to mention. Take the building industry today—which is almost flat on its back. There are millions upon millions of stockholders and security holders interested in the building of homes and in real estate. Every policy holder, every steel company stockholder, in fact there is not a stockholder in any company, who is not interested in this situation. If they were all organized by management, for instance, to make a demand upon the labor people who are engaged in the building industry, asking them on a man-to-man basis to cut out the featherbedding which

A. M. Kidder Acquired Cohu Florida Offices

A. M. Kidder & Co., One Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, announce the acquisition from Cohu & Torrey of all of that firm's Florida offices, which are located in St. Petersburg, Orlando, Tampa, Fort Lauderdale, Clearwater Miami, Sarasota, Fort Myers Lakeland and Deland. Charles Edwin Warner and Albert Roberts, Jr. of Cohu & Torrey, who are responsible for the development of the Florida offices, become general partners of A. M. Kidder & Co.

There will be no change in the personnel of the Florida offices Direct wires will be maintained to the principal Kidder offices in New York, Montreal, Detroit, Bridgeport, Conn. and Burlington, Vermont.

they have been engaged in for years and to begin to produce at least 33⅓% more for the money they get, we would have a terrific building boom in this country that would last for years and years. This situation cries out to high heaven. Imagine millions of security holders not only talking directly to labor and the labor people but demanding from Mr. Truman and all other government representatives that this featherbedding stop and we get down to work in this country. Believe me, labor would listen and do a day's work. After that we need worry very little about our domestic problems.

For Protection of Foreign Interests

My family owns stock, for instance, in the Standard Oil Company of New Jersey, one of the best-run and operated companies in the world. It is certainly in the number one bracket that I just referred to and yet I just had to write to them because I received their annual report, in which they speak of the company property in Hungary and Rumania having been regained merely under nominal control. We know that the Governments of Hungary and Rumania are still under the domination of Russia. I wrote asking why it is not practical for a committee of the stockholders representing hundreds of thousands of Americans to be appointed by the management to aid the management in making representations to either the Hungarian, Rumanian or Russian Governments concerning the property. I believe that it would be far more effective if some janitor who owned two or three shares of Standard Oil of New Jersey, or a taxi driver or his wife who owns five shares or a textile worker who owns ten shares or a colored porter who owns one or two shares, to identify their interest with that of the Rockefellers or the President and Chairman of the Standard Oil of New Jersey. That would be far more effective than sending some company representative or officer alone to the Hungarian, Rumanian or Russian Governments. It would be equally important to have this committee available to the management in dealing with our own State Department in a situation of this kind.

As a friend of Standard Oil of New Jersey management, I hope it will not be considered too critical when I illustrate the point that even that management, by not using fully the ideology and the fact of representative government in industry, is in effect disfranchising stockholders of American corporations. I am certain that this is furthest from the thought of the management of Standard but nevertheless shows that even the best management in this country is still not using the power and prestige which only its stockholders have because they are the masses, for the benefit of the company and the country.

Distrust of Democratic Process

As to group 3, that is an easy proposition. There are too many managements, although they are in the minority, that do not trust the democratic process. They are too fearful of stockholders. They want to get stockholders' annual meetings over with too quickly. They are often trying to work out some scheme by which the stockholders could have as little to say as possible and have as little information as possible. This statement takes into consideration that it is only in recent years that many of our individually owned companies have become elective businesses or public corporations.

As to the main point "b"—I do not have to stress the fact that the Investors League was organized for the purpose of making the stockholders of American corporations as effective in behalf of American managements as much as in behalf of any other American groups. The Investors League will fight for a fair relationship between business and government, between business and labor, between one business and another. Our principle is that no group can prosper at the expense of another. For instance, consider the unfairness of some of the tax laws, as far as business is concerned. Or take the matter of too much government regulation and control of business. Only the number of voters found in the ranks of investors can be counted on to support needed changes. The stockholders and security owners of the country must become articulate. The failure of management to recognize the importance of enlisting and mobilizing stockholders to get justice from the government or labor or any other group is in effect disfranchising the stockholders by the action or inaction of such managements.

Foreign Protection

As to point "c" (the foreign situation)—I have already illustrated that by discussing the Standard Oil, Hungary and Rumania situation. But it all goes much beyond that. We are going to meet the ideological pattern of Russia and totalitarianism in a great many parts of the world. We are going to have to invest billions and possibly tens of billions in various parts of the world and it must be a paramount element of our program to make it exceedingly clear that the billions that are going to be invested and the billions already invested are the property of millions upon millions of Americans, directly and indirectly. There are tens of millions of Americans who have an interest in every dollar that is or is to be invested abroad and it is not Wall Street or monopoly capitalists or economic royalists or business war-mongers who are putting their money and American know-how for purposes of exploitation into various parts of the world. That fact must be so clear to the people around the world that even Pravda and Isveztia could not deny it. Every business mission abroad might well have some representative of the little stockholders going along just for impressive public relations if for no other reason.

These people around the world must know that the Americans are clubbing their savings to show their faith and belief in "one world." It is the managements of American business that have it in their power to fully enfranchise millions upon millions of Americans who own American industrial securities to become a great reservoir of power and influence for American industrial management itself. American industrial management in war was the hope of the world. In peace, it is in the hands of American business management, supported by its own electorate, to also be the hope of the world. For without American production, American machinery, American money, American "know-how," the world may disintegrate or blow up. With these, the world is destined for peace, prosperity and security in our time. American management will not come into its own until it enfranchises its own electorate in the fullest sense and the world knows that when it speaks, 50 million Americans are also doing the talking.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Prices of Treasury obligations continue to follow the usual pattern. . . . Periods of strength occur from time to time, then the authorities sell securities, the uptrend is stopped and quotations settle back into the trading range. . . . By this procedure the powers that be have kept the market well in hand and there are no indications yet that there are any changes contemplated in this course of action. . . . Demand for certain issues is strong and the money managers appear to be the only sellers of these securities. . . .

It should be borne in mind that thus far the market has been an investment affair, with buyers putting funds to work in order to get income. . . . There has been very little if any buying for speculative appreciation purposes. . . .

The fact that purchases are for return and not appreciation, undoubtedly makes it easier to control the market because investors are not inclined to chase prices up, since they know that the money managers will make securities available in order to keep prices from moving ahead too fast and too far. . . .

CEILING ON PRICES

There is no doubt that the authorities have put a ceiling on prices which will be in force as long as they supply the market with needed issues. . . . There is also no question about their willingness to use other measures, such as changes in short-term, in order to keep prices in line, if there be need for such action. . . . With full realization of all of the power that the monetary authorities have at their disposal, the opinion is more prevalent now that somewhat higher quotations for Treasury obligations are in the making. . . .

This appreciation, according to some money market analysts, will come first in the restricted bonds, because of the demand that exists for these securities among non-bank investors. . . .

While the greater part of the buying will be in the longer-term obligations, there will be purchases of short-term securities, in order to meet unexpected conditions that might develop. . . .

BANK OBLIGATIONS

Whether a buoyant trend with a tendency to advance slightly on the part of the ineligible bonds, would have a favorable effect on the bank obligations, is open to some question. . . . Sympathetic price movements have generally taken place in the past among the two issues. . . . However, because of the pressure that can be brought to bear on the commercial banks by the money managers, there could be a sharp curtailment in their ability to buy Treasury obligations, especially the longer-term securities. . . . This would have a noticeable effect upon prices of the eligible obligations. . . .

However, the question of economic trends comes into the situation at this point and with maladjustments developing, there is considerable question in the financial district, as to whether the powers that be will continue deflationary policies. . . .

It is being pointed out that there could be temporary modifications in the program, until there is more evidence available as to where the curve of business is going. . . . Changes of the type that would leave more credit available to the member banks, would no doubt mean that bank eligible issues would have a trend not dissimilar to that of the restricted obligations. . . .

FAVORITES

The risk factor is increasing and this means that commercial banks, especially the smaller institutions are rearranging portfolios to meet the new conditions. . . . Many of these banks are for all practical purposes savings institutions, and despite the need for income, they are disposing of corporate obligations, which give a larger return than Treasury securities. . . . By putting their house in order and investing these funds in governments, they will be in a position to take advantage of the mortgage market when it opens up in the future. . . .

The 2¼s due 1956/59 appear to be the first choice of these institutions, with the 2s due 1951/53 coming in for some buying, as a part of the funds goes into certificates. . . . The longest bank eligible has been bought but this issue does not seem to be nearly as popular with the smaller banks, as it was in the past. . . .

Although savings banks continue to add to their holdings of the 2¼s due 1959/62, reports indicate that some of these institutions are now taking on the 2½s due 1962/67 as well as the 2½s due 1963/68. . . . A somewhat larger return is obtained, with an eye probably toward 1952, when both of these obligations become eligible for purchase by the commercial banks. . . . There were also reports that a sizable amount of the Vic. 2½s were taken out of the market last week by the savings banks. . . .

Life insurance companies continue to nibble at the longest restricted bonds with some buying of the 2s due 1952/54 being done by these institutions. . . .

WORLD BANK ISSUE

The World Bank bonds, according to most money market followers, will go like hot cakes with the sale of these securities being largely a matter of allotting the bonds that one gets. . . . Some pressure is being brought, it is understood, to increase the amount of the original offering to as much as $500,000,000, because of the large demand and in order to improve the marketability of the bonds.

Robert Sully to Be Partner In Carreau & Company

Robert F. Sully will be admitted to partnership in Carreau & Co., 63 Wall Street, New York City, members of the New York Stock Exchange on July 1. Henry M. Barlow and Charles V. Benton, a member of the Exchange, will retire from the firm as of June 30.

Melady & Co. to Admit

Adelaide T. Driscoll will be admitted to partnership in Melady & Co., 14 Wall Street, New York City, members of the New York Stock Exchange on June 16.

C. B. Richard Co. to Admit

C. B. Richard & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, will admit Walter O. Eckert and Harold Van Buren Richard to partnership on July 1.

The World Bank and a Dynamic World Economy

(Continued from page 6)

by our Congress to the British last year is proving inadequate to permit of normal tobacco imports for two reasons. First, rising price levels in this country are using up those dollars far faster than was anticipated. And, second, world economic recovery has failed to appear.

The British find themselves forced to buy essential imports with their meager hoard of "hard" currencies while the normal markets to which they sell are suffering from serious weaknesses. In many cases, her traditional customers do not have the machinery and equipment necessary to restore productive facilities.

And so, the Virginia tobacco grower—the innocent bystander—is caught in the middle. If our institution can assist Britain by helping to revive productivity in countries that are her normal markets, in Europe and elsewhere, then it is of direct interest to you and to every Virginian whether he be banker, tobacco grower or storekeeper.

The Bank is designed to play just that role. It intends to take its place in the Tinker-to-Evers-to-Chance combinations so essential to thriving international trade.

The French Loan

The Bank has already made one loan. Let's see why and for what purposes. That is the best way to examine its operations.

Because of its size and productive capacity, France is pivotal in Western Europe. Her economic rehabilitation will speed the recovery of surrounding countries and, through an expansion in trade, be beneficial to the rest of the world. In short, France is a key country in the creation of a dynamic world economy.

As a member nation of the Bank (loans are restricted to member nations) the French Minister of Finance applied for a $500,000,000 loan on Oct. 8, 1946. After careful consideration, weighing all factors, including France's potential ability to obtain the necessary foreign exchange to service the loan, the Executive Directors of the Bank, on May 9, 1947, approved a $250,000,000 30-year loan to France. The loan carries 3¼% interest (plus a commission of 1% per annum) and will be fully amortized by maturity.

Depending upon the loanable funds available to the Bank and the progress made by France in carrying out the economic and recovery program on which she has embarked, an additional application from France may be considered later this year.

But let us examine just how this first loan will be utilized. In general, it is for the reconstruction of France's war-torn economy and to finance the import of goods and equipment essential to economic rehabilitation.

Specifically, a portion of the proceeds will be devoted to the modernization of her steel industry, including a modern strip mill. The transportation system is to be improved by the purchase of locomotives and freight cars, cargo ships and canal barges, and commercial airplanes. Coal and oil, essential to industry and transport, figure largely among prospective purchases, as do industrial raw materials, including semi-finished steel products and non-ferrous metals. Under the loan agreement, the Bank will obtain full information concerning goods to be purchased with the proceeds of the loan and their utilization.

Use of Loan Proceeds

Note that the portion of the proceeds used for goods to be purchased—and this will be true of all loans made by the Bank—is to be used for goods either not now available in the borrowing country or available in insufficient quantities to revive production. Note, too, that the bricks, mortar, labor and other items essential to the recovery program are to be supplied by France herself. These items, in the aggregate, amount to a far greater investment than the amount of the loan.

Indeed, over the next four years (1947-1950) the French recovery plan envisages the investment of the equivalent of some $18,900,000,000. Of this proposed investment expenditure, 84% is expected to come from domestic resources—that is, from the savings of the French people and of corporate enterprise. The program adopted is a severe one calling for a high degree of perseverance on the part of the French people.

We, in the Bank, are well aware of the fact that the goals set may not be reached in their entirety. Yet, the will of the French people to recover economically is unmistakable. Where France has had the opportunity to speed recovery, in the rehabilitation of transport after liberation, in the expansion of the production of coal, electricity, textiles and other products, no little success has been attained.

By the end of 1946, French production had been restored to about 90% of the level of 1938 and the volume of exports to 75%. This was accomplished, however, only through external borrowing and by drawing heavily on her meager supply of gold and "hard" currency holdings in order to obtain essential imports.

This loan will enable France to continue to expand production essential to attaining a balanced economy. The French expect that by 1950, equilibrium in the transactions of the franc area with the rest of the world will be restored.

And so, in essence, loans made by the Bank are to place the tools of production which otherwise would be unavailable in the hands of people willing to work and to make the sacrifices necessary to restore their economies or increase their standards of living.

Now then, is it not apparent that a rejuvenated France with its beneficial reactions on surrounding countries will find direct reflections in the state of the British economy? And is it not just as apparent that the salutary effects on Britain will, in turn, find outlets in more pipefuls of Virginia tobacco and on world tobacco consumption?

So much for what the Bank hopes to accomplish through granting constructive loans for productive purposes. Equally important to you—since the Bank must necessarily be a heavy borrower as well as a heavy lender—is a brief discussion of the securities it will sell.

Thousands of Investors Needed

Manifestly, the task confronting the Bank is so great that it must marshal the funds of many thousands of investors if it is to perform in adequate measure. And since the United States is the primary source of the goods and equipment needed to restore or develop the productive facilities of member nations requiring assistance, it is dollars that must be obtained. Initially, at least, the Bank must raise the great bulk of its loanable funds here at home.

The debentures it will sell to investors bear but slight resemblance to the foreign dollar loans of 20 years ago. In the first place, each one of the 44 member nations has made a capital contribution and is a stockholder in the Bank. This means that a borrowing nation assumes a direct obligation to each one of the other 43 member nations as well as an indirect obligation to the holders of the Bank's debentures. This is a factor not to be regarded lightly.

Then, there is the Bank's loan portfolio behind its bonds. It is important to note that a holder of our debentures will have an investment in a pool of loans rather than in a single loan, with the strength that such a pool can give; and in back of this a bondholder can look to the obligations of the member countries to come forward, to the extent of their unpaid subscriptions, to make good any possible deficiency in the investment.

The Bank has a mandate to call upon the member nations, if necessary for the protection of the Bank's debenture holders, to the extent of four times the amount of capital they have paid in. The obligations to meet this call are several and they are absolute. The payment is to be made in whatever currency is required to meet the Bank's obligations.

Protection

In the case of the United States, this call, if ever needed, totals $2,540,000,000 (80% of $3,175,000,000—the total United States capital subscription). Such a sum should assure even the most faint-hearted investor that he will be well protected until both the Bank and the borowing countries have had fair opportunities to prove the soundness and value of the Bank's operations.

Now, may I add a word as to the type of securities that the Bank proposes to issue. Our debentures will be general obligations of the Bank. That means that they will be secured by the portfolio of the loans as the first reserve and by a special reserve of 1 to 1½% charged **annually** against each borrower for a period of at least 10 years—it can be carried longer than that if the Board of Governors decide it is advisable to do so. This fund is set apart, invested separately, and can be used only for the purpose of meeting any possible deficiencies on the Bank's own obligations. The third reserve is the 80% call to which I have already referred.

We propose that the first issue be made in two maturities, say one of 10 years and another, say of 25 years. They will be callable, at least the long-term ones will be; and they will be sold through investment dealers on an agency basis. Application has been made to list the securities on the New York Stock Exchange.

We hope to offer the bonds for sale before deep summer, if all of the many things which have to be done can be accomplished before that time.

We, in the Bank, believe its debentures will merit the close scrutiny of the most cautious of investors. We believe, further, that the Bank's operations will benefit both lending and borrowing nations directly and all member nations indirectly. The United States rightly has by far the largest stake in the enterprise. Without a dynamic world economy we cannot hope to enhance — or even maintain—our high standard of living. How well the Bank succeeds will find reflection in the lives of all of us for many years to come. It would be presumptuous of me to attempt to delineate for this audience what the Bank's success can and will mean to the citizens of the State of Virginia. But we do ask for your continuing interest in what we are doing and your enthusiastic support to the extent that you believe our operations merit it.

An Eastern Railroad Consolidation Plan

(Continued from page 14)

16,900 miles, while the less favorably located Erie-Baltimore & Ohio System would have only 13,600 miles of line.

A Four System Plan

Another arrangement in the public interest and favoring the bond and shareholders of the individual roads and which would not disturb existing traffic routes to any extent, would be to consolidate the railroads in Eastern Trunk Line Territory into Four Systems.

Pennsylvania-Norfolk & Western System—Under this plan the Pennsylvania would take over the Norfolk & Western with which it has had close and harmonious traffic arrangements for many years and also the Toledo, Peoria & Western, giving it a system of 12,100 miles. Trackage rights or acquisition of the 95 mile Toledo-Fort Wayne branch of the Wabash would complete a short route for the Pennsylvania from Detroit and Toledo to St. Louis via Ft. Wayne, Logansport and Terre Haute, shorter than the Nickel Plate line and only a little longer than the Wabash.

Chesapeake & Ohio-New York Central System—The New York Central would be merged with the Chesapeake & Ohio to form a system of 13,300 miles. But since the C. & O. of Indiana parallels the Big Four and the Toledo & Ohio Central Lines are paralleled by the Hocking Division of the C. & O., they would be assigned to the proposed Fourth Erie-Nickel Plate System in order to preserve competition. The Central Railroad of New Jersey and the Catawissa branch of the Reading are added to the New York Central to provide the eastern extension of the Central's Ashtabula-Williamsport Air Line to New York, since the Baltimore & Ohio-Reading System would use the Lehigh Valley tracks from Bound Brook in order to reach New York. Baltimore & Ohio and Reading passenger trains could use the modern Lackawanna passenger terminal at Hoboken, as both the Lehigh Valley and the Lackawanna are assigned to the B. & O. under the Four System Plan.

Baltimore & Ohio-Wabash System—The Third System would consist of the Baltimore & Ohio, Reading (except the Catawissa Branch) Monon, Lackawanna, Lehigh Valley, Wabash, Ann Arbor and Detroit, Toledo & Ironton, a total of 13,400 miles. It is true that the Lackawanna and Lehigh Valley are competing carriers, but neither line by itself is suitable as an important link in a through trunk line railroad. The Lackawanna route is the shortest between New York and Buffalo, a distance of 396 miles, but it has a series of long heavy grades running from 60 to 80 feet to the mile. The Lehigh Valley has a good low grade line from Buffalo to Wilkesbarre, but it has a roundabout route from Buffalo to New York, 44 miles longer than the Lackawanna. By using the low grade section of the Lehigh between Buffalo and Pittston Jct., Pa., and the short line of the Lackawanna from Pittston Jct. to New York, a fairly good freight route would be obtained, avoiding the series of heavy grades on the Lackawanna between Buffalo and Scranton, 33 miles shorter than the present Lehigh freight route and only 11 miles longer than the Lackawanna.

The Wabash would round out and coordinate the Baltimore & Ohio System perfectly without duplication of facilities, since the B. & O. has no direct line of its own between St. Louis and Toledo, Detroit, Cleveland and Buffalo. The proposed Lackawanna-Lehigh short lower grade joint line is included in the B. & O. System because it would provide a good outlet for the Wabash route to tidewater and since the B. & O. has no direct route between Buffalo and New York, this is a more logical arrangement than combining either the Lehigh or Lackawanna with the Pennsylvania or the New York Central with which they both compete.

Erie-Nickel Plate System—The Fourth System would be built around the Erie and the Nickel Plate. It is true that these two lines are active competitors, but there are no other two railroads which so completely supplement each other, or whose bond and shareholders would benefit so much by a consolidation. The Nickel Plate and it's subsidiary, the Wheeling & Lake Erie, would extend the Erie, which lacks feeder lines in the industrial middle west, to such important cities as Erie, Ashtabula, Wheeling, Zanesville, Lorain, Sandusky, Toledo, Fort Wayne, Muncie, Indianapolis and the gateway cities of Peoria and St. Louis. The Erie would provide the Nickel Plate Lines with the best possible low grade route to the Port of New York and to Southern New England via the Poughkeepsie Bridge. As a consolidated system the Erie and Nickel Plate would be in a much better position to compete with the other Eastern trunk lines than either could alone.

By constructing a comparatively inexpensive 66 mile low grade connection between the Nickel Plate at Geneva, Ohio and the Erie at Union City, Pa., the Erie-Nickel Plate System would have a joint low grade line from Chicago to New York, avoiding the long series of 1% grades on the Erie between Galion, Ohio and Meadville, Pa., and the heavy grades on the Nickel Plate west of Fort Wayne and east of Erie, Pa. This joint route from Chicago via the Erie to Newton, Ind., thence by 11 miles of trackage rights to South Whitney on the Nickel Plate and over the latter via Fort Wayne and Cleveland to Geneva, O., over the proposed cutoff to Union City and via the Erie to New York, would have ruling grades of less than half the 25 foot to the mile grades of the so-called water level New York Central Route, practically all the way, with the exception of two short seven mile pusher grades, and would be 46 miles shorter than the present Erie freight route. With the exception of the New York Central, all the other eastern railroads have long grades of 60 or 80 or more feet to the mile, necessitating expensive pusher service.

The Pere Marquette is added to the Erie-Nickel Plate group to give it access to Detroit and other Michigan industrial centers. The C. & O. of Indiana would provide a short route from Chicago to Cincinnati. The Ohio Central Lines and the Virginian would extend the system to Southern Ohio, the West Virginia coal fields and the port of Norfolk. The Pittsburgh and West Virginia and the Western Maryland would provide an additional route to tidewater at Baltimore via the Pittsburgh steel district. The addition of a number of short feeder lines including the New York Susquehanna & Western, New Jersey & New York, Ontario & Western, Pittsburg & Shawmut, Bessemer & Lake Erie, Detroit & Toledo Shore Line, Manistee & Northeastern and Detroit & Machinac would bring the Erie-Nickel Plate System to 10,550 miles. This system would be slightly smaller than its three competitors, but with lower grades and ton mile costs, fewer light branch lines and comparatively little expensive and unprofitable passenger service, it would have distinct advantages from the standpoint of net earnings under our system of government regulated rates which are the same for all competing railcarriers.

Bridge Lines and Terminal Companies

Bridge lines and terminal companies have not been included in this discussion, as many of them are already owned by the using roads on a pro rata basis. Operation of the numerous short lines by the larger roads with which they connect would be desirable, but the possible savings would doubtless be eaten up by the featherbed rules of the standard operating agreements.

The New England Lines

Although no more necessary than the inclusion of the three Pocahontas coal roads, consolidation of the New England lines with the proposed Four Trunk Line Systems would put an end to the long-standing argument regarding the equitable division of through rates between them. The Pennsylvania would naturally take over the New Haven's Shore Line and some of its branches. The Baltimore & Ohio could take over the Lehigh & Hudson River, the Poughkeepsie Bridge route to New Haven, the Air Line to Boston, etc. The Erie-Nickel Plate could take the Delaware & Hudson south of Albany, the Boston & Maine and the Rutland. The New York Central, which is already well intrenched in New England through ownership of the Boston & Albany, would take the Delaware & Hudson north of Albany. However, a more workable arrangement would be for the New Haven, the Boston & Maine and the Bridge Lines to New England to remain independent of each other and of the Trunk Lines as at present.

The suggested Four System Plan for consolidating the 50,000 miles of rail lines in Trunk Line territory would be very much more in the public interest and in the interest of the bond and shareholders of the individual roads and of their employees, than any possible Three System combination. In only two important cases are portions of more or less parallel lines included in the same system, the Erie and the Nickel Plate between Buffalo & Chicago and the Lackawanna and Lehigh Valley, which are both assigned to the Baltimore & Ohio System, between New York and Buffalo; but in both these cases, substantial operating economies would result from unified operation and the combined roads would be in a much better position to compete with the corresponding routes of the other three systems. There would be little shifting of traffic from one line to another. Finally, the Four Systems would be much more evenly balanced from the standpoint of mileage and gross earnings and competitive position and railroad competition between all important points would be fully maintained.

For the purpose of showing the relative organization positions of the consolidations proposed above, there follows a tabulation of mileage of each system under the Three System Plan and under the Four System Plan:

Mileage Comparisons

THREE TRUNK LINE PLAN

Pennsylvania

Pennsylvania	9,750
Norfolk & Western	2,127
Lehigh Valley	1,260
Wabash	2,394
Ann Arbor	294
Nickel Plate	1,687
Wheeling & Lake Erie	507
Pittsburgh & West Va.	136
Detroit Toledo & Ironton	464
Toledo Peoria & Western	239
Total	18,858

New York Central

New York Central	10,537
Chesapeake & Ohio	3,076
Pere Marquette	1,949
Manistee & Northeastern	112
Detroit & Mackinac	228
Lackawanna	973
Total	16,875

Baltimore & Ohio

Baltimore & Ohio	6,233
Western Maryland	720
Reading	1,330
New Jersey Central	662
N. Y. & Long Branch	38
Monon	541
Virginian	657
Erie	2,377
Susquehanna	129
New Jersey & New York	41
Ontario & Western	550
Pittsburg & Shawmut	97
Bessemer & Lake Erie	214
Detroit & Toledo Shore Line	59
Total	13,648

FOUR TRUNK LINE PLAN

Erie

Erie	2,377
Susquehanna	129
New Jersey & New York	41
Ontario & Western	550
Pittsburg & Shawmut	97
Bessemer & Lake Erie	214
Nickel Plate	1,687
Detroit & Tol. Shore Line	59
Wheeling & Lake Erie	507
Pittsburgh & West Virginia	136
Western Maryland	720
Pere Marquette	1,949
Manistee & Northeastern	112
Detroit & Mackinac	228
Toledo & Ohio Central	816
Chesapeake & Ohio of Ind.	265
Virginian	657
Total	10,544

Pennsylvania

Pennsylvania	9,750
Norfolk & Western	2,127
Toledo Peoria & Western	239
Total	12,116

New York Central

New York Central except Ohio Central Lines	9,721
Chesapeake & Ohio except C. & O. of Indiana	2,811
New Jersey Central	662
N. Y. & Long Branch	38
Catawissa Br'ch of Reading	89
Total	13,321

Baltimore & Ohio

Baltimore & Ohio	6,233
Reading except Catawissa Branch	1,241
Monon	541
Lackawanna	973
Lehigh Valley	1,260
Wabash	2,394
Ann Arbor	294
Detroit Toledo & Ironton	464
Total	13,400

H. M. Barlow & Co. To Be Formed in NYC

H. M. Barlow & Company, members of the New York Stock Exchange, will be formed as of July 1 with officers at 63 Wall Street, New York City. Partners will be Henry M. Barlow, Robert F. Meffert, and William W. Heath. Mr. Barlow was formerly a partner in Carreau. Mr. Meffert, who holds membership in the Chicago Board of Trade as well as in the New York Stock Exchange, formerly did business as an individual.

Revised Railroad Reoganizations Called For

(Continued from page 14)

ments made to creditors on account of principal and interest, among other uses of cash.

Herein is disclosed a net cash improvement, debt elimination and claim reduction totalling $135,092,196,

YET

(2) Allowable capitalization, as shown by comparison of the Jan. 1, 1941 and Jan. 1, 1944 effective dates (revised in the latter instance to Jan. 1, 1947 to reflect intervening elimination of R.F.C. claims, and other debt reduction) is $24,507,619 lower — the Jan. 1, 1941 allowed total being $351,180,912 and the Jan. 1, 1944 (revised to Jan. 1, 1947) total being $326,673,293.

(3) More than this, the Rock Island's 1946 Annual Report states that during the pendency of the Reorganization Proceedings and up to Dec. 31, 1945, the sum of $102,322,946 was spent out of current earnings for additions and betterments; in the thrice-advanced effective date-period alone of Jan. 1, 1941 to Jan. 1, 1947 estimated gross additions and betterments equalled roughly $76,000,000. In each of these cases, I stress that these substantial amounts are entirely apart from liberal expenditures for maintenance of way and equipment.

Contrasted with this showing, Rock Island's total "old" debt currently amounts to $304,597,678, on which the accrued interest equals an additional $165,977,928, making for total claims of $470,575,606, without taking into consideration the "old" issues of Preferred and Common stock.

The crux of this brief accounting lies in the following summary:

The "new" adjusted capitalization of $326,673,293 is $143,902,313 "short" or shy of treating wholly with the $470,575,606 total claims ranking senior to the "old" capital stocks.

Yet, the latest adjusted "new" capitalization is $24,507,619 lower than the initially proposed Jan. 1, 1941 capitalization, beyond which currently:

(1) Cash improvement, in the same period, was $67,948,446 and

(2) Gross additions and betterments roughly equal $76,000,000 in the same period.

The $24,507,619 lessened "new" adjusted capitalization allowable, added to the net cash increase, plus the gross additions and betterments made to property amounts to somewhat more than **$168,000,000—or $25,000,000 more** than the $143,902,313 deficiency of treatment now being experienced by those holding securities senior to the "old" capital stocks.

I am not suggesting that the "new" Rock Island capitalization be allowed to be swollen by this $168,000,000.

But, **I am** pointing out as vigorously as is possible that new legislation which would allow or provide for a **combination of some** increase in capitalization, and use of surplus funds to retire debt and claims (by call by tenders, if no other means be found), at a discount, would easily accomplish the righting of a wrong, which now is so patently manifest.

In this connection, it was only a little more than six months ago that two proposals were made, one by one of the Road's Trustees and another by the Debtor, using cash funds varying between $55,000,000 and $58,000,000; whereby interest claims and outstanding debt would be very largely reduced and more equity produced for those desiring to remain in the reorganized Rock Island securities.

With regard to the contents of the previous paragraph, allow me to refer to one of the senior Rock Island bond issues—the General 4s 1988. The claim of each $1,000 bond, including defaulted interest, after crediting the payment made in late 1945, was $1,210.86 as of the Jan. 1, 1944 effective date. The Reorganization Plan provides the following treatment per $1,000 bond against this claim:

$143.72 in new First Mortgage bonds.

$454.14 in new General Mortgage Income bonds.

$4.45 shares in new Preferred Stock.

$3.36 shares in new Common Stock.

Not quite 12% of the total claim **of this senior mortgage issue** is satisfied in new First Mortgage bonds, yet the Road recently was shown to be in the position of having available as much as $55,000,000-$58,000,000 for use in a debt claim reduction program. One of these proposals indicated that the result could equal a reduction in total claims to be treated with of $127,825,635 — a calculated elimination of $2.32 of debt claims for each $1 of cash expended.

Carrying out of such a proposal would, in my opinion, certainly permit those remaining holders of one of the senior Mortgage issues to emerge under a new Reorganization Plan with far more than 12% of their claim represented by the new First Mortgage issue. After all, it is a matter of simple arithmetic that those wanting "out," via the tender-request route—not being forced to dispose of their holdings indiscriminately — are creating far more equity for those desiring "in."

Pursuing this thought down to the lowliest bond issue of the Rock Island, the Convertible 4½s 1960, instead of emerging with only $496.70 of calculated treatment per $1,000 bond, carrying a total claim of $1,480, the elimination of so large a total of claims on senior bond issues would assuredly more fairly treat with the $983.30 deficiency per $1,000 bond now suffered by these bondholders.

However, lack of specific sanctions among the provisions of Section 77 so far have operated to prevent the carrying out of these measures.

* * *

Let us now refer to the **Missouri Pacific** reorganization.

On Jan. 10, 1940 the Interstate Commerce Commission approved the initial Reorganization Plan, with an effective date of Jan. 1, 1940.

On July 4, 1944, the Interstate Commerce Commission approved what is currently referred to as the "Compromise Plan," with an effective date of Jan. 1, 1943.

Herewith attached, in Schedule B, is a comparison of Missouri Pacific's "old" consolidated capitalization outstanding as of these various effective dates, together with selected financial facts and newly proposed capitalizations as of the same dates; also given are the current figures for the "old" consolidated capitalization, and selected financial data.

This schedule shows:

(1) At the time of the first effective date—Jan. 1, 1940, MOP Consolidated possessed total cash and equivalent of $18,626,077, with net working capital (not including Special Reserve and Maintenance Funds) of $15,411,855;

On Jan. 1, 1947, seven years later, the total of cash, etc. was $67,147,890, with net working capital at $66,885,058 (in the latter instance again not including large amounts of liquid assets carried in Special Reserve and Maintenance Funds).

This substantial gain in liquidity was scored notwithstanding the **intervening eliminations and reductions in "old" debt since the Jan. 1, 1940 original effective date, totalling $87,303,850,** the latter amount not inclusive of defaulted interest which in the meantime has been substantially reduced/eliminated.

Herein is disclosed a net cash improvement and debt reduction totalling $135,825,663,

YET

(2) Allowable capitalization, as shown by comparison of the Jan. 1, 1940 and Jan. 1, 1943 effective dates (revised in the latter case to Jan. 1, 1947 to reflect intervening elimination of R.F.C., R.C.C., Bank, Senior Mortgage Debt and reduction in Collateral Trust debt), is $63,381,500 lower—the Jan. 1, 1940 allowed total being $560,478,900 and the Jan. 1, 1943 (revised to Jan. 1, 1947) total being $497,097,400.

(3) More than this, a summary of MOP Consolidated's operating records for the seven years, 1940-1946 inclusive, discloses that gross additions and betterments totalled approximately $86,402,864.

Contrasted with this showing, the total "old" debt for MOP Consolidated (including publicly-held New Orleans, Texas & Mexico stock) currently amounts to $429,065,421, on which the accrued interest equals an approximate additional $215,000,000, making for total estimated claims of roughly $644,000,000, without taking into consideration the "old" issues of Preferred and Common stock.

The point of this brief summary may be found in the following notations:

The "new" adjusted capitalization of $497,097,400 is nearly $147,000,000 below the estimated $644,000,000 needed to make "whole" the total claims ranking senior to the "old" capital stocks.

Yet, the "new" adjusted-to-Jan. 1, 1947 capitalization is $63,381,500 beneath the initially proposed Jan. 1, 1940 Capitalization, in addition to which, currently:

(1) Cash, in the same 7-year period is **larger** by $48,521,813 (not inclusive of added liquidity found in Special Reserve and Maintenance Funds), and

(2) Gross additions and betterments in the same period totalled approximately $86,402,864.

The $63,381,500 lessened "new" adjusted capitalization allowable, plus the $48,521,813 net cash increase, added to the approximate $86,402,864 gross additions and betterments made to property, total roughly $198,306,177 — **or** nearly **$51,000,000 more** than the approximate $147,000,000 deficiency of treatment now being experienced by those holding securities senior to the "old" capital stocks.

Here again, as in the preceding reference to the Rock Island case, I am not arguing for the MOP "new" capitalization to be expanded by this $198,306,177.

But, I do again point to the relief that could be accorded the "old" holders of MOP securities if Congress would pass enabling legislation, permitting the combined use of cash to retire outstanding claims at a discount, and allowing for some expansion in capitalization.

In the latter connection, press reports of not many months ago outlined a new reorganization proposal for the consolidated MOP, which conformed largely to the provisions of the vetoed Wheeler-Reed Bill. This new Plan, reported to have substantial support from important groups, would have benefited all security holders, including even the "old" capital stocks.

Reference to this new plan and what it proposed per $1,000 bond, as compared with the treatment accorded in the presently known Compromise Plan, in terms, as an example, of the senior issue of Missouri Pacific Refunding 5s, follows:

	Presently-Known Compromise Plan	Reported New Plan
Cash	$71.10	$25
First mortgage bonds	$400 (4s)	$725 (3½s)
"A" income mortgage bonds	$380 (4½s)	$647 (4¼s)
"B" income mortgage bonds	$150 (5s)	0
Preferred stock	2.22 shares	0

Turning to the Junior bond issue of the Missouri Pacific — the Convertible 5½s 1949 — the compromise plan accorded each $1,000 bond only 10 shares of new Class "B" Common stock, each share having no par value but a stated value of $100 each, or a $1,000 "stated value" of treatment for a bond having a total claim as of the Jan. 1, 1943 effective date of $1,559.16.

The new plan, patterned after last year's vetoed Wheeler-Reed Reorganization Plan, was reported to allocate each $1,000 bond of this Junior issue a total of 86.1 shares of Class "B" stock having a $20 stated value, thereby more fairly meeting the total claim of the bonds.

However, it appears that this new plan, which would improve the treatment of all bondholders, qualitatively and quantitatively, to the point of rounding out all issues and making them "whole," appears impossible of consummation without undue delay.

There is yet another railroad reorganization which can be pointed to, somewhat in the same vain as in the case of Rock Island and MOP, although its finances to all intents and purposes, are such today that it appears wholly solvent. I refer to the **St. Louis-Southwestern.**

Here, actual steps are being taken to remove the road from bankruptcy without its going through reorganization by the simple means of a combination of use of part cash and compromise. Here, however, the threat of interminable delays, because of objections in Court and because of lack of enabling legislation, remain a serious factor.

There is another matter which I feel Congress should take note of when considering this legislation. I have reference to what, for want of a better description, I call "tax dilution" in the earnings' results of the reorganized properties.

Not because of evasion, the "old" capitalizations and their annual fixed charges and contingent interest requirements afforded a much bigger tax shelter for the then equities than the new setups.

For instance, Rock Island's "old" fixed charges ran $13,361,000 annually; the "new" fixed charges and contingent interest requirement will total approximatel $4,882,000.

MOP Consolidated's "old" fixed and contingent charges required $23,943,000 annually; the "new" fixed charges and contingent interest requirement will approximate $12,611,000.

Let us now refer to one of the roads which has been operating on a reorganized basis for some years, meaning particularly the **Chicago & North Western.** "Old" annual charges required $16,413,000 and today the total of fixed charges and contingent interest needs approximate $6,180,000 annually.

None of these "new" annual requirements (referring specifically to the contingent bracket) includes either capital fund or sinking fund requirements, most of which are mandatory deductions when earned, but which are not allowable deductions before provision for Federal income taxes.

My point is that the "new" equities — the Preferred and Common stocks — are possessed today primarily by the "old" bondholders because the "new" equities were largely utilized to make up the "package" of securities going to them, since the "old" equities were found without value.

The new equities, with so much less of fixed charges and contingent interest in the form of charges, are subject to so much more of Federal income taxes; add thereto the "when earned" provisions for Capital Funds and Sinking Funds—all laudable provisions — and the margin for dividend payments appears much less favorable, yes almost discriminatory, than in the case of an equity of a non-reorganized railroad.

Hence, the "old" bondholder, obtaining by way of reorganization "pieces" of "new" First Mortgage fixed and general Mortgage Income bonds, Preferred and Common stocks, appears penalized —when it comes to distributable income — after accepting the sacrifice of a scaling down of his standing. Yet, the chief tenets of Section 77 of the Bankruptcy Act —as concerns a reasonable capitalization and charges, consistant with the meeting of the requirement of a satisfactory transportation service to the public — have been met.

It seems to me, to be fair, that either the new capitalization be allowed to include a greater percentage of the total in **contingent** series of Debentures instead of Preferred stocks, or deductions be allowed for Capital Funds and Sinking Funds before arriving at taxable earnings.

To my way of thinking no greater assurance of the continuation of a satisfactory transportation service to the public could be had, were railroads allowed to earn a more reasonable return and, by way of more stable dividend payments, be permitted to attract equity Capital.

* * *

One final thought — and this has to do with the preferred and common stocks of the yet-to-be-reorganized railroads. I have searched in vain, in all the testimony concerning, and the provisions for, the new railroad reorganization legislation.

Nowhere have I found what I consider to be a very simple method of giving the "old" stockholders an opportunity to recoup at least part of what would otherwise be a complete loss.

Why not afford the "old" stockholders a chance to participate in the reorganization of their properties by giving them the privilege of choosing whether or not they would care to pay an assessment—be it large, medium or small in price per share?

The making available of any extra substantial cash fund, beyond that already possessed by the to-be-reorganized roads, for the treatment **more qualitatively** of those having senior claims, would certainly lessen the objections of the bondholders toward giving the "old" stockholders at least a "look-in" on the new equity.

The Wabash reorganization, while consummated by way of Receivership — as distinguished from Bankruptcy — was modelled somewhat along such lines.

Lastly, in connection with the revised legislation now being sought, would it not be more simple to merely pass legislation containing a directive that **all pending** reorganization plans be remanded by the Courts to the Interstate Commerce Commission for that body's new review, in the light of:

(1) Known territory shifts and better traffic prospects incident to World War II and the one and one-half years of post-war traffic experiences **since** V-J Day;

(2) The substantial debt retirements, additions and betterments made to properties, and notwithstanding large increases in financial strength since Original and Revised Plans of Reorganization were propounded by the Interstate Commerce Commission, and

(3) The change in interest rates, not forgetting the long succession of railroad bond refundings in recent years.

With regard to this last suggestion, may I point to pages 36-37 of the May 12, 1947 letter to the Hon. Chauncey W. Reed, Chairman, Subcommittee on Bankruptcy and Reorganization, Committee on the Judiciary, House of Representatives, by Commissioner Walter M. Splawn, Chairman, Legislative Committee, Interstate Commerce Commission, in reference to H. R. 3237, from which I quote the following excerpts:

"* * * The Commission has been criticized for not modifying its plans because of changes in conditions since it approved the plans. Under the provisions of Section 77 the function of the Commission so far as the provisions of a plan are concerned are at an end once it certifies the plan to the Court unless the Court returns the plan to the Commission for further consideration and modification. If it is thought desirable that further consideration be given to the provisions of plans because of changed conditions since the plans were certified to the Court, arrangement for such further consideration could easily be made by a simple amendment to Section 77 requiring that the Court return the plans to the Commission for further consideration in the light of changed conditions.

"* * * In lieu of Section 2 (of H. R. 3237) an amendment could be made to Section 77 by adding at the end of sub-section (f) thereof a paragraph somewhat as follows:

"'Upon petition of any party to the proceeding and upon request of the Commission at any time before the property dealt with by the plan is transferred and conveyed to the debtor or to the other corporation or corporations provided for by the plan, the Judge shall return the plan to the Commission for such further modification as may be required because of changes, facts and developments since 1940. The Commission, upon further hearing, if deemed necessary, and upon consideration of all such changes, facts and developments since 1940, including, without limitation, for such period total railway operating revenues, operating expenses and other charges, net earnings, the full effect of amortization deductions on earnings of past and future years, improvements to the property, the effect of the released collateral through past or future payment of loans, cash and net current assets, retirements and purchases of debt, including retirements and purchases at a discount that have been made or that can reasonably be made, adjustment and reduction of interest rates on outstanding debt that may be made, shall, in a supplemental report and order modify or refuse to modify, any plan which it has approved, stating the reasons for such modification or for its refusal to modify the plan. The Commission, if it modifies the plan, shall certify the modified plan to the Court together with a transcript of the proceeding before it and a copy of its report and order approving the modified plan. Thereafter proceedings upon the plan shall be governed by the provisions of subsection (e) and of this subsection. If the Commission refused to modify the plan, it shall transmit to the Court a copy of its report and order, together with a transcript of the proceeding before it. Thereafter, if the Judge shall find that the refusal of the Commission to modify the plan is based on sufficient findings and is supported by the record, the proceeding upon the plan shall continue as if the plan had not been returned to the Commission; otherwise the Judge shall return the plan to the Commission for further consideration and modification in accordance with his opinion and thereafter further proceedings upon the plan shall be as provided in subsection (e) and in this section.' "

SCHEDULE "A"

Following are comparisons of ROCK ISLAND'S "old" capitalization outstanding on each of the proposed effective dates, together with selected financial facts and newly proposed capitalizations as of the same dates; also given are the current figures for the "old" capitalization and selected financial data:

"Old" Capitalization—	Jan. 1, 1941	Jan. 1, 1942	Jan. 1, 1944	Jan. 1, 1947
Receivers' and trustees' sec.	$32,864,000	$20,628,000	$7,469,419	$11,499,168
RFC loan	13,718,700	13,718,700	13,718,700	------
Funded debt	283,776,955	283,277,956	293,860,630	293,098,510
Total debt exlc. defaulted int.	$330,359,655	$317,624,656	$315,048,749	$304,597,678
Preferred stock	54,532,789	54,532,789	54,532,789	54,532,789
Common stock	74,359,723	74,359,723	74,359,723	74,359,723
Total capitalization	$459,252,167	$446,517,163	$443,941,261	$433,490,190
Cash, etc.	$10,730,804	$40,028,645	$109,842,900	*$78,679,250
Current assets	$21,818,807	$57,630,125	$134,965,331	*$103,583,147
Current liabilities	11,203,288	16,786,348	55,433,086	25,862,298
Net working capital	$10,615,519	$40,843,777	$79,532,245	*$77,720,849

*Reflects, among other uses of cash, payments totaling $34,279,750 made to creditors on Oct. 17, 1945 account combined principal and interest.

"New" Capitalization—			As of Jan. 1, 1947
Equipment trust obligations	$28,002,124	$24,943,916	$11,499,168
First mortgage 4s	36,941,060	36,941,060	*29,605,186
Fixed debt	$64,943,184	$61,884,976	$41,004,354
Income 4½s	60,000,000	80,000,000	74,007,150
Total debt	$124,943,184	$141,884,976	$115,011,504
Preferred stock	$75,000,000	$75,000,000	$70,538,290
Common stock	151,237,728	151,242,434	141,123,499
Total stock	$226,237,728	$226,242,434	$211,661,789
Total capitalization	$351,180,912	$368,127,410	$326,673,293

*Giving effect to Interim Retirement RFC loan and Choctaw & Memphis first 5s, 1949.

SCHEDULE "B"

Following are comparisons of MISSOURI PACIFIC's "old" consolidated capitalization (inclusive of New Orleans, Texas & Mexico and International Great Northern) outstanding on each of the proposed effective dates, together with selected financial facts and newly proposed capitalizations as of the same dates; also given are the current figures for the "old" consolidated capitalization and selected financial data:

"OLD" CONSOLIDATED CAPITALIZATION—	Jan. 1, 1940	Jan. 1, 1943	Jan 1, 1947
Missouri Pacific—			
Equipment trusts	$13,000,000	$15,755,000	$8,193,000
RFC loan	23,134,800	23,135,000	------
Bank debt	5,850,000	5,850,000	------
R.R. credit loan	2,531,579	2,072,000	------
So-called "Five" Divisionals	14,433,500	------	------
"Iron Mt." 4s, 1933	34,508,000	24,156,000	------
Plaza-Olive Building 6s	711,500	592,000	508,500
Cairo & Thebes 4s, 1961	1,699,000	1,699,000	1,699,000
Little Rock & H. S. W. 4s, 1939	1,140,000	1,140,000	1,140,000
Boonville St. L. & So. 5s, 1951	233,500	233,500	233,500
Central Branch U. P. 4s, 1948	1,628,000	1,628,000	1,628,000
First refunding 5s	223,190,500	223,191,500	223,191,500
General 4s, 1975	49,339,421	49,339,421	49,339,421
Serial 5¼s	12,140,000	12,140,000	11,251,000
Convertible 5½s, 1949	45,493,000	45,493,000	45,493,000
Total debt, excl. defaulted interest	$428,832,800	$406,424,421	$342,676,921
New Orleans Texas & Mexico—			
Equipment trusts	236,000	------	------
First 4½s, 5s, 5½s	40,616,900	40,616,900	40,616,900
Income 5s	2,354,100	2,354,100	2,354,100
Total debt, excl. defaulted interest	$43,207,000	$42,971,000	$42,971,000
Publicly held N. O. T. & M. stock	859,800	859,800	859,800
International Great Northern—			
Equipment trusts	479,000	------	------
RR. credit loan	432,971	416,000	------
First mortgage 5s, 6s	28,750,000	28,750,000	28,750,000
Adjustment mortgage 6s	13,807,700	13,807,700	13,807,700
Total debt, excl. defaulted interest	$43,469,671	$42,973,700	$42,557,700
Grand total debt (and publicly held N. O. T. & M. stocks), excl. defaulted int.	$516,369,271	$493,228,921	$429,065,421
Missouri Pacific preferred stock	70,190,100	70,190,100	70,190,100
Missouri Pacific common stock	81,314,343	81,314,343	81,314,343
Total "old" consolidated capitalization	$667,873,714	$644,733,364	$580,569,864
Cash, etc.	18,626,077	*76,959,022	†67,147,890
Current assets	$36,259,130	*$121,566,528	†$108,475,802
Current liabilities	20,847,275	43,669,725	41,590,744
Net working capital	$15,411,855	*$77,896,803	†$66,885,058
Special reserve and maintenance funds	189,445	2,214,251	20,373,928
Total net working capital and special reserve and maintenance funds	$15,601,350	*$80,111,054	†$87,258,986
"NEW" CAPITALIZATION—			
Equipment trust obligations	$13,715,000	$15,755,000	$8,193,000
Plaza-Olive Building bonds	711,500	591,000	508,500
First mortgage 4s	126,921,000	135,337,000	121,534,000
First mortgage 3¾s	31,779,500	31,472,000	------
10-year notes	14,433,500	10,352,000	------
Fixed debt	$187,560,500	$193,507,000	$130,235,500
Series A income bonds	‡22,727,000	¶120,676,000	$120,676,000
Series B income bonds	¶97,934,000	§38,499,000	38,499,000
Income debt	$120,661,000	$159,175,000	$159,175,000
Total debt	$308,221,500	$352,682,000	$289,410,500
Prior preferred stock	$39,189,500	$57,717,000	$57,717,000
Second preferred stock	76,311,500	------	------
Common stock	136,756,400	------	------
Class A common stock	------	91,184,000	91,117,300
Class B common stock	------	58,897,000	58,852,600
Total stock	$252,257,400	$207,798,000	$207,686,900
Total "new" consolidated capitalization	$560,478,900	$560,480,000	$497,097,400

*Reflects intervening periodical interest payments against defaulted accruals, among other uses for cash, also $23,140,350 non-equipment trust principal debt reduction since Jan. 1, 1940.

†Reflects intervening periodical interest payments against defaulted accruals, among other uses for cash, also $64,163,500 non-equipment trust principal debt reduction between Jan. 1, 1943 and Jan. 1, 1947, making a total seven-year non-equipment trust principal reduction of $87,303,850.

‡4%. ¶4½%. §5%.

Australia Files $38,000,000 Bonds With SEC in Final Refunding Step

The Government of the Commonwealth of Australia filed May 29 with the Securities and Exchange Commission a registration statement relating to $38,000,000 principal amount of bonds of which $19,000,000 are 10-year 3¼% bonds, due June 1, 1957, and $19,000,000 are 20-year 3½% bonds, due June 1, 1967.

This is the fourth and final step in the Commonwealth program for refunding its callable dollar debt in the United States into lower interest-bearing obligations. Upon completion of this program, approximately $126,000,000 of dollar obligations will have been refunded. The only prewar Commonwealth issue payable in dollars which will remain outstanding upon completion of this step is the $71,728,000 issue of 5% bonds due in 1955 and which first become callable in 1952. The earlier steps consisted of the sale last August of $20,000,000 10-year 3¼% bonds due Aug. 1, 1956, the sale in December of $25,000,000 20-year 3½% bonds due Dec. 1, 1966, and the sale in February of this year of $45,000,000 15-year 3⅜% bonds due Feb. 1, 1962.

Morgan Stanley & Co. will head a nationwide group of investment banking firms which will underwrite and distribute the new bonds. The public offering is scheduled for June 16.

Net proceeds from the sale will be used for the redemption at 102% and interest on Sept. 1, 1947, of the $36,055,000 Commonwealth of Australia 5% bonds, due Sept. 1, 1957, now outstanding. Each series of bonds of the new issue will have the benefit of a sinking fund of 1% per annum payable semi-annually in cash or in bonds. Cash payments will be applied to the purchase of bonds or their redemption by lot.

Whitney & Elwell Partner

BOSTON, MASS.—Whitney & Elwell, 30 State Street, members of the New York and Boston Stock Exchanges, will admit William Thaw Whitney to partnership on July 1. William D. Elwell will withdraw from partnership on June 30.

With Ted Weiner & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Morgan Flagg and James H. Mockley have been added to the staff of Ted Weiner & Co., 41 Sutter Street.

Why Business Needs Adequate Reserves

(Continued from page 2)

ed in the prices of bread, meat, and fats. In building up reserves to meet risks and contingencies, especially those related to inventories, business should recognize that these policies tend to support high prices, and should be prepared to meet any unfavorable developments or losses which may result from them.

Are Inventories Inflated?

In general, the increase in consumer buying during the last half of 1946 was less than the increase in the volume of goods reaching the distributors. "The accumulation of larger, better-balanced stocks of finished products was prevented by the continuation of orders generally in excess of the output of finished goods." ("Federal Reserve Bulletin," January, 1947.) While over-all stocks of consumer goods were substantial, there was a wide range in the adequacy of the supply of different materials.

Substantial increases in manufacturers' inventories during the second half of 1946 indicate that there may be trouble ahead for business. According to the Department of Commerce, these inventories rose from $17 billion at the end of Juue, 1946, to $20 billion at the end of November. A large part of these stocks consisted of raw and semi-finished materials.

A more recent estimate of inventories and sales by the Department of Commerce ("Journal of Commerce," May 13, 1947) reveals that merchant wholesaler inventories are rising—but less rapidly than last year. "Unpublished adjusted figures indicate that inventory accumulations of both durables and non-durables are increasing steadily. At the end of March, total merchant wholesaler inventories were up 54% from March a year ago."

Wholesale commodity prices and consumer prices continued to advance during the latter part of 1946 and early 1947. No doubt part of the rise in prices was a reflection of buying to build up inventories from previous low levels. This price trend during the period when inventories were growing has resulted in an increase in the dollar value of the inventories—though to what extent no one knows. The Department of Commerce warns against the difficulty of drawing conclusions about the "physical quantity of either sales or inventories from these dollar value estimates. . . . Actually the physical volume of food sales is down. Department officials point out that an increase of almost 50% in wholesale food prices in the past 12 months indicates that the current level of sales represents a substantial decline in the volume of food distributed."

Efforts to Eliminate Business Fluctuations

Many intelligent businessmen believe that we have now reached the stage in the business cycle when prices will decline, and that both inventories and earnings will undergo important changes. Under such circumstances, sound business judgment demands that adequate provision be made to take care of any possible losses which might develop after the balance sheet has been issued; and that provision be made for any other unpredictable risks, including general market and financial changes.

A great deal of public discussion and legislative effort has been devoted to determining ways and means of eliminating some of the fluctuations of the business cycle. One of the most important steps in that direction which can be taken by businessmen is to have each business concern manage its affairs so that it will always be in a liquid condition. A business that is weak financially or lacks working capital when prices are falling, sales volume shrinking, and unemployment increasing, can only add to the instability of the situation and intensify the cyclical fluctuations. Businessmen, therefore, are showing a healthy concern for the welfare of the nation, as well as for their own businesses, when they accumulate adequate reserves from present earnings for future needs.

Earnings, Prices, and Inventory

An important aspect of the earnings record is the relationship of earnings to rising commodity prices. To what extent have earnings been influenced by higher prices? During the period of rising prices, earnings may be inflated by the rise in the market value of the inventory even when the physical volume may be the same or less than at an earlier period. Gains of this character are non-recurrent and may result in heavy losses later when prices decline and the inventory is revalued downward.

One effect of inflated inventory values is an increase in the demand for additional working capital to operate the business. Larger inventories in terms of dollars will be necessary in order to transact the same physical volume of business. Higher wage and material costs will also necessitate larger bank balances. Since capital, surplus, and undivided profits cannot be increased from earnings as fast as prices rise, the need for additional funds will have to be met through the sale of stock or by borrowing. Increased capital for a given volume of business means increased operating costs. More dollars will also be required to replace old or worn-out equipment or to expand the size of the plant.

If prices rise rapidly and the low-cost inventory is sold, the rate of profits will move up rapidly. These increases should be regarded more as windfall profits, however, because low-cost inventory will have to be replaced by high-cost inventory, leaving the corporation less real profit than that indicated by the inflated values. The position of a corporation under such a situation would be similar to that of the man who sells an automobile which cost him $1,500 for $2,000, taking a "profit" of $500. He needs a new car. After paying a tax on his "profit," however, he must pay $2,000 or more for the new car.

Inflated Inventories in Relation to Profits

Due to the need for more funds and the difficulties likely to be encountered in raising such funds, corporations should retain as much of their profits as possible. Some of these funds will be needed to offset the mark-down in inventories purchased when market prices were higher. Some relief in handling inventories, it is true, may be found in the use of the LIFO (last-in, first-out) method of accounting for inventory. The book value of the inventory under this method would not increase since the high priced inventory would be charged off against the goods sold at high prices. Of course, this method would be of questionable value if the inventory were being depleted or reduced for one reason or another.

Regardless of whether the LIFO method proves effective, an alert management should be prepared to take the necessary steps to build up a substantial backlog of reserves to meet or offset promptly the losses arising out of falling inventory values, without dipping into or reducing capital funds. Since it is obvious that even the most conservative accounting procedures cannot always prevent inflation in inventory values when prices are rising, the need for adequate reserves becomes all the more urgent. In view of present price and cost tendencies, an adequate reserve obviously becomes an essential of sound management.

High Prices and Fixed Assets

Any corporation engaged in a business which requires a large investment in fixed assets such as building, machinery, equipment, etc., is faced with the problem of replacing these assets as they are worn out or become obsolete. This requires careful planning from the very beginning. How long will such assets last? Is the business a type which may be seriously affected by new inventions? How will price changes influence replacement costs?

Let us assume (which we cannot) that there would be no serious price changes. It would still be a difficult job to estimate what percentage of income, after all current operating expenses had been paid, should be set aside from year to year as a reserve to provide the necessary funds to replace the building and equipment when they were worn out.

It is the considered opinion of many able businessmen that the current charges against operations to cover depreciation are not sufficient to provide adequate reserves to recover the investment in fixed assets. The nature and importance of the problem of the purchasing power of money and its relationship to the building up of reserves against fixed assets was expressed clearly by George Terborgh in a recent study (Depreciation Policy and the Postwar Price Level, April, 1947) as follows:

"Ordinarily depreciation recovers simply the number of dollars originally committed to the asset, regardless of differences in their purchasing power. This recovery is satisfactory enough in periods of relative stability in the price level, but can be seriously, or even ruinously, inadequate during and after periods of inflation."

The necessity of providing for establishing sufficient reserves especially from the managerial point of view was summarized by Mr. Terborgh as follows:

"The problem of under-depreciation of prewar assets is sufficiently serious to deserve the earnest attention both of business executives and tax authorities.

"Since capital investment must be recovered in real purchasing power, not simply in dollars, under-depreciation should be recognized for managerial purposes whether recognized for tax purposes or not. In many cases management should incorporate increased depreciation rates into its regular cost and financial accounting. Where for some reason this is not feasible, it should allow for the overstatement of profits by an appropriate conservatism in dividend policy. Capital recoveries should not be distributed merely because they are reported as net income."

Another advantage which may be realized by retention of earnings in a business, is the provision of funds for future expansion and modernization. In the long run, this is important from the point of view of capital formation. In turn it is essential to a broad growth and expansion of the private enterprise system. The relation of these retained earnings to greater production is quite clear. The greater productivity of labor today, as compared with 75 or a 100 years ago, is due in no small part to labor-saving devices and machinery. The importance of machinery is emphasized by the fact that labor, while working much shorter hours than formerly, is able to produce a much larger quantity of goods.

Small Businesses Need Reserves

One aspect of the broad problem of adequate reserves concerns the small business enterprise, which usually starts out with a limited amount of capital funds. The small enterprise frequently finds it difficult to obtain additional funds for purposes of growth and expansion. In the absence of outside funds, proprietors of many small businesses by careful planning and able management have developed large, prosperous enterprises out of net earnings. Some small enterprises have been able to supplement their own funds by borrowing, though it does not appear to be as easy to do this now as it was before World War II.

Because costs and prices are much higher, more capital is required to carry on a business today than before the war. Higher income taxes eat up a substantial portion of gross income, a part of which, under prewar conditions would have accumulated as net earnings after taxes. With net earnings reduced, there are less funds to be retained in a business enterprise. The small corporation is further bedeviled by the fact that existing income tax laws are drawn so as to make retention of more than 30% of net earnings after taxes uncertain. The law requires a satisfactory explanation if less than 70% of net earnings is paid in dividends by the corporation.

If the small businessman is to succeed in the future as he has in the past, he must adopt a conservative dividend policy in order to retain a large share of net earnings for future expansion, replacements, and contingencies.

Guaranteed Employment Requires Adequate Reserves

There is much interest today in the subject of guaranteed year-round employment. Concerns which adopt the plan—with all its ramifications—undertake to carry on operations uninterruptedly even though prices may be falling. To assure continuous production, therefore, funds must be accumulated to provide an adequate stock of goods — inventory, raw material and other supplies. Falling prices may act not only to curtail income but to result in an actual net loss. Even so, the company must continue operations because it has assumed the obligation of maintaining employment. Jobs must be provided and the cost made a part of the operating expenses. A corporation would be subject to serious criticism if, after telling the workers that it would guarantee steady year-round employment, it was unable to live up to its guarantee.

One of the necessary steps in the adoption of a plan of stabilized employment, therefore, is the constant maintenance of reserves large enough to carry out the objectives of the program at all times. Such a program, if successful, would not only increase employment but do much to stabilize our economy.

Adequate Reserves Essential to Stable Employment

A corporation cannot maintain stable employment unless it is strong enough financially to meet competition.

In order for a corporation to be in a position to manufacture goods at a cost to compete with those of low cost producers, it must be prepared to install new machinery, expand, replace, or relocate factory buildings. Such improvements will be needed most when competition becomes keenest. Here again, the existence of a reserve fund accumulated in a previous, more prosperous period may make possible the carrying out of the improvements needed to maintain a high level of employment.

Within recent months, commitments have been made by many businesses for the construction of new buildings and the purchase of additional machinery and equipment. To carry out such plans, which are necessary to furnish employment, constant additions to invested capital are required. Business cannot maintain this rate of employment if it is crippled by heavy inventory losses. If reserves are not available, a business may have to borrow from banks or seek venture capital in outside markets at a time when it might be difficult to obtain. Lack of available funds might force discontinuance of expansion and construction just when it would be especially desirable from the point of view of employment to have it continued.

Importance of Reserves to Success of Stabilization Programs

Many concerns could make a desirable contribution toward economic stability and greater production if they followed a policy toward labor stabilization similar to that of the Procter and Gamble Company, the Nunn-Bush Shoe Company, and Geo. A. Hormel & Co.

Stabilization programs such as a guaranteed wage, unemployment insurance and dismissal compensation would be stronger and more effective if backed by adequate financial reserves. The selling prices of products or services should be large enough during good times to provide ample funds for this purpose. To establish such funds regular deductions from gross income should be made, and regarded as one of the operating costs of the business. If reserves for this purpose are not built up in prosperous times, the program is much less likely to stand the heavy strain which may come during depression. Such reserves should be tax free as long as they are retained and used to support the labor force during bad times.

Substitutes for Special Reserves

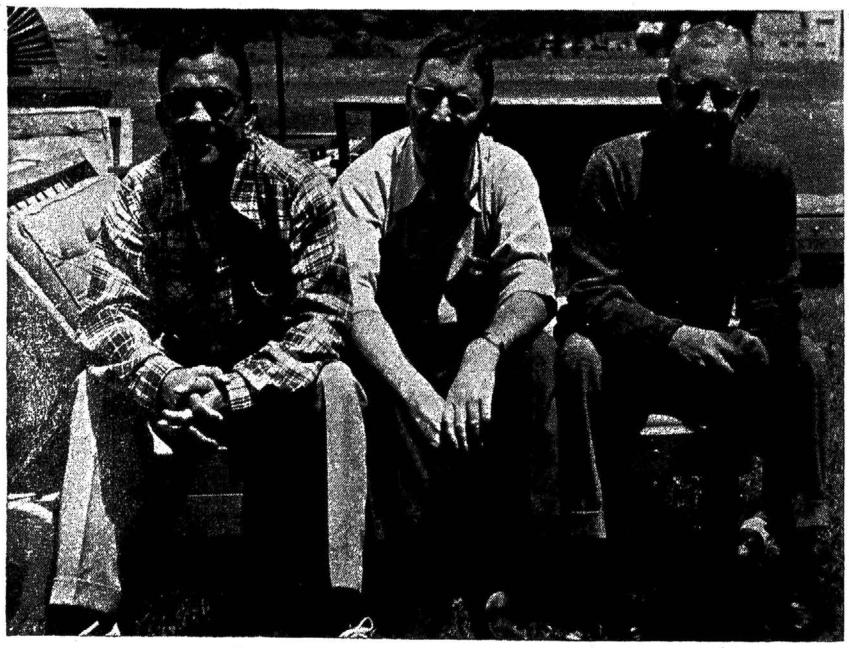
Instead of establishing special reserves out of earnings, some business concerns have transferred part of their usual earnings to their contingency reserves. Others are attempting to accomplish the same result by operating under the "last-in, first out" accounting procedure already described. In addition to these financial safety devices, business men are at present contributing to the future stability of the national economy by limiting the term of future contracts much more closely than usual. A further element of strength in the situation is the improved financial and credit status of the average company. A prudent policy in regard to reserves in many instances can contribute to improvement in this respect.

Summary

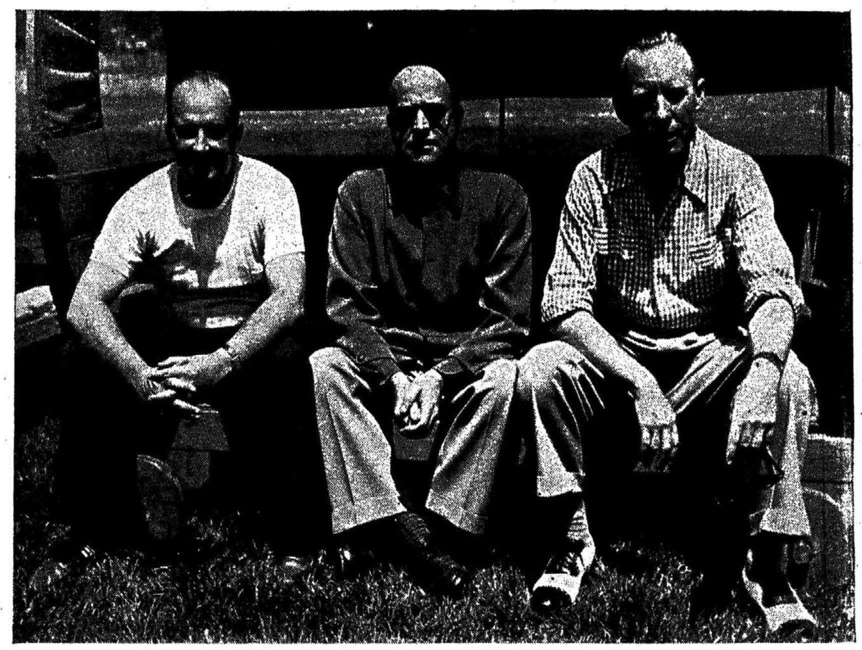
In view of the uncertainties in commodity prices, wage rates and future earnings, it is important to the future success of business enterprise to make a careful recheck of the volume and costs of all inventories and to examine the amount and adequacy of each kind of reserve fund—whether for depreciation and obsolescence of fixed assets, for decline or inflation in inventory values, or for benefit programs. Where published records are available, each corporation should compare its total selling and distribution costs per dollar volume of business with those of other similar companies or of the industry in general in order to prevent any leaks in distribution costs.

The best policy for an individual concern will be to determine the risks involved in operating the business and to make certain that adequate financial provision has been made, in so far as is possible, to cover all important costs which may be incurred in operating and stabilizing the business. This means setting up sufficient reserves out of gross income during good times to stabilize the business, particularly with regard to employment, and to meet periods of falling prices and reduced earnings.

San Francisco Bond Traders Association

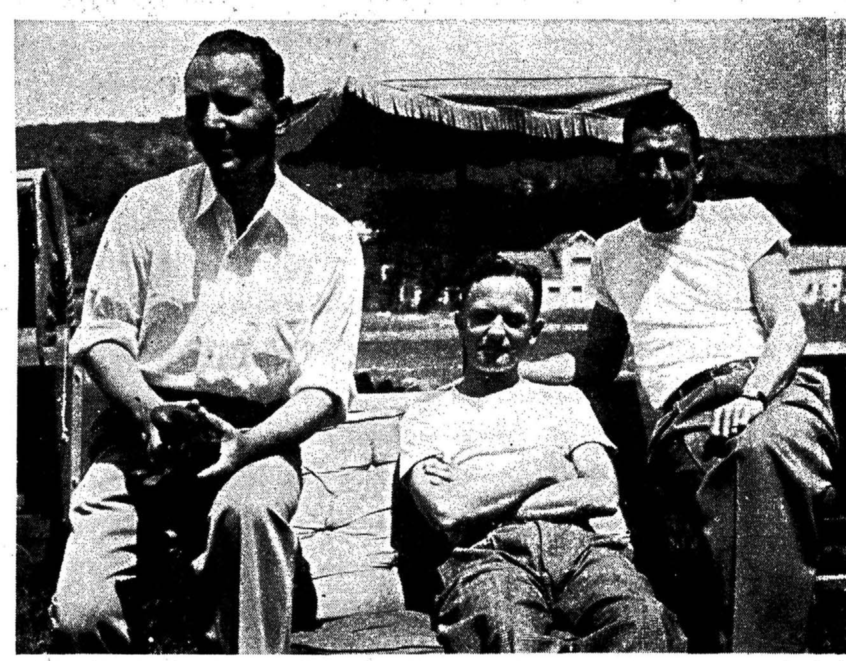


Jack Palmer, *Conrad, Bruce & Co.;* Bob Smith, *Hill, Richards & Co.;* Louis Rich, *Schwabacher & Co.*

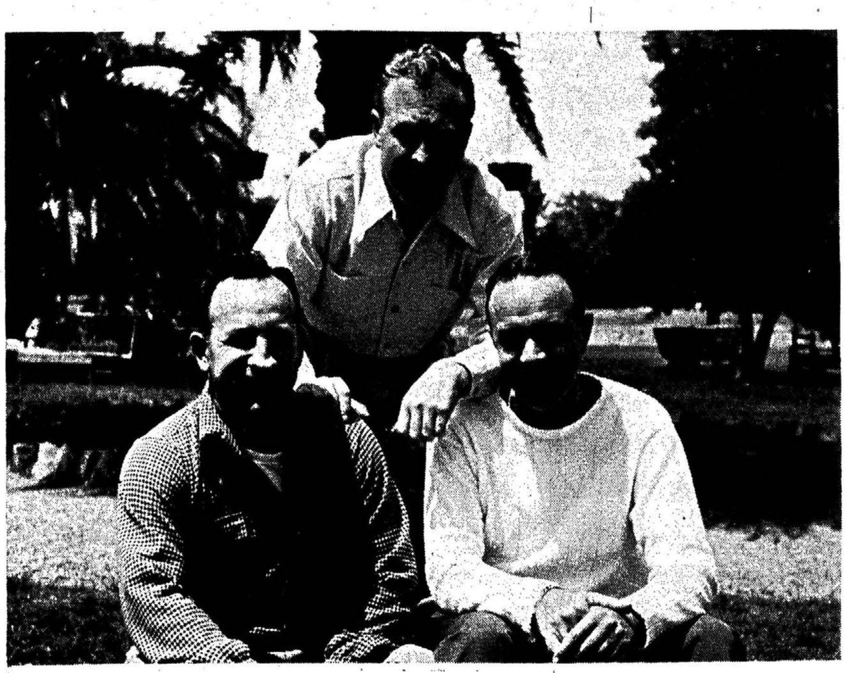


Jack Sullivan, *First California Co.*, San Francisco; Tommy Akin, *Akin-Lambert & Co.*, Los Angles; Jack Hecht, *Butler-Huff & Co.*, Los Angeles.

Chick Harkins, *Blyth & Co.;* Collins Macrae, *Wulff, Hansen & Co.;* Bob Bourne, *Conrad, Bruce & Co.*



J. Kessler, *Livingstone & Co.;* Rudy Sandell, *Shuman, Agnew & Co.;* Art Perenon, *Wm. R. Staats Co.*



Tony Bottari, *Blair & Co.;* Jack Egan, *First California Co.;* Jim Stewart, *Wilson, Johnson & Higgins*

William F. Belknap, *Walston, Hoffman & Goodwin;* George Kranz, *Kaiser & Co.;* Charles B. Kane, *Geyer & Co.*

Outing May 24th and 25th, 1947

Eart McMahon, *Merrill Lynch, Pierce, Fenner & Beane;* Paul E. Isaacs, *Sutro & Co.;* Ken Donald, *First California Co.*

Tom Price, *E. H. Rollins & Sons;* Pete Finnegan, *Hannaford & Talbot;* Connie Shafft, *Shafft, Snook & Cahn.*

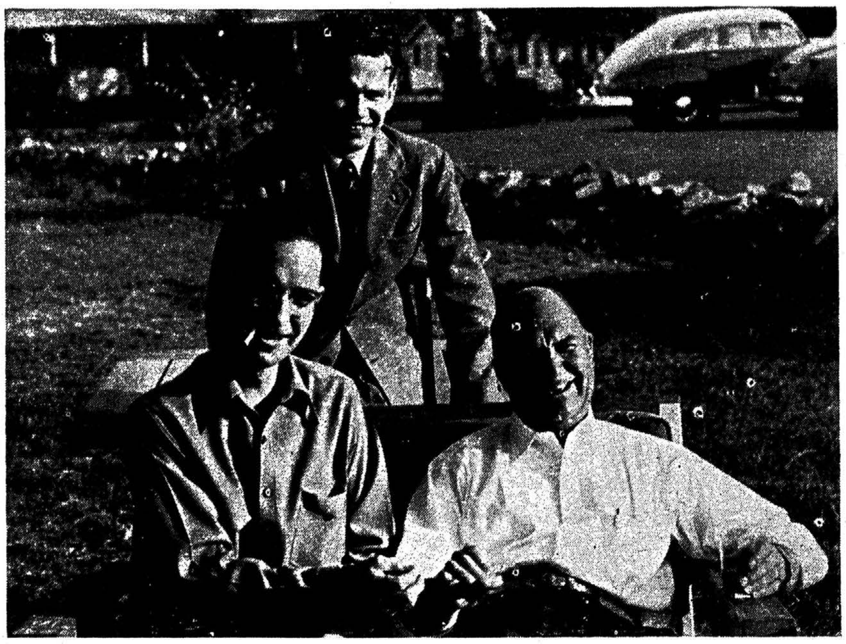
Sandy Hogland, *Brush, Slocumb & Co.*, San Francisco; Bob Ross, *Hill, Richards & Co.*, San Francisco; Harry L. Schmid Jr., *William D. James Company*, Sacramento.

Armando Etiopi, guest; Mac McCarty, guest; Ted Baker, *Dean Witter & Co.;* Al Hewitt, *First California Co.*

Dick O'Neil, *Fairman & Co.*, Los Angeles; Earl Thomas, *Dean Witter & Co.*, San Francisco; Bill Davies, *Butler-Huff & Co.*, Los Angeles; Houston Hill, Jr., *J. S. Strauss & Co.*, San Francisco

At the dinner.

Held at Agua Caliente Springs



John Ford, *Bacon & Co.;* Earl Parker, *Blyth & Co.;* Cliff Morrill, *Walston, Hoffman & Goodwin.*

Eddie Levitt, guest (owner of the Agua Caliente Hotel); Andy Steen, *American Trust Co.;* Harvey Franklin, *American Trust Co.*

Walter F. Schag, *First California Co.;* Edwin L. Beck, *Commercial & Financial Chronicle;* Brooks Weber, *Davies & Mejia.*

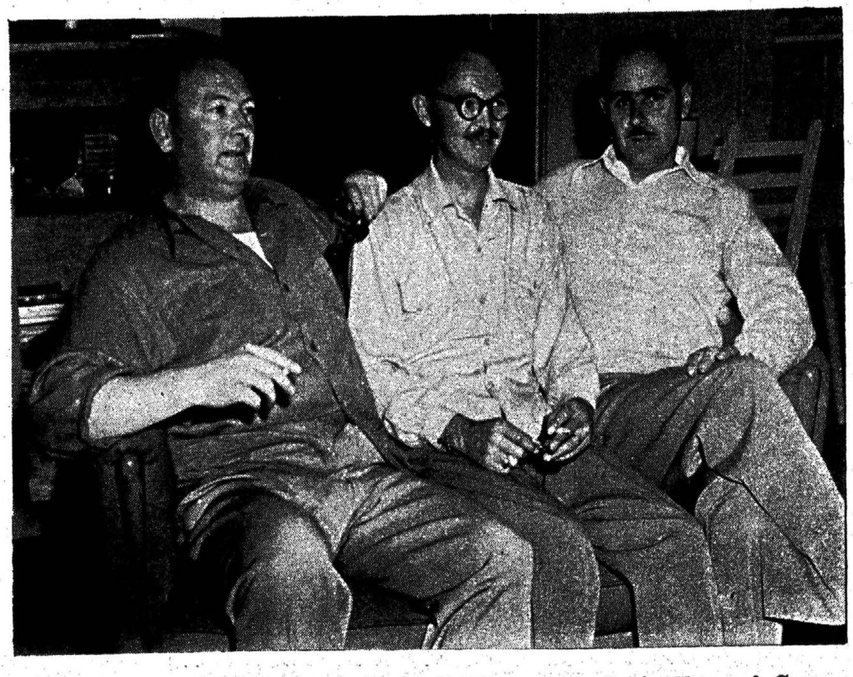
Steve Turner, *Turner-Poindexter & Co.*, Los Angeles; Larry Pulliam, *Weeden & Co.;* Los Angeles; Cecil Alloo, *Wulff, Hansen & Co.*, San Francisco

Walter Vicino, *Blyth & Co.;* Frank McGinley, *Blyth & Co.*

At the dinner.

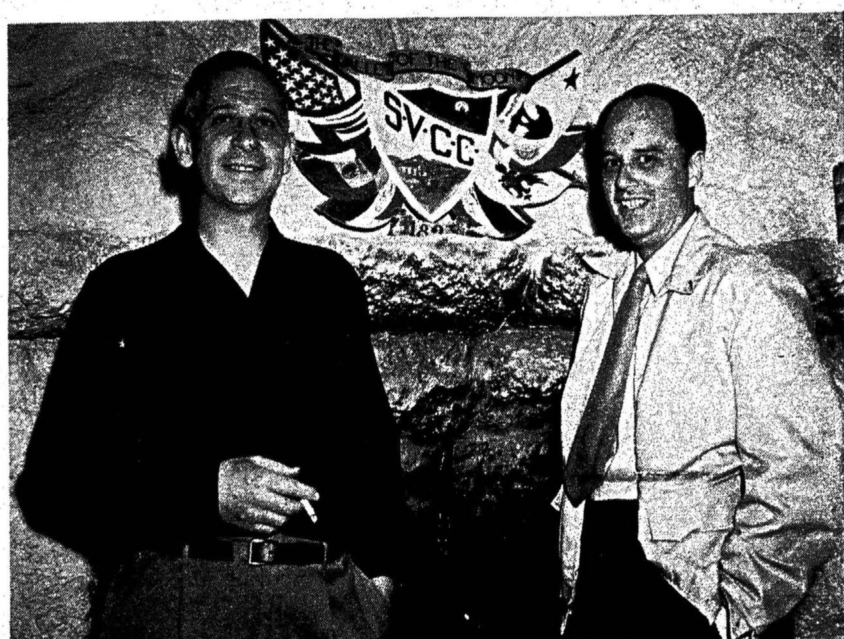
Pronounced Huge Success

Bill Hyde, *Blair & Co.;* Frank Bowyer, *Schwabacher & Co.;* Bill Work, *Wells-Fargo Bank and Union Trust Co.*



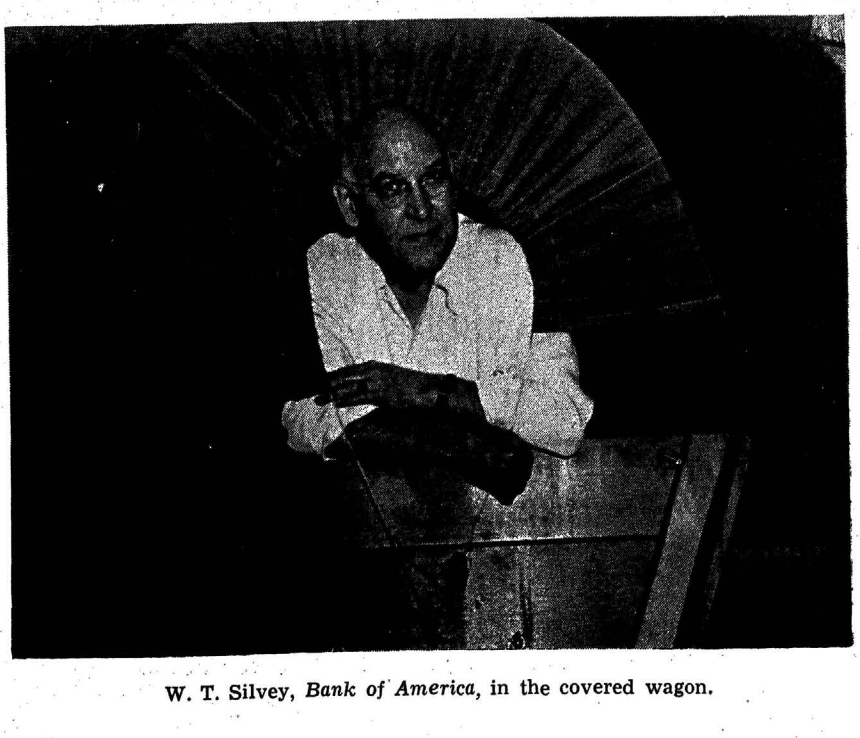
Dick Abrahamson, *Weeden & Co.;* T. C. Petersen, Jr., *Davis, Skaggs & Co.;* E. K. Whitaker, *Davis, Skaggs & Co.*

John Quinn, *Stone & Youngberg;* John Buick, *American Trust Co.;* Hodge Davidson, *Merrill Lynch, Pierce, Fenner & Beane.*



Ernie Blum, *Brush, Slocumb & Co.;* Louis J. Spuller, Jr., *Elworthy & Co.*

At the dinner.



W. T. Silvey, *Bank of America,* in the covered wagon.

Freedom and Economic Progress

(Continued from first page)

age-old traditions of international comity and goodwill.

The objectives of the International Chamber are those of the Swiss people. The International Chamber has long supported measures consistent with the growth of individual freedom. The International Chamber has given its support to free competitive enterprise as that economic system essential for the preservation of individual liberty. The International Chamber has advocated all measures necessary for enlarging the scope and magnitude of world trade. These various objectives represent policies which have become part of the fabric of Swiss political and economic thought and action. It is therefore appropriate that the first postwar Congress of the International Chamber should meet in an environment at once hospitable, congenial and understanding.

The last Congress of the International Chamber was held in Copenhagen eight years ago, just prior to the holocaust of the second World War. At that time the International Chamber, in a resolution carried unanimously at a plenary session, urged the adoption of procedures and policies which would render "unnecessary the movement of armies across frontiers" and the substitution therefor of an "increasing movement of goods, services and capital." The International Chamber defined its aim as that of helping people everywhere to convert their desire for peace, security and prosperity into a practical program of economic adjustment and human understanding.

The raising of living standards, the International Chamber affirmed at the Copenhagen Congress, is dependent in large measure upon greater freedom in the exchange of goods and services across national frontiers; the encouragement of international investment; and the economic development of national resources and characteristics.

In these declarations the International Chamber again avowed its faith in economic liberalism. Had the program of the International Chamber found expression in the policies of nations, the war might have been avoided. But aggressive nationalistic sentiment proved too strong and the world was plunged into economic and social chaos.

During the war, Mr. J. Sigfrid Edstroem acted as President of the International Chamber and kept the organization alive in order that it might be reactivated upon the cessation of hostilities. At the time of the International Business Conference held at Rye, New York, in November, 1944, it was already apparent that the war in Europe was drawing to a close and, in consequence, the members of the Council of the International Chamber decided to renew its activities. At the request of the Council I agreed to accept the presidency because I was convinced that the International Chamber, on the basis of its past record, presented the best opportunity for private enterprise to make its voice heard in the economic rehabilitation of the world.

Goal of International Chamber of Commerce

Since the Rye Conference, the International Chamber has directed all of its activities towards this important goal. Three sessions of the Council have been held, the first in London and the second and third in Paris. The working committees of the International Chamber have made numerous analyses of fundamental economic problems and have issued a series of significant reports. The first meeting of the Council held in London in August 1945 coincided with the end of the war in the Far East. It was attended by 129 delegates from 26 nations of the world, many of whom made the journey to London at great personal hardship and inconvenience. The large attendance was tangible evidence of the vigor and vitality of the International Chamber and a happy augury for the future.

At the third postwar Council meeting held in Paris last December, we were able to announce that the International Chamber had been awarded top consultative status by the Economic and Social Council of the United Nations. A liaison office of the International Chamber has been established in New York City to enable the International Chamber to maintain continuous relationship with developments at the Economic and Social Council and its Commissions and affiliated specialized agencies.

The International Chamber has had extensive experience with many of the problems falling within the province of the Economic and Social Council and it is the only organization of business men sufficiently universal in character to express world business opinion. Throughout its entire history the International Chamber has given continuous thought and study to international economic problems. During the interwar period it participated actively in innumerable international conferences and made important and constructive contributions to the solution of world economic problems. The International Chamber brings to its new status the background and experience gained in its existence of more than a quarter century.

The recognition granted to the International Chamber by the Economic and Social Council makes it all the more essential that we strive to increase the number of our national committees so that world business opinion to the maximum extent will be represented in our deliberations. Since the end of the war the International Chamber has been happy to welcome new national committees from Canada, Egypt and Mexico, and has been gratified by the reincorporation of national committees from Austria, Bulgaria and Hungary.

In an endeavor to promote the organization of national committees in Latin America, I made a trip during March and April through Central and South America. This trip was for the purpose of explaining to the Chambers of Commerce and individual business men of the countries visited the new status of the International Chamber as a consultative body to the Economic and Social Council, and to urge upon them the desirability of forming sections of the International Chamber in their respective countries.

In talking to these groups I took particular pains to emphasize the fact that there is no conflict between the International Chamber and any existing regional group such as the Inter-American Council of Commerce and Production; that the International Chamber is the only organization of its kind which can represent the opinion of the business men of the entire world before the Economic and Social Council, but that this does not in any manner affect the usefulness of such regional groups in connection with the purposes for which they were formed. This fact is now thoroughly understood and recognized by everyone concerned.

I am glad to be able to report that sections of the International Chamber are now in the course of formation in Cuba, Argentina, Chile and Uruguay, and the existing sections of the International Chamber in Brazil and Peru are being reactivated. I believe that additional sections will shortly be formed in Panama and Venezuela and in other countries in South and Central America.

The deep interest in our organization, so definitely manifested in Latin America, finds its origin, I believe, in the support which the International Chamber has given to the free enterprise system — the only system which makes for "Freedom and Economic Progress."

Political freedom insures to the individual complete equality before the law, the full right to express his personal beliefs and convictions, the right to follow his own intellectual bent, the right to work or not to work, the right to move his domicile, and the untrammeled authority to elect the officials of government. Political freedom emphasizes the inherent dignity of the human being and makes the self-realization of the individual the main objective of social endeavor. Economic freedom insures to the consumer the right to budget his money income, to apportion his income between spending and saving and to allocate his spending among the various types of consumption goods available for purchase. It is these twin freedoms—the one dependent upon the other—that have accounted for the intellectual and material progress in the free nations of the world.

Factors in Economic Progress

Economic progress is not attainable unless full expression is given to the dynamic forces and the inventive genius of society. The release of dynamic forces and the stimulation of inventive genius can take place only in an environment of political and economic freedom.

Political and economic freedom are the essential ingredients of the free enterprise system. In the early days of the Industrial Revolution, the economic theory of the free enterprise system was set forth by Adam Smith in his epochal work, "The Wealth of Nations." More than one-fourth of this study was devoted to a relentless criticism of 18th Century mercantilism. The mercantilism of that earlier period finds its modern counterpart in economic nationalism, which spread with epidemic furor during the Great Depression and culminated in the conditions leading to the second World War.

Mercantilism of the 18th Century held that individuals existed for the State, and that the State must become all-powerful in the control of political and economic affairs. This attitude of mind has, in the cycle of history, come once again to the fore in totalitarian economies and in the doctrines of those who advocate planned or directed economies.

"The obvious and simple system of natural liberty" was Smith's name for the kind of economy that should replace mercantilistic regulation of international trade, State-subsidized monopoly, laws restraining the mobility of labor, and the guild control of prices, techniques of production, and entry into occupations. In the view of Adam Smith, national welfare was not attainable if monopoly profits were realized from the production of restricted quantities of goods and from their sale in markets protected by the State. National economic welfare was identified with the greatest consumption. This goal was to be approached by widening the avenues of trade; by allowing consumer preferences to influence the quantities, varieties and prices of goods produced, and by permitting entrepreneurs and workers to choose the most remunerative trades without deference to the vested interests of guilds and monopolies.

Over the past 50 years the functions of government in modern democratic society have experienced great expansion and the State exercises many functions not envisaged by Adam Smith. Intervention by the State in economic and social life is not necessarily contrary to the tenets of economic liberalism. It may indeed be required to make a free market economy fully operative and to give the fullest possible protection to the human and natural resources of society.

Provision of full educational opportunities, the protection of workers against occupational hazards, of investors against fraud and consumers against deleterious products, and the conservation of natural resources are desirable goals of policy which underlie State activity in many fields. The control and curbing of natural and economic monopolies are necessary to make the market a truly competitive one and to equalize bargaining power among various groups in the community. State intervention is desirable when it insures that minimum of security to individuals, which itself is a condition of independence and economic freedom. Advancement by the individual above this minimum to a position of prestige and responsibility must depend upon his own abiltiy and initiative.

The economic structure and attitudes of the community must provide incentive for maximum individual attainment based on maximum economic contribution. The limits of desirable State action in a free-market economy are set by the requirements that its objective is the welfare of the entire community and that the State maintain its independence of any pressure or special interest groups. I am sure that Adam Smith himself would have fully subscribed to these doctrines, opposed as he was to all those restraints which make for economic monopoly and special privilege.

Government Regulation vs. Totalitarianism

The expanding functions of government in a free-enterprise economy, often necessary to restore competitive balance, need to be distinguished from the economic controls imposed in a totalitarian or in a planned or directed economy. The area of private initiative and responsibility is still large. Rules are general and not intended to discriminate among individuals. Consumer preferences still determine the allocation of productive resources. Competitive profits continue to be the test of managerial efficiency and correct judgment in pricing. Economic resources flow to the channels reflecting the most intense market demand of consumers.

There would be little dispute with the deviations from complete *laissez faire* needed to make markets truly competitive, to protect natural resources from wasteful depletion and individuals from exploitation. But over the past several decades numerous departures from *laissez faire* have occurred which have been competely unjustified and have been of such a character as to undermine the free market economy, to destroy individual freedom and to check economic progress.

Instances of undesirable deviations can be cited without number. Business men have on occasion furthered monopolies and cartels in order to fix prices, limit production, allocate sales and stifle innovation. Agriculture has frequently demanded immunity from competition by insistence upon price fixing, bounties, export subsidies and international commodity agreements. Labor unions, strong enough to enjoy a monopoly position, have prevented the most efficient use of human and material resources by restrictive apprenticeship regulations, by "make-work" rules and by other measures to control access to the labor market and to limit production. Strongly entrenched interests have demanded special protection and privilege by tariff legislation and other forms of State intervention. All of these measures and many others are directed towards reducing the "risks" of the market. By hamstringing economic and personal freedom and by giving rise to insistent demand for complete State intervention, they evoke the greater risk of destroying the free enterprise system.

Fearful of unemployment, society itself may demand that the State take action which is inimical to full production and which may destroy personal and economic freedom. This action may require the State to insulate the domestic economy from the allegedly detrimental effects of foreign economic developments, to camouflage inflation through continuous use of price and rationing controls, and to peg the rate of interest and to prevent it from exercising its basic function in the allocation of investment funds. In consequence, if these processes are permitted to continue, the State is drawn into the exercise of complete domination over the economic system and resorts to controls of such a totalitarian character that individual freedom and initiative are destroyed. Economic progress is retarded and the dynamic and resilient qualities of free competitive enterprise cease to exist. Society has surrendered its birthright.

Full employment may be achieved but it is the specious full employment of a police state and not the full employment of an expanding economy. The state becomes all-powerful. Freedom, which is the basis of economic progress, no longer exists.

Freedom in Foreign Trade

Nowhere has state intervention been more pronounced or more detrimental to general welfare than in the field of foreign trade. Such interventionism may have its roots in the political power of vested interests or in certain ideological considerations. By means of exchange controls, tariffs, customs formalities, bilateral agreements, import quotas, export subsidies and a host of other measures, many a modern state has tried to influence and control its trade balance. The rationale of such measures may be that of protecting home industries, of stimulating domestic industrialization, of achieving economic self-sufficiency or of insulating one economy against the alleged pernicious practices of another, or, as in the case of Hitler Germany, of making use of such devices in order to make war.

Whatever the reasons conjured by its advocates, economic nationalism interferes with maximum production and consumption, involves far-reaching domestic controls and discriminations among economic groups, leads to trade warfare and eventually destroys the basis of peace. Full recognition of these consequences has prompted the International Chamber from its inception to oppose unreservedly the devices of economic nationalism and to favor the elimination of trade barriers.

The International Chamber holds this truth to be self-evident: that freedom and economic progress are possible only in a regime of free competition in which the allocation of resources among various possible uses takes place by a decentralized pricing system rather than by direction from a central planning authority. The interplay of individual economic units determines what resources shall be used, what goods shall be produced, what methods of production shall be employed, and how much of the product shall be distributed to each member of the community. The competitive pricing of land, labor, materials and equipment serves as a guide to their most economic use and as a stimulus for the further development and employment of skills.

International competition is one of the most important aspects of

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Freedom and Economic Progress

(Continued from page 29)

a free-market economy. Only freedom in world trade will bring about the most rational use of the economic resources of all nations and the highest standards of life for all peoples. Certain resources do not and cannot move freely across international boundaries. These immobile resources include the peculiar geographical endowments of each region (its minerals, soil, water, and climate), the skills of peoples with varied cultural backgrounds, and the quantity and type of accumulated capital goods. Not the absolute quantities, but the proportions in which different resources are supplied to a nation determine the ways in which its people earn a living.

When freed of nationalistic restraints, international trade brings about an optimum utilization of the world's resources, both material and human. Trade is essentially an individual endeavor—it call for initiative, ingenuity, daring and the willingness to accept risks. It is the free play of these qualities that has developed the resources of the world and raised living standards. When international trade is state-controlled, under either the old or the new mercantilism, the vital dynamic factors of individual ingenuity and incentive are lost. Trade becomes the object of bureaucratic regulation. Its creative features are attenuated and ultimately lost, and bilateralism is substituted for the rich multilateral pattern of freedom in trade. Economic progress is stifled, and individual liberty declines.

Restore Multilateralism

Our present problem is to reduce trade barriers and to restore multilateralism in trade. Only if trade barriers, in all of their multitudinous forms, are drastically reduced will the world's natural resources be used most productively and the world's raw materials and markets be available to all peoples. The return to multilateralism in international trade will also bring about the elimination of undesirable domestic deviations from a free market economy. Far-reaching domestic controls are incompatible with multilateralism in foreign trade.

The domestic controls now existing in many nations are a heritage of the war. In time of total war, it is to be expected that human and natural resources will be directed into the channels essential for the winning of the war. Economic controls are needed to implement the plans of military staffs. The goal of all such plans is the preservation of the state—a goal which is at once direct and simple and which meets with full acceptance.

The direct and simple goal of state planning in war has no counterpart in peace. There is no single, all embracing goal. Consumers have many preferences which find expression in the market place in the purchase of goods. These purchases establish, in an essentially democratic fashion, the economic goals of society, and direct human and natural resources into desired channels.

The longer wartime controls continue, the more they become part of the fabric of economic life and the more difficult their eventual elimination. The longer wartime controls persist the more insistent is bureaucratic demand that they be continued, in order to conceal the inflationary consequences of state policy and the defects of state planning.

However immediately painful the transition from a controlled to a free market economy, it must be made if consumers are to have freedom in expressing their preferences for goods and services, if labor productivity and entrepreneurial initiative are to be stimulated, and if economic progress is to be furthered.

Free Economy and Trade Depressions

Opponents of the free market economy declare that only far-reaching governmental controls can eliminate cyclical fluctuations in business activity and employment. They allege that the inherent defects of private capitalism subject free market economies to periodic breakdowns. In particular, they point to the United States as a notorious example of economic instability and affirm that, through either unwillingness or inability to control economic fluctuations, the United States is destined to experience deep depressions. Therefore, they conclude that the world should not tie itself to an unpredictable and fluctuating American economy through such instrumentalities as the International Monetary Fund, the International Bank for Reconstruction and Development and the proposed International Trade Organization.

These same opponents of the free market economy blame the depression of 1931 to 1933 on American policy. Blame cannot be so narrowly concentrated. The length and severity of this depression, are, in the main, to be attributed to policies of narrow economic nationalism, by which nations attempted to insulate their economies against world developments and to improve their own position by actions which beggared their neighbors.

The multiplication of trade restrictions, price fixing, currency depreciation, gold devaluation and exchange controls nullified the free market economy, intensified the depression and undermined the basis of peace. Had the policies of economic liberalism advocated by the International Chamber been adopted, the Great Depression would doubtless have been restricted to a corrective recession.

Distinction Between Recession and Depression

One must, of course, make a distinction between recession and depression. Recessions are to be expected in a dynamic economy and represent temporary deviations from rapid upward growth. Since the end of the war, certain distortions have occurred in the price and income structure of the American economy, which may lead to recession. Recessions which correct such distortions are not to be feared. Corrective recessions of this character are not accompanied by large unemployment or great deflation. They are necessary to reduce costs and prices to a level which permits an economy to function to best advantage. Moreover, they serve to increase labor productivity and managerial efficiency and lay the basis for further improvements in living standards.

It should always be remembered that it was the dynamic qualities in the American industrial system which permitted the United States to become the arsenal of democracy during the war. It was these qualities that made possible the rapid conversion to war production, that enabled the United States to build up huge land and sea armaments, to extend Lend-Lease aid to the United Nations and to equip and maintain military forces in Europe and Asia. Again, it was these dynamic qualities that permitted the rapid conversion from production for war to production for peace.

Europe does not need to fear that an American postwar corrective recession will degenerate into a depression. The United States is well aware of its strategic role in the world economy, of the need to have an economy free from exaggerated boom and deep depression, of the need to import the products of other nations, and of the need to share in the economic rehabilitation of the world.

To adopt state planning and controls in an effort to escape recession is to substitute stagnation for progress. The economy becomes overburdened by the unproductive labor of a growing multitude of government officials and becomes entangled in the web of bureaucratic control.

The International Chamber stands for a free market economy both internationally and domestically and will continue to oppose the mercantilism of the modern age, just as Adam Smith struggled against its prototype of the 18th Century. To this end, it gives its full support to all efforts to restore multilateralism in trade and to eliminate the repressive domestic economic controls which are a heritage of the war. The International Chamber gives its full support to free market economies because it is convinced that a free enterprise system alone permits full individual freedom and maximum economic progress. "Freedom and Economic Progress" are indivisible.

N. Y. Stock Exchange Golf Tournament

About 200 members of the New York Stock Exchange will engage in their 48th annual golf tournament on Tuesday, July 1, to be held for the second successive year at the Winged Foot Golf Club, in Mamaroneck, it was announced by James McKenna, James McKenna & Co., Chairman of the New York Stock Exchange Golf Association.

At stake will be the Governors' Cup, donated by the Board of Governors of the Exchange, which is presented annually to the player turning in low net score and which was won last by Arthur H. Lamborn, of De Coppet & Doremus, who carded 87-22-65. For permanent possession the Cup must be won three times by the same member. Low gross last year was a 74, turned in by Robert J. Jacobson, Luke H. Rose & Co.

As in previous tournaments, prizes will be awarded to golfers for low net, low gross, runners-up, holes-in-one, most birdies, and, also, to the player taking the greatest number of strokes on a hole to be selected by the Committee.

Emil Schram, President of the Exchange, and Robert P. Boylan, Chairman of the Board of Governors, will be guests of honor.

Vice-Chairman of the New York Stock Exchange Golf Association is Henry Picoli, F. H. Douglas & Co., and John K. Cloud is Treasurer.

H. R. Shepherd, Others With Penington, Colket

Penington, Colket & Co., 70 Pine Street, New York City, members of the New York Stock and Curb Exchanges, announced that the following have become associated with the firm as registered representatives: H. Rudolph Shepherd, formerly a partner in the firm of Charles Slaughter & Co., Joseph B. Dubreuil and Joseph T. Mattina, both of whom were formerly with the latter firm. Prior to joining Charles Slaughter & Co. in 1945, Mr. Shepherd and Mr. Mattina were with W. E. Burnet & Co. Mr. Dubreuil previously had been with Baker, Weeks & Harden.

Accountants Ignore Economic Costs

(Continued from first page)

at the beginning of the year costing $5 each and 1,000 duplicate pairs at the year-end costing $10. (In the past 12 months many prices have doubled.) According to standard accounting the $5,000 difference in value of the two inventories is considered a profit. If the proprietor accepts his accountant's figures as correct and adjusts his costs and selling prices to produce a normal profit, and then withdraws it as is his custom, he will find that he must secure $5,000 in new capital. In short, starting with 100% ownership of this stock at the beginning of the year, and following the identical policies of previous years, he ends the year owning just one-half of the inventory or 500 pairs of shoes. If the new capital is supplied by means of a bank loan, then the bank has in effect a first mortgage on his assets and a considerable voice in policy. This will be referred to again, as it is not a trifling development.

The loss of ownership of 500 pairs of shoes in one year although the income statement presented by his accountant assured him that the year produced a normal profit, no doubt upset the proprietor. When large corporations owned by thousands of persons, employing other thousands, and selling to millions run into the same situation, then the dislocations become of public interest. A brief discussion of one of the most skillfully managed large corporations will show that all three groups have a vital interest in whether the $2 of the original illustration is a true or a fictitious profit.

On June 30, 1946, Procter & Gamble had an inventory they valued at $57 million. The physical description of this is not available, but we do know what happened to major components of the inventory—fats and oils. The Bureau of Labor Statistics Index of Fats and Oils rose 178% between that date and the end of the year. Assuming the stated value of Procter & Gamble inventory rose only 100% and the physical size remained unchanged, then in that period $57 million was added to the income statement.

This $57 million corresponds to the $2 "profit" of the original example. Profits before taxes in this six months were reported as approximately $50 million—substantially higher than in any previous *annual* report and of course comparing quite favorably with the $16 million reported in the same period in the previous year. It seems evident that inventory "profits" were indeed large, and this is borne out by a reserve of $14,500,000 set up against possible future price declines.

As the $2 "profit" of our illustration was in fact reported, it becomes of prime importance to know whether it was disbursed—in other words, did capital actually leave the company? Taxes of $18,794,000 were paid. If our assumption on inventories is approximately correct, then there was no profit and no taxes should have been paid. Dividends on the common and preferred stock amounted to $6.5 million. *These two figures combined are in excess of the stated value of the common stock.* Furthermore, if on the same physical size inventory the stated value doubled, then $7 million went to subsidize the consumer.

Effects of Exaggerated Profits

The social effects of reporting such large profits in a period of rising prices are, of course, obvious and will be mentioned somewhat later in the article. Here, with the benefit of these three examples, the fact that the $2 "profit" is truly fictitious can be established. Proof will take the form of describing the beginning of standard accounting. This will reveal that at the base of standard accounting there is an assumption governing all practices other than those of a financial institution, that is quite contrary to demonstrable fact.

The first private institutions to keep fairly complete bookkeeping records were banks. Unfortunately for the soundness of present day accounting methods all but a nominal amount of the assets and liabilities of banks are pieces of paper giving an exact statement on their face as to their worth in the national currency. As the affairs of merchants and manufacturers expanded and required banking facilities, they gradually took over the same accounting practices as the banks. Overlooked entirely was the fact that the accounts in these latter cases were attempting to describe physical property and physical transactions and not paper of a stated value. Bankers could safely assume that if they had a note worth $5 at the beginning of the year it was replaced with one for $7 at the end of the year, they had a true profit of $2—other things being equal. For them the dollar was a sound yardstick.

The yardstick will measure the same height at any time or place. The dollar obviously does not measure the same quantity of goods at the beginning of the year as it does at the end. Consequently it is not a sound yardstick. However, accountants translate all physical property into dollars at the beginning of the year and call it a balance sheet. They perform the same operation at the end of the year, and they consider the difference to be a profit or loss (other things being equal) regardless of any changes in the physical property. This forces the reporting of a profit in a period of rising prices even though physical assets may actually be declining. It forces a showing of losses when prices are falling although assets may actually be increasing. *Stated briefly standard accounting is based squarely on the premise that prices never change.*

The assumption that a dollar will buy exactly the same quantity of goods at any time or place creates a fantasy of figures that has been a prime element in our current social and economic disorder.[1] In order to correct this, businessmen must insist that their accounts reflect the fluctuation in the value of the dollar as it affects their business. In short they must know their economic costs.

Economic costs are those that reveal profits only when those profits can be withdrawn and leave the physical property intact or substitute enough fiscal assets to restore the physical property to its previous condition at current prices. Space here permits only a broad outline of the changes in accounting practices necessary to show economic costs.

Inventory Accounting

A few astute accountants have for years been advising their clients of the possibilities of inventory situations arising such as just described in the case of Procter & Gamble. Many companies have taken steps to reduce the impact of these major fluctuations. Under the praiseworthy leadership of Senator George, lately Chairman of the Senate Finance Committee, some new accounting procedures were authorized and made legal for tax purposes. The most famous of these is Last-in, First-out, or "Lifo." This has become so well known in the accounting profession and among businessmen that only passing mention is necessary. In brief, Lifo principles assume there is always a basic amount of inven-

[1] See later quotation from a speech by Mr. Enders M. Voorhees, Chairman of the Finance Committee of the United States Steel Corp.

tory a company must maintain to keep operating. Consequently any changes in value should not be called income, just as a change in the value of a building owned by a company is not income. By charging into the cost of sales the current cost of raw materials (or whatever makes up the inventory) then most inventory "profits" are eliminated. Management thus made alive to the real nature of a major item of cost would no doubt arrange their policies differently so that costs are kept in line. This incidentally has a direct bearing, which will be mentioned later, on the boom and bust economic cycle.

Increased Cost of Capital Replacements

Inventories are but one item on the asset side of the balance sheet. The other major item is in most cases the property account. Depreciation is set up for this designed to produce enough financial resources to restore these properties as they wear out. Although this is the express theory of standard accounting, no allowance is made for a permanent rise in price levels. Depreciation is set on the basis of the original cost, whereas only slight familiarity with building costs is enough to demonstrate that such depreciation will not provide the capital necessary to replace such property. For instance, Mr. Charles M. White, President of the Republic Steel Corporation, said:

"It cost us three and one-half to four times as much to rebuild blast furnaces, coke ovens, and other equipment as it did from 1913 to 1918, when most of the steel industry was built."

From these figures it is apparent that using standard accounting methods only 25% to 29% of the capital needed to maintain the steel industry on a continuing basis was provided. Capital must be found elsewhere in the future to make up this difference, just as it has had to do in the past. It is a very important public matter who is to provide the 71% to 75% new capital required. Obviously replacement costs must be considered in arriving at the proper depreciation charge if the theory behind all depreciation is to be fulfilled. In this connection, Mr. Ernest T. Weir, Chairman of the Board of the National Steel Corporation, in his letter to stockholders on the occasion of mailing the 1946 annual report recommended a change in Federal tax laws for depreciation giving recognition to the fact that replacement costs are greatly in excess of original costs.

The final major asset items are cash and receivables. Changes in the prices the company receives for its products directly affects the size of these two accounts. The prewar dollar is now, according to the Bureau of Labor Statistics, worth 65 cents. Businessmen must, therefore, find over 50 cents more for each dollar of cash and receivables held before the war merely to maintain the same physical volume. If it is not secured as regular income, then it must be replaced by new capital. (Total requirements will be reduced by a corresponding rise in bills payable.)

Mention has been made of the three principle groups of assets and the charges that must be made in each case to show economic costs. The basic false assumption of standard accounting that the dollar is an accurate yardstick has produced an even more inconsistent and patchwork method on the balance sheet. Inventories are valued at cost or market, whichever is lower. In a period of rising markets inventories might be several million dollars under market prices. This would produce an automatic profit in the following quarter. Property is carried at cost, which may be only a very small fraction of its replacement value. Cash receivables are obviously carried at realizable figures. In short, in each instance a different method is used. As a result management, the owner, and the collector of basic statistics are in the dark as to the true nature of corporate assets. Incidentally, the major weakness in the Lifo inventory method is that inventories are generally carried substantially below market values.

A correction of the situation calls for all assets to be carried at market prices prevailing on the date of the balance sheet. This is easily done in the case of cash, receivables, and inventories. Property accounts are more complex. One suggested method is that an engineering survey be made every five years to determine current worth. In the intervening years an adjustment up or down can be made from the fluctuations on any generally recognized index of building, machinery, etc.

Such an asset sheet would for the first time reveal the true nature of the company's assets. No doubt standard accountants will object that assets cannot be written up or down according to changes in prices. They ignore the fact that that is exactly what is done by them in the case of inventories. How it may be done and still preserve a close check on operations can be seen by a glance at the liability side of the balance sheet. Here three new items can be shown. The difference between the base stock inventory and the market value of the inventory shown on the asset side can be shown as follows:

"Surplus adjustment for changes in the dollar value of the inventory—$50 million."

The next item would show the surplus adjustment for any charge to the income statement necessary to maintain the position of cash and receivables. The final entry would, of course, show the difference between costs and replacement value of property less depreciation charge. In this way the stockholder would know the exact impact of inflation on his corporation, and be assured that his capital is maintained intact so long as no losses are reported in the income statement.

Mr. Voorhees' Criticism

Mention has been made several times that a continued ignoring of economic costs by accountants produces dislocations that have serious social consequences. The Chairman of the Financial Committee of the United States Steel Corporation, Mr. Enders M. Voorhees, puts it this way:

"The main fact today is that American industry is not in nearly as sound financial position as it is too often prone to think it is. This is complacency that is ominous. It is a common fallacy to suppose that war breeds prosperity. But such a supposition flies in the face of inner conviction and certain knowledge of the awful wastes of war in lives, wealth, and resources. How, then, do people derive the notion from the records we compile that everything is happy, healthy and prosperous? I think the answer is that war breeds a fantasy of figures and the fantasy is too often mistaken for fact. War wrenches the economy as nothing else does; the economic changes wrought are of seismic proportions. On cost accountants rests the responsibility for accounting for the cost of economic change over and beyond their habitual practices, so that management and social decisions, often of a portentous sort, may rest on the facts as they are and the truth as it is."

And, continuing further, he noted—"that many companies are discovering to their dismay that the cash they thought sufficient is now insufficient to cover the increase in requirements for receivables, inventories and building programs. Many companies that thought their cash would be sufficient have been driven to borrow money. Some will even have to go back for more before all the economic costs of war will have been experienced. Persistence in disregarding economic costs as they occur will eventually bankrupt many businesses. We should use our hindsight to improve our foresight," and he concluded that "failure to establish and present today's and tomorrow's costs in understandable fashion weakens and may ultimately destroy the ability of a business to continue its job of profitably producing goods and services for exchange. More than that, such failure can cause industry to lose its case at the bar of public opinion."[2]

The last sentence is borne out by the events of the winter and early spring of 1946-1947. The price rise following the end of OPA brought hardship to many households. As corporation profits for the last quarter of 1946 and the first quarter of 1947 began to appear, it grew increasingly clear that business was reaping the largest profits in a generation. The squeeze on the family pocketbook combined with these large profits produced a clamor that reached the White House. Charges were hurled from all sides as to who was to blame for the situation. "Business Week" summed up the situation in an editorial on April 12, 1947, as follows:

"As we read the record, American business is in the process of accumulating a black-eye on the price front."

Two Examples Cited

Two examples will show how vulnerable business became through the figures which they reported as facts, but which we have seen are not facts. In the last six months of 1946 Procter & Gamble as we noted showed earnings three times the 1945 level. The first quarter of the new year the company declared an extra dividend 150% of the regular dividend. It then raised prices 5% and in the following quarter declared a second extra dividend 150% above the regular. For the fiscal year ending June 30, 1947, more money was paid out in dividends than was paid in all its long history of dividends going back to 1891. Government, labor unions, housewives, look at the facts as the company presents them and conclude that profiteering on a large scale has taken place. The company is losing its case at the bar of public opinion. But the real facts are that Procter & Gamble had a loss, or at best a very small profit, from operations in the last half of 1946. Section 102 of the Tax Laws compelled the company to pay 70% of earnings out in dividends unless cause for not doing so could be shown. As a result, management forced by their accounting methods to show a large fictitious profit were forced again to pay out those "profits" in dividends.

It seems unlikely that Procter & Gamble could reduce prices much in the spring of 1947 despite the pressure of public opinion because by then the high prices of the winter are finally entering cost calculations. For instance, Mr. Francis, Chairman of the General Foods Corporation, said: "In every major category our goods are priced below present cash commodity values." In other words the stockholders' capital was being given away and price rises rather than reductions were in prospect. Yet here, too, at the stockholders' meeting where this was said, the annual report given out at the time showed very large profits.

Mr. Straus, President of R. H. Macy & Company, was put in the same predicament by his accountants. On April 5 he ran full-page advertisements in the New York papers expressing the view that prices were too high and profits above normal. In the next 10 days he emphasized publicly a number of times that prices should be reduced. Ten days after the original advertisement he issued a report to the stockholders showing that his company had earned $5.94 per share in the past year compared with $2.53 in the previous year.

It is perhaps unfair to select a few companies for illustration of the consequences of ignoring economic costs. It should be realized that these companies were picked at random, and the same situation prevails throughout most of American business.

Serious as this loss of prestige is to American business coming just when for the first time in 15 years it was on its own, the full implications of Mr. Voorhees' remarks on the possibility of business losing its case at the bar of public opinion are even more disturbing. Until business stops spending its capital in booms, as it is doing at the present time, and trying to increase it in a depression, the boom and bust cycle will continue. If all the physical records were available, they would probably show that the annual report of Procter & Gamble dated June 30, 1932 (the very bottom of the depression) in a stronger financial position than at any time in its history before or since. Real capital was being added at a tremendous rate throughout the early years of the depression. This over-saving on the part of business generally contributed enormously to the downward spiral. Without it only the tight credit and speculative situation prevailing in 1929 had to be liquidated, and no long decline was necessary.

Brief mention should also be made of the effects on business of sizable inflation where standard accounting is adhered to. Capital, as pointed out, leaves a company in proportion to the impact of inflation on it. If the capital is not replaced, then property must be permitted to deteriorate. Capitalists in both England and France were quite vulnerable to charges by socialists that they were bad managers and permitted their property to become old and outmoded. They could not defend themselves on the ground that they had no capital as their balance sheets showed constantly increasing capital. Actually they were running out of capital just as businessmen in America were not making profits in the winter of 1946-1947.

A description of the problems of businessmen in France by a Frenchman may make the situation clearer:[3]

". . . . Monetary assets, that is demand and short term debts, progressively replaced in the balance sheets of concerns the real values which formerly appeared, such as inventory for equipment . . . the consumption of stocks and the depreciation of equipment were computed, as a rule, at their original cost. . . . When, at the end of the war, entrepreneurs began to reconstruct their equipment and inventories, both wages and prices had greatly risen. Therefore, the actual cost of this reconstruction proved to be higher than the reserves built up to pay for it. In fact, the working capital had partially or even totally disappeared and in order to reconstitute it many concerns were obliged to increase their capital or to borrow."

Bank borrowings in this country, as Mr. Voorhees warns, are increasing steadily and are now 50% above a year ago. Economists know well that banks become simply an arm of the Federal Treasurer whenever the public debt reaches large proportions. Should the trend of bank borrowings continue, the day would come when the banks would own the liquid assets of business and the government control the banks. This is Socialism in fact; the changing of the name soon follows as it did in France and England.

Conclusion

The businessman has it in his power to change accounting methods to show true costs. Unfortunately the Internal Revenue Bureau recognizes economic costs only in the case of inventories. Consequently except for those corporations alert enough to change inventory methods before the war, the entire war and postwar inflation has drained large amounts of private capital into the Federal Treasury. With the corporate tax of 38% and Section 102 compelling dividends at least 70% of profits, it is essential that the Treasury Department recognizes costs that are economic costs. Even though businessmen may change their accounting to show economic costs, two other essential changes must be made, over which they have no control. These are:

1. It is essential that the Treasury Department recognize depreciation based on replacement values in computing income.
2. It is essential that taxes paid in recent years on fictitious profits be refunded.

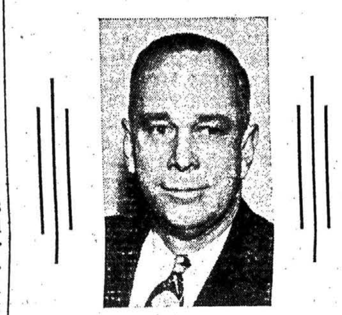
2 "Commercial & Financial Chronicle" Jan. 2, 1947.

3 J. DeLargentaye, Executive Director of the International Monetary Fund, reported in the "Commercial and Financial Chronicle."

J. R. Postlethwaite With Davis, Skaggs

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—J. Russell Postlethwaite has become associated with Davis,



J. R. Postlethwaite

Skaggs & Co., 111 Sutter Streeet, members of the San Francisco Stock Exchange. Mr. Postlethwaite was formerly vice-president of the First California Co. and prior thereto was an officer of Brush, Slocumb & Co.

Big Registration for Bond Club Golf Meet

More than 150 Wall Street golfers have registered for the golf tournament which will be a leading feature of the Bond Club Field Day to be held at the Sleepy Hollow Country Club, Scarborough, N. Y. on Friday, June 6, according to William H. Morton, W. H. Morton & Co., Chairman of the golf committee.

Three cups, in addition to various special awards will be distributed for play in three handicap classes. The ex-President's cup will be awarded to the player turning in low gross on the Sleepy Hollow upper course. The Hamilton Candee trophy will go to the individual with low net score and the Robert E. Christie, Jr., trophy will be given for handicap match play against par.

Mr. Morton announced that both upper and lower courses of the Sleepy Hollow Country Club will be open for play at 8 a.m. Friday.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—Philip M. Hawley has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

The Future of the Steel Industry

(Continued from page 3)

which has the properties that make steel predominant.

The Iron and steel industry has been the foundation on which the economic structure of the United States has been built. It has flourished here because we had the raw materials and the initiative to use them so that today we produce half of all the steel made in the world. Twice within a generation these great resources have enabled us to become the arsenal of democracy, and provide not only weapons for our own use but support for those who were fighting the common cause and who, without our help, would have failed.

While we have fulfilled the needs of the nation in peace and in war in the past, let us have a look at the future of this industry and review some of the problems and conditions that it will encounter in the years to come. It is important that we give heed to some of the things that lie ahead of us so that the industry may continue to be able to serve the nation adequately in peace and in time of national emergency.

Probable Future Steel Needs

There was a rapid increase in the demand for iron and steel in earlier years when we were expanding our manufacturing industries and our transportation systems at an enormous pace. We cannot pay very much attention to the rate of growth of the iron and steel industry or to the rate of consumption prior to the beginning of the 20th Century. We were then only learning to fabricate and use iron and steel and developing many of the methods that enabled us to make the great progress that followed. It is true the steelmaking processes originated abroad, but it was American initiative, invention, resourcefulness and general drive that made this the dominant iron and steel producing nation of the world.

The per capita consumption during the 30 years prior to the last war remained fairly constant. It is true that there were wide fluctuations upward and downward during the business cycles, but the overall per capita, long-term demand remained practically steady. For instance, the average per capita domestic demand for steel, based on ingots produced from 1911 to 1920, was 666 pounds, and from 1921 to 1940 it was 668 pounds. When we break this period down into shorter intervals we find some interesting comparisons. In the ten years from 1921 to 1930, when we had a period of considerable expansion and rehabilitation following the First World War, the per capita domestic demand averaged 770 pounds. In the decade from 1931 to 1940, when we went through a period of unprecedented depression during much of which business practically stagnated, the average per capita demand dropped to 576 pounds. This is, however, a cyclical variation.

In considering production, exports must also be reckoned with. Our exports have varied considerably in the past, and if we were only looking at the immediate future, we might anticipate that export demands would take up whatever excess capacity there might be available in this country; but the problem is not quite that simple.

The devastation of Europe has brought about needs that probably will have to remain largely unfilled until European production can catch up with Europe's requirements. It is not likely that we will be exporting any large quantities of steel to Europe unless we adopt a policy of giving away our resources.

The pent-up demand in other countries, particularly South America, will probably be supplied by the United States to a large extent, and most of these countries have financial resources with which to buy the steel they need. It is not likely that Europe will be able to take its place in these markets for some years to come.

In considering the magnitude of the export demand, we probably will not be far wrong if we assume that it will follow pretty much the same pattern as existed prior to the last war. During the 30-year period from 1911 to 1940, which included World War I, export shipments of semi-finished and finished products averaged less than 11% of the domestic demand. During the period from 1921 to 1940, when there was active European competition in the world markets, the export demand dropped to less than 8% of our domestic consumption.

Export demand following World War II may well be substantially greater than the prewar average, but it is not unreasonable to assume that the long-term demand for steel products from the United States, in view of the availability of steel from wartime developed productive facilities in foreign countries, will again revert to low levels after initial needs are met.

The United States Census Bureau has estimated the population of the United States as of Jan. 1, 1945, to be approximately 140,000,000. Projecting present trends to 1975, the Census Bureau has estimated that the population at that time will be approximately 163,000,000.

If we make an optimistic assumption that the average annual per capita domestic consumption of ingot steel will approximate 700 pounds, or 5% greater than the annual average for the preceding 30 years, and an average export demand equivalent to 10% of the domestic demand, the average demand for ingot steel would approximate 54,000,000 tons for the present period with an average demand by the year 1975 of 63,000,000 net tons. Certainly on the basis of average operation, we can conclude that the present ingot capacity of over 90,000,000 tons will be adequate to meet the needs for some time to come.

Unfortunately, in the past we have never been able to operate on any average basis; rather, it has been a matter of peaks and valleys. The question arises as to our ability to meet the expected peacetime needs. We are all familiar with the unprecedented demand that confronts us today. However, we must not be blinded by this temporary condition in considering the future.

In attempting to evaluate the maximum annual demand for steel, we may place some reliance on the patterns established in the past to the extent that the peaks and valleys can be measured in terms of a common denominator. The yearly sequence, of course, cannot be established with any degree of accuracy, but the maxima and minima should be reasonably valid.

Since the immediate problem involves peacetime demand, the period 1920 through 1940 has been selected for analysis. Ingot production for each year has been analyzed to exclude export tonnages (converted to ingot tons equivalent), following which the remaining domestic tonnage has been reduced to the per capita average in order that appropriate recognition may be given to the increased demand of a growing population.

In the tabulation following it should be noted that during the 21 years, 1920 through 1940, only once (in 1929) did the per capita demand exceed 950 pounds. Twice (1928 and 1929) the demand exceeded 900 pounds per capita. In only eight years did the demand exceed 800 pounds per capita.

Domestic Demand Per Capita

1920	752	pounds
1921	350	pounds
1922	670	pounds
1923	847	pounds
1924	702	pounds
1925	838	pounds
1926	874	pounds
1927	802	pounds
1928	904	pounds
1929	978	pounds
1930	695	pounds
1931	448	pounds
1932	236	pounds
1933	400	pounds
1934	438	pounds
1935	576	pounds
1936	806	pounds
1937	798	pounds
1938	440	pounds
1939	754	pounds
1940	838	pounds

Average (Weighted)

1920-1929	770	pounds
1930-1940	576	pounds
Total	668	pounds

This cycle is shown graphically in Figure 1.

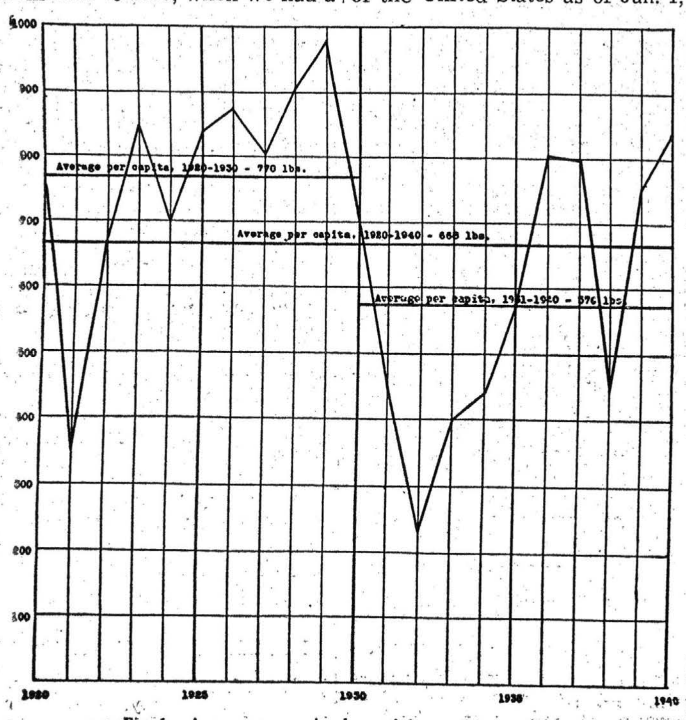


Fig. 1—Average per capita demand for steel in pounds.

It should be noted also that the greatest per capita demand occurred in the decade immediately following the First World War, when the average reached 770 pounds with a peak of 978 pounds per capita in 1929, whereas in the second decade of this period the average dropped to 576 pounds with a peak per capita demand of 838 pounds in 1940, which was influenced by prewar preparations.

The amount of steel which will be required for export in future years will be influenced greatly by government policy and the ability of foreign purchasers to establish credit or to make payment. It is not my purpose to attempt to estimate export demand but, based on historical experience, simply to accept and apply a figure which might be reasonably assumed to be a maximum in any given year. For this purpose, the equivalent of six million ingot tons is used and the assumed demand, converted to a per capita basis, is combined with the peak domestic demand in the following comparison for the immediate future:

Year	Estimated	Maximum Annual Per Capita Demand (in lbs.) of ingots — Domestic	Export	Total
1950	143,896,000	978	83.5	1,061.5
1955	148,186,000	978	81.0	1,059.0

The estimated annual peak demand in total ingot tons that might occur in the immediate future, reflecting the per capita demand shown above, is compared with the present ingot capacity of 91,241,250 net tons (Jan. 1, 1947, American Iron and Steel Institute) in the tabulation below:

Year	Present Capacity	Maximum Consumption Tons Steel Ingots	Per Cent Rate of Operations
1950	91,241,250	76,373,000	83.7
1955	91,241,250	78,464,000	85.9

While the present rate of operation exceeds the above indicated maximum demand per capita, it is a condition which I feel is temporary. For normal peacetime purposes a peak domestic demand of about 1,000 pounds per capita can be anticipated which would add about 2% to the above totals.

If we project this reasoning to the year 1975 with an anticipated population of 163,000,000, we arrive at a maximum demand of about 90,000,000 ingot tons, allowing 10% for export. This is so far in the future that any such speculation is of doubtful value except to establish the general order of magnitude.

It will be seen from this analysis that our present productive capacity would seem to be ample for our future needs for many years to come. However, I do not believe it is excessive because included in our present nominal capacity there is undoubtedly a great amount of equipment which is not economical and which probably should be discarded. It is my estimate, and I want to emphasize that it is only an estimate, that our probable real economic capacity in this country is somewhere around 80,000,000 ingot tons per year, which balances up pretty closely with the anticipated, or possible, demands within the next five or ten years. These figures would seem to indicate that no expansion in ingot capacity is required in the near future although, of course, there may be additional plants built either to replace existing uneconomical units or to satisfy some special needs.

Other Structural Materials

The dreams of a postwar world in which houses, automobiles, clothes and everything else will be made of beautiful, indestructible plastics have been pretty well dissipated. The solid fact that many structural materials, in addition to steel, received tremendous stimulus in both productive capacity and use during the war remains. The present scramble for materials has hidden the fact that eventually they must all compete upon a basis of properties and cost.

Before looking into the position of steel in this eventual battle, we can dismiss some popular contenders in a few words. The first of these are the plastics. Plastics are not structural materials. They do not have the stability, strength, toughness or low cost required in structural materials. They are corrosion resistant, decorative and often ductile materials. Nylon stockings represent a perfect application of a plastic; an automobile fender would be an absurd one. Plastic bonded plywoods come closer to being structural materials, but there is no indication that either their initial or fabricating costs will be reduced enough to make them effective competitors to the metals. They may very well supplement the metals.

Glass is actually a plastic and in strength, abrasion resistance and corrosion resistance one of the best. The high cost of fabrication and low ductility of glass prevent it from being a satisfactory structural material.

This leaves us with metals, and the only serious contenders to steel are aluminum and magnesium. Capacity to produce these metals as compared to steel is not impressive. After a terrific wartime expansion, the productive capacity for aluminum has settled back to about 650,000 tons a year and magnesium to about 50,000 tons a year. Since aluminum weighs only one-third as much as steel, and in many applications volume, not strength, is important, it is perhaps reasonable to consider one ton of aluminum equivalent to three tons of steel. So, a comparison on such a volume basis, which favors the light metals, is perhaps justified. This gives us an aluminum capacity equivalent to 1,950,000 tons of steel and a magnesium capacity equivalent to 225,000 tons of steel a year. The total light metal production capacity, therefore, is equivalent, on a volume basis, to 2,175,000 tons of steel or 2½% of the steel capacity.

How much of this capacity will eventually compete with steel and what steel products are liable to encounter competition depend upon a large number of factors. The tremendous versatility of steel makes comparisons difficult.

Steel did not become the dominant metal by accident. There is no other metal that has the unique properties which make it so valuable from engineering and constructional standpoints. I will mention only a few. For instance, its high modulus of elasticity, which is much greater than that of any other common metal, allows it to withstand great stresses without appreciable distortion. Another important fact is that steel has a definite proportional strength limit, and if not stressed beyond this limit, it will return to its original form and size. This property is not possessed by other common metals or alloys, but it is of vital importance in all permanent structures and machines.

A third characteristic of steel is its relatively high ductility and toughness compared with other metals. While we can produce aluminum alloys with an ultimate strength approximating that of the mild and common structural steels, it is only possible with a great loss of ductility. From an engineering viewpoint this is a very great disadvantage.

The ability of steel to be alloyed with other metals imparts to it properties useful in our industries which has widened its field of application and has opened the doors to new industrial developments. Without these alloy steels we could not have air power, we would not be able to required for our planes, and we produce gasoline in the quantities could not carry on many of the processes that are fundamental to our chemical industry. It is only necessary to look back, say 30 years, in any processing industry to realize how the development of steel and its alloys has made possible the tremendous progress that has occurred during that period.

The facility with which steel can be produced in varying degrees of hardness and strength to meet particular needs gives to steel a greater range of ductility and strength and other properties than any other metal or alloy.

Steel is by far the most plentiful and the cheapest of the common metals and the easiest to reduce from its ores and the simplest to fabricate.

Although I have mentioned only a few of the characteristics of steel it will be perfectly obvious to anyone with some technical understanding that steel has a unique position, and the other metals should not be considered as rivals or substitutes for steel, but rather as having properties which enable them to meet particular needs where their own peculiar characteristics make possible new engineering developments.

The light metals and their alloys will not make inroads on the steel industry. They will create their own fields, and their production will continue to increase.

In spite of all loose talk of what the future is likely to bring forth, after all, the final answer is based upon utility and economics. So far there appears to be no substitute for steel.

Raw Materials for Steel

The future of the steel industry is dependent upon many raw materials, the lack of any one of which is sufficient to cause annoying, if not serious, manufacturing disruptions. In periods of peace and normal operation, when domestic and foreign trade flows smoothly, we are not conscious of the myriad of raw materials which are directly or indirectly necessary for the proper functioning of the steel industry. But in times of war, when there is no longer free movement of these commodities, we become acutely aware of the need for them, and the failure to get tin, palm oil, vanadium, etc., resulted in such major changes in the industry as took place during the war, with which you are familiar. Many materials, such as iron ore, coal, limestone and common alloys are essential for the steel industry if it is to produce all needed products. Certainly, it is the responsibility of the individual companies to develop their sources for the raw materials that are needed and to maintain adequate inventories for peacetime needs. However, these companies are not in a position to maintain stockpiles of sufficient magnitude of the materials not produced in this country to carry us through periods of national emergency, such as we have just experienced. I believe the Metals Reserve performed a most useful function during the war, and believe that the bill passed by Congress in July, 1946, providing for the accumulation of national reserves of strategic materials, is an excellent means of providing against such future deficiencies.

There are two vital raw materials on which attention has been recently focused and on which I feel further comment is justified: iron ore and scrap.

Iron Ore

We have just finished a successful war in which the production of iron ore jumped from 28,500,000 gross tons in 1938 to a peak of over 105,000,000 gross tons in 1942. In spite of the fact that imports of ore dropped from about 2,500,000 tons per year in 1939 and 1940 to about 500,000 tons in 1943 and 1944, there never was a single blast furnace throughout the entire war period that seriously lost production due to lack of iron ore. The production may have suffered when high grade foreign ores were replaced by the lower grade soft ores of the Lake Superior range, but the fact remains that there was ore in sufficient quantity to enable the furnaces to continue operating. This was possible largely because of the tremendous open pits on the Mesabi Range where production could be doubled or trebled by the addition of a few shovels and railroad cars, trucks and other equipment necessary to haul the ore.

I cannot let this opportunity pass without paying a tribute to the broad-minded policy of the United States Steel Corporation which greatly depleted its own readily mined ore reserve so that the nation could forge ahead in production. Without government edict it made its resources available to all of us who needed help.

While there was adequate ore available to meet the situations during the past war, the question arises as to our ability to meet future needs both in peacetime and in times of national emergency. This was done successfully during the last war by resorting to the reserves present in the open pit mines on the Mesabi Range. However, E. W. Davis and others warn us that these reserves are being depleted most rapidly and that they will not be available very much longer. The ad valorem tax law of Minnesota, the minimum royalties and royalty rates on this ore result in the operators mining it as rapidly as possible. While I am not in agreement with Mr. Davis' proposal to have the United States Government provide long-term loans without interest to provide facilities for developing underground ore and taconite concentration, or to guarantee a market and sales price sufficient to cover the reasonable cost of production, I do feel his two suggestions to the State of Minnesota merit consideration. They are as follows:

(1) Modify the ad valorem tax to correct for the adverse effect that it exerts on the production of open pit, direct shipping ore.

(2) Take the proper steps to modify the leases on open pit ore properties so that they do not exert pressure on the mining industry that is contrary to the best interests of the nation.

To this should be added provisions that encourage exploration without incurring tax liabilities.

There is a great deal of speculation as to the supply of ore available to meet the future needs of the industry. Since 85% of the iron ore consumed is produced in the Lake Superior region, I shall only consider that reserve. I am impressed with the report prepared by John W. Gruner entitled "Mineralogy and Geology of the Mesabi Range." In this report he points out that if one takes the Minnesota Tax Commission Ore Reserve figures since 1915 and plots them together with the ore mined each year, it is apparent that the ore reserves have declined only one-third as rapidly as would have been expected on the basis of the estimated reserves in 1915. In other words, while almost 1,000,000,000 tons were shipped, the reserves decreased only about 300,000,000 tons. This was a result of:

(1) Discovery of new ore,
(2) Reclassification as ore of material considered waste, and
(3) Advances in beneficiation.

He believes that there are still 150,000,000 tons of ore to be discovered on the Mesabi Range and a similar tonnage of concentrates probably can be expected to be produced from Wash Ores which have not yet been developed and listed as reserves. So with these additions of 300,000,000 tons added to a reserve of about 1,000,000,000 tons he concludes as follows: "The normal life of the Mesabi Range, therefore, may be expected to be three or four decades longer, after which there will be a gradual decline over a period of 30 or 40 years. . . . If the magnetic taconites can be mined profitably and can gradually take the place of the hematite ores, a very much longer life may be predicted for the iron ore industry of the range."

Perhaps it is foolish to speculate beyond three or four decades. E. W. Davis states that there is available taconite from which 5,000,000,000 to 10,000,000,000 tons of concentrate can be produced by known methods. Assuming that we required the excessive figure of 75,000,000 tons of ore per year from this range, these reserves would fill the needs for an additional 66 to 133 years. He further shows that, taking this taconite which can be mined by open pit together with what he termed Class II material, which averages between 35% and 45% iron and between 20% and 40% silica, but most of which "cannot be concentrated by known commercial methods," there would be available from 30,000,000,000 to 40,000,000,000 tons of concentrate which, at a rate of consumption of 100,000,000 tons per year, would be sufficient for 300 to 400 years. The fact that such ores cannot be concentrated by known commercial methods is not important. The important thing is that the iron is there. We have had sufficient experience in other fields in which waste piles were reworked or where new methods of concentration were developed and which opened up new reserves to feel that this material may be a future source for the industry.

Mr. C. M. White presented a most complete study of this problem before the 75th Anniversary Meeting of the A.I.M.E. entitled "Iron Ore and the Steel Industry." After a careful review of the iron ore reserves and potential iron ore reserves of the United States and the world, Mr. White concludes: "But engineers and industrialists have a way of making great progress under the spur of necessity. Hence there is every reason to believe that when the abundant low grade iron ores have become the principal sources on which the world must depend for its iron and steel supplies, engineering achievements will rapidly overcome present handicaps to the utilization of these products."

Coupled with this, the unexplored regions of Canada north of the Great Lakes, the new and unproven deposits in Labrador force me to conclude that there is adequate iron-bearing material to meet our future needs for centuries to come. The fact remains that we must proceed with diligence in developing the best methods of concentrating so that we can produce usable ore at a low enough cost that the price of steel to the consumer is not materially increased and that we are always in a position to supply the full requirements of the industry in the event of an emergency.

Scrap

The present scarcity and high cost of iron and steel scrap has made us aware of the importance of this commodity. The fact that it has been in short supply for the past six years and continues to be in spite of drastic increase in price, indicates that the shortage will continue as long as the present high level of operation is sustained.

All of the steel in use in the nation constitutes a potential stockpile of scrap, and it becomes scrap at varying rates. Most of this is steel now in use, some is already scrap but not collected, and some is scrap in dealers' yards. There are no figures available to indicate the total scrap presently available in the nation. The only data we have is that we know that the accumulated production of steel in the United States exceeds 2,000,000,000 tons, and the amount of scrap on hand has gradually decreased from the peak of about 7,000,000 gross tons in January, 1942 to the less than 3,000,000 tons at the end of 1946. The shortage of scrap became an acute problem during the war, and twice it was necessary to organize country-wide scrap drives to satisfy the demands. These were very successful, and at no time during the war were steel-making facilities seriously affected due to lack of scrap. However, the indications now are that these drives were very successful in clearing up the miscellaneous scrap that was lying around, because recent high prices have not brought out any substantial tonnages.

Since scrap is now in such short supply, what of the future? Certainly there are strong indications that scrap will continue in short supply for some time to come. The exporting of over 23,000,000 tons from 1930 to 1940 was a permanent loss. It has been recently pointed out that the huge demand for scrap for open hearth furnaces during the past 25 years has been met largely from the Bessemer steel produced during the preceding 25 years. However, most of this has been used up, and the potential future scrap supply is from the open hearth steel which, being superior in quality, will last that much longer.

The rate of return is further decreased by other improvements such as low alloy steels of better corrosion resistance, better protective coatings, and other means to prolong usage such as end hardening, controlled cooling and the testing in service of railroad rails, etc. Another factor is the increasing tonnages that are shipped out in light gage flat rolled products, little of which ever returns. The best example of this, of course, is the tin plate which goes into containers which eventually are buried at the city dump or scattered over the countryside.

It is fortunate that a permanent solution is materializing in the increase in percentage of hot metal used in the open hearths. While a better grade of open hearth charge ore would be a tremendous asset in increasing the percentage of hot metal used, there is a possibility that the necessary oxidation may be eventually supplied by low cost oxygen.

Fuels

Our country is fortunate in having extensive reserves of mineral fuels. Arno C. Fieldner recently stated that "the total of all ranks of coal amounts to approximately 2,600 billion tons of 13,000 btu coal" which "excluding fissionable material comprises 98.8% of our mineral fuel energy reserves. Oil shale amounts to 0.8%, petroleum to 0.2%, and natural gas to 0.2%." This reserve of coal appears ample when we consider that the 1944 production of bituminous coal was 620,000,000 tons, of which 94,000,000 tons were consumed at by-product coke plants and 11,000,000 tons in steel plants and rolling mills.

While we have adequate fuel to supply the energy required, there is a deficiency in the highest grade coking coals and conservation of these fuels is important. The gradual decrease in the requirements of coking coal per ton of iron from 3,600 pounds in 1918 to 2,800 in 1941 is a real gain in the conservation of this natural resource. The trend reversed itself during the war due to the inferior grade of coal shipped to the coke ovens.

The high labor cost of mining coal in spite of the gradual decrease in man hours per ton required has forced the installation of mechanical loading equipment. This not only prevents any preparation of coal at the face but results in loading the binders, partings, machine cuttings, roof and floor rock, etc. This is a permanent situation, and where formerly we considered the installation of coal washers only for improving high ash, high sulphur coals, now it becomes a necessity in those mines which formerly produced low ash coal by hand loading.

The fact that during the war we were forced to use less desirable coals for coking purposes is not a cause for alarm. The recent developments of the industry in the use of additions to the coal mix, including the production and use of char, use of anthracite and pitch, the promising results obtained in the use of Midwestern coals, together with the satisfying results being obtained with coking of western coal, have increased significantly our reserves of coal available for metallurgical coke. With these and other improvements which will develop, I am confident that we will have adequate fuel for the industry for many, many decades.

Manufacture of Iron and Steel

Improvements in the technology of iron and steelmaking will continue, but that they will be of such a radical nature as to make obsolete any of our major installations is not likely to occur within the next few decades.

There may be developments due to the use of cheap oxygen, which in time will materially affect our steelmaking processes, but it is hardly likely that these will be of revolutionary nature. It will be more a matter of evolution because too many factors are involved.

It is not impossible that there may be major developments in our Bessemer and open hearth processes by the use of low cost oxygen, but the rate of such change will be controlled by technical difficulties and economical factors.

The mere possibility of a technical development will not insure its adoption unless it will result in an overall reduction in cost or improvement in quality. We will continue to improve our mechanical processes and thereby reduce the cost of producing finished products. Our older and obsolete equipment will be replaced, but I think that it can be safely stated that there will be no revolution in the steel industry. The process will be one of evolution. It will be one of continual progress.

To achieve this progress there must be free interchange of ideas between the men who are engaged in the industry through formal or informal channels, and the Iron and Steel Institute, through programs such as you will hear this afternoon, will be one of the prime factors in fostering progressive thought. Our other technical societies are also of great importance in scientific and technical development, and members of the Iron and Steel Institute should take an active interest and part in all the programs which contribute to our knowledge of the art and science of making iron and steel.

Continued research, either in our own laboratories or cooperatively, will open new fields. Better quality and low prices will lead to new uses, and I am sure that the industry can look forward confidently to a vigorous, fruitful and profitable future.

Chicago Exchg. Closed Sat.

CHICAGO, ILL.—The Board of Governors of the Chicago Stock Exchange has announced that in addition to closing May 31, the Exchange will be closed on all subsequent Saturdays to and including Sept. 27.

25 Years With Firm

Ann Mufson and William A. Riley of Sulzbacher, Granger & Co., 111 Broadway, New York City, members New York Stock Exchange, were awarded engraved Tiffany watches in recognition of a quarter century of service.

Developments in N. Y. Non-Discrimination Law

(Continued from page 7)

the 1st of July, 1945, 654 complaints have been filed by aggrieved persons.

Complaints

I am glad to be able to say that in every one of these complaints where the Commission has found probable cause for believing an unlawful employment practice existed, justice has been brought to the complainant and the unlawful employment practice corrected by the first stage required by the law, which is one of conference with the respondent. In no instance has the Commission been required to proceed to the second step which would consist of a hearing conducted by three commissioners and in whose deliberations the commissioner who conducted the original investigation and made the attempt at conciliation would take no part. This bespeaks the cooperation which we have had on the part of employers, labor organizations and employment agencies.

At the present time, 127 complaints are still pending before the Commission, 17 have been withdrawn with the consent of the Commission, 76 have been closed due to lack of jurisdiction.

At times a complaint is closed due to lack of jurisdiction because the complainant does not fall within the provisions of the law as an aggrieved person. The Commission has considered that an organization dedicated to the purpose of achieving equal opportunities of employment for people is to be considered an aggrieved person when filing a complaint under Section 131.3 of the law which involves questions which may not be asked previous to employment. Cases are also closed due to lack of jurisdiction if the allegations of the complainant do not fall within the five practices declared to be unlawful in Section 131. They are also closed for this reason if the complaint was not filed until after 90 days from the time at which the alleged unlawful employment practice occurred and the respondent raises this as a defense. According to Commission policy, jurisdiction is assumed in such cases unless the respondent raises this defense.

Cases are also closed due to lack of jurisdiction if the respondent does not fall within the definition of an employer, such as would be the case with a fraternal, charitable, educational, or religious organization, association or corporation not organized for private profit, or with an employer with fewer than 6 persons in his employ.

The Commission, however, is interested in seeing that all the laws dealing with discrimination within the state are operative and in some cases which have been closed due to lack of jurisdiction, other laws appear to have been violated and the Commission has sought through investigation, conference and conciliation to ascertain the facts and to advise the complainant of his rights.

For instance in one of the complaints assigned to me by the Chairman of the Commission, a Negro nurse, registered in the state of Virginia, alleged that she had been hired by a family for private duty work and was requested to report to an up-state hospital. She stated that when she appeared for duty she was kept waiting a considerable length of time and finally told that she could not be employed there because she was not registered in New York State. She felt the real reason was because of her color. She, therefore, filed a complaint with the Commission.

An investigation revealed that the respondent was a non-profit charitable institution and the complaint, therefore, had to be closed through lack of jurisdiction. The Commission's counsel in exploring the applicability of our law also made a thorough study of all of the laws which might apply in an instance of this kind and it was his opinion that there was a possible violation of section 40 and 41 of the Civil Rights Law and also 700 and 701 of the Penal Laws.

I, accordingly, met with the respondent and pointed out the protection these other laws afforded the complainant should she wish to seek redress through them. The respondent stated that it fully realized that the requirements of registration in New York State had been suspended during the course of the war and for one year thereafter, but claimed that it told the complainant that she could not be employed for this reason so as to soften the blow for her.

It went on to explain that the real reason was that the family itself did not want to have a Negro nurse, and the hospital head disclaimed all practices of discrimination in the hospital. It was pointed out, however, that the family of the patient had made a statement that it did want to have this Negro nurse and that this statement together with the fact that no Negro nurse had ever been employed by the hospital would rather definitely substantiate the allegation of the complainant and that, no doubt, the court would so hold.

It was further explained that the complainant undoubtedly did not seek the imposition of a $500 fine against the respondent which would be payable to her nor did she wish to have the respondent committed to jail for a year, both of which penalties were provided for by the law, but that she undoubtedly only wished to have the assurance that the hospital was not discriminating against people of her color and I suggested that a wise solution to the whole problem might be attained if the hospital were to offer her a position on their staff. The hospital was, as I had been told, desperately in need of nurses and, as I explained, this would both help remedy this situation and at the same time relieve the complainant of any misapprehension she had with regard to a discriminatory policy.

This suggestion created quite a little consternation. How could a Negro be employed with white nurses? What would the patients think of it? How could the other nurses eat with her in the same dining room? All the usual run of problems had to be solved and the usual fears allayed. Finally the hospital asked for a week in which to consider the problem and at the end of that time came forth with an offer to employ the complainant.

There have been 147 complaints closed on the merits after an investigation. In these complaints the Commission has carefully investigated the allegations of the complainant, reviewed the employment policy of the respondent and, as a result, found that there was no violation of the law. In many of these instances, however, the complainants have sincerely felt that they have been discriminated against, in an attempt to earn a living, due to their race, creed, color or national origin, and they have bitterly resented what they considered an unlawful employment practice on the part of the respondent.

Careful Examination of Complaints

Therefore, in closing these cases, a careful explanation is given to the complainants setting forth the facts disclosed by the investigation which invariably corrects the feeling of resentment and bitterness they harbor toward the respondents. For instance, following V-J Day, Bausch & Lomb were forced to lay off thousands of employees. Those of Italian descent felt that the company was cleaning house of all employees of their national origin and resented this most bitterly. Various organizations took up the fight and even their churches protested most vehemently. The remaining employees of that national descent, felt insecure in their jobs and the company was considerably concerned.

A number of complaints were filed with the State Commission Against Discrimination by discharged employees and a thorough review was made of the dismissal policy of the company and a classification made of all of the dismissals. The result showed that almost precisely the same percentage of those of Italian descent were dismissed as were previously employed and there was no evidence whatever of a discriminatory practice. Bausch and Lomb issued a bulletin and distributed it to all of their employees as well as those who had been dismissed. This bulletin outlined the charges which were made, the facts revealed by the investigation conducted by the Commission, and then gave to the community a pledge of a fair policy in employment. The company officials subsequently stated that they did not know what they would have done if it had not been for the presence of the Commission Against Discrimination in New York State. They further stated that they gave consideration to what their procedure would have been if the Commission found any policy or practice of discrimination. They decided that they would undoubtedly have prepared a similar bulletin for their employees, stating the charges, the findings of the Commission, but including the measures which the company was taking to correct their employment policies or practices and would have concluded the bulletin with the very same pledge of a fair and democratic policy in employment. I submit to you, ladies and gentlemen, that in these 147 cases closed on the merits the Commission Against Discrimination has rendered a definite public relations service to employers and to all the citizens of the State.

We have had to date 152 complaints closed on the merits after investigation, conference and conciliation. It is very seldom that by itself a complaint will furnish sufficient evidence to determine whether or not there is probable cause for the allegations. A commissioner must, therefore, examine very carefully the general overall employment policy of the company as this has a definite relationship to the complaint.

The policy of the Commission is, therefore, at all times to examine this overall pattern of employment. In many instances, we find that the individual complainant lacks the necessary qualifications or that the position was filled or that for some other reason the complainant was not barred from employment or discriminated against for the reasons alleged, but nevertheless, the examination of the overall employment practices definitely discloses evidence of a discriminatory practice, and, before closing the complaint, the commissioner effectuates the necessary correction. For instance, an officer on a ship brought a complaint charging discrimination against a steamship company. While investigation of the individual complaint gave no evidence of a discriminatory act against the complainant, the examination into the overall policy of the company revealed that a pattern of employment existed in their offices involving hundreds of employees with no representation of Negroes except in the customary Negro jobs of janitor or porter. In discussing the situation with the officers of the company, it became evident that there were no applications being made by Negroes for clerical positions. The reason for this is that Negroes will not apply for positions where there is no indication that they will receive consideration. They have no more inclination to run their heads against a stone wall than anyone else, and furthermore, it was pointed out that if a fully qualified Negro should apply for work in an office such as this, those in charge of employment would be very unlikely to give him consideration because of the employee resistance they might envision.

This, therefore, constitutes a very effective barrier to the employment of Negroes and the only way that it can be reduced is to include in the present method of recruitment of help, some avenue whereby qualified Negroes will come to the attention of the company and that employment will be given them when they meet all of the job specifications.

The inclusion of such agencies as the New York State Employment Service, the Urban League or the Federated Employment Services will usually bring to the attention of an employer qualified members of a group which appears to be barred.

Over-all Pattern of Employment Examined

I would like to mention, too, that a pattern of employment frequently finds its origin a long way back in the history of a company, and that it tends to perpetuate itself by a policy of confining the new employment to the friends or relatives of the present employees, or through the utilization of the same methods of recruitment as in the past. This acts as a barrier to the employment of certain groups and the only method by which that barrier can be reduced is to implement the present methods of recruitment of help so that all groups will have an opportunity in applying for positions which become open.

Adjustment by conference and conciliation has accounted for the closing of 135 complaints. In these cases the commissioners have made a determination of probable cause for crediting the allegation of the complaint. Almost invariably when an individual complaint has been sustained, the unlawful act has been the result of an overall discriminatory employment practice and for this reason terms of settlement have usually included the adjustment outlined in the previous category. In addition, the terms of adjustment also include measures designed to bring justice to the complainant such as hiring, upgrading, reinstatement, back pay or whatever corrections might be necessary in conditions or privileges of employment.

Conferences and Conciliations

In addition to the complaints, which number 654, the Commission has also handled 206 investigations wherein the person aggrieved does not wish to file a formal, verified complaint, usually because he does not wish his name disclosed to the respondent. Forty-five investigations are now pending. Sixty-eight have been closed with a finding of no unlawful employment practice and 93 have been adjusted by conference and conciliation, wherein the commissioner has found an unlawful employment practice to exist. In the event that the proper adjustment could not be attained through conference and conciliation it would be the right of the commissioner to bring the matter to the Attorney General or the Industrial Commissioner who would file the necessary verified complaint which could be noticed for a hearing in the usual way.

In addition to the complaints and investigations, the Commission held 220 formal conferences. Whenever it has been apparent that a discriminatory practice applied, not only to one company but was prevalent throughout the entire industry, the Commission has proceeded to confer with the association which represents that industry and through such negotiations the Commission has endeavored to bring about a voluntary change in the practices of the industry as a whole.

Many of these conferences have been of this character and the necessary change has been brought about through advisory bulletins on the part of the association to their membership. The Commission has conferred with many labor organizations as the result of information furnished to the Commission that they have discriminatory clauses in their constitutions and by-laws barring particularly Negroes from membership. In all such instances where this proved true, the union officials have agreed to propose the requisite amendment at the next convention. In 10 instances, this has resulted in the elimination of the objectionable clauses. The Commission has conferred as well with many State agencies, as the regulatory powers of such agencies can be effective in abolishing practices of discrimination. The law itself gives the Commission the authority to obtain upon request and to utilize the service of all governmental departments.

What are some of the objections of the employer when the matter comes up for consideration as to the opening up of employment opportunities for people not previously employed by him? The objections are most frequently related to the resistance on the part of other employees which he fears would arise were he to employ such groups. This is frequently the fear in regard to the employment of Negroes.

There is a right and a wrong way to proceed in such an instance and I think it might be well for us to give some consideration to this. Sometimes an employer faced with this problem will call in all of his foremen and department heads so as to get their opinions as to whether or not the step could be taken because of employees' resistance.

The department heads or foremen will want to discuss the matter with their employees and soon all connected with the business begin to work themselves up to a high pitch of excitement over the prospect of having to work with Negroes. This is obviously the wrong way to proceed. When the step is taken the less said about it the better.

The personnel manager would do well to select employees to initiate the move who are qualified not only to do the work assigned to them but also who are well qualified from a personality aspect to bring about the change in the employment pattern of the company. If these new employees possess culture and refinement of the same or higher level as that of the present employees, there may perhaps be a few ripples of comment at the time the step is taken, but they quickly subside and little is thought of it after the first day or two. According to a provision in the law an employer may file a complaint against a group of his employees if their overt discriminatory acts are such that he cannot comply with the provisions of the law.

Up to the present time, no such complaint has been filed under this provision and only in one instance has it been necessary for a representative of this Commission to meet with a group of employees in order to correct such a discriminatory attitude. In all other cases the employer has been able to overcome employee resistance with the advice given to him by the Commission.

In one case which came before me the employer was most fearful of the dire consequences of such a move. It involved a large telephone company upstate where some 600 telephone operators were employed. Two Negro girls had applied for work with the company, had been turned down, and filed complaints.

The investigation of all applications made since the 1st of July, 1945 indicated that all Negro applicants for this type of work had been refused employment. When the employer finally admitted discriminatory practice, he told how difficult it was to recruit the necessary number of telephone operators and stated that if he should ever employ Negro girls, so many would leave, and so few white girls would consider applying for this type of work, that his situation would become desperate and that service would collapse in the community.

Everything possible was related to him to relieve his apprehension in this regard by showing how fears in similar situations had not materialized. After all there was a law which had to be complied with. With fear and apprehension, the company took the step. Negro operators were carefully chosen to initiate the move and it worked so successfully that several weeks later, when a shower was being held for one of the old telephone operators who was to be married, the Negro girls were invited along with the rest.

I would like to mention briefly some of the observable results of the Law Against Discrimination in New York State. Today we rarely find an application for employment which contains questions considered by the Commission directly or indirectly to disclose race, color, creed or national origin. The Commission has reviewed 1293 application forms and employers of the state have generally revised their forms so that they comply with the Law.

In New York State we rarely find advertisements for help in newspapers which directly or indirectly make any limitations as to race, color, creed or national origin. There is a marked contrast in this regard when New York State papers are compared with those of other states without similar legislation.

Many people were very much surprised during the recent telephone strike to find Negro girls on the picket lines. They had never realized that Negroes were now being employed as telephone operators so generally throughout New York City as well as all of the large cities throughout the state. Usually the last barrier to be overcome is the employment of Negroes in white collar capacities.

And today when we find as a result of the law Negroes being employed in the offices of banks, insurance companies, steamship companies, commercial houses of many types, we know that the law definitely is producing results. Necessarily it will take time before a full equalization of employment is achieved, for those groups barred from certain types of employment must necessarily become aware that opportunities in those fields are now open to them, and they must prepare themselves to take advantage of those opportunities.

This takes time but it is most important for us to know today that the barriers of employment to any group in New York State are being eliminated in all types of occupations, and that the sound administration of this law will inevitably bring a complete equalization of opportunity to all people within our state.

In closing, I would like to leave before you, ladies and gentlemen, an aspect of the necessity for a fair employment practice which I believe should be of grave concern for all of us who are associated with commerce and industry.

Antidote to Communism

Today, we are considerably disturbed by the threat of Communism and well might we be for if the Communists do take control, we might just as well use our bonds and stock certificates to paper our walls, if we have any walls to paper. It would be prudent, therefore, for us to consider what made it possible for the Communists to gain control in Russia and other countries and why they are darkening the horizon here in America as well.

As J. Edgar Hoover recently pointed out, there was only one Communist in 2,000 people in Russia at the time they took control, but the peasant class and working class grasped for Communism as it appeared to be the only means by which they could liberate themselves from the severe oppression which they had suffered for years. Other people in Russia were sympathetic as Communism appeared to offer a release for them also from bitter persecution. This was what sold Communism to the Russian people and when they grasped at it, they did not realize that Communism also incorporated an absolute denial of all human rights—the right of ownership of property, the freedom of speech, the freedom of worship, to life itself, or that everybody and everything would become subject to the despotic rule of a godless state.

The Communists here in America realized that they do not have severe oppression of a working or peasant class through which to gain support but they do have serious oppression against millions of people due to race, creed or color. If you study their tactics you can see how they have seized upon discriminatory practices to enlist support for their cause.

A returning Negro veteran fails to observe segregation rules in the rear of a bus. Police officers seize him and gouge out his eyes. Communist organizations are out in front with their vigorous protestation. The American Bowling Congress refused to admit Negro participants at their tournament in Buffalo. Communists picketed their tournament. A utility company is accused of discriminatory practice and again Communists protest and picket their office.

Now let's put ourselves in the position of one of the many Negro boys who are today graduating from our schools and colleges. One who came to me had an excellent record both as an athlete and scholar and after graduation had applied, with five classmates, for a position advertised as junior clerk. The four white boys were accepted, and he was rejected while the advertisements continued to appear.

The pity of it was that he had lost his father fighting in the Pacific for the very security of the company now denying him an opportunity to work. Don't you think that if you or I were that boy, we would become rather cynical with regard to our principles of equal opportunities for all? Don't you think we would be attracted to the Communists as the only ones apparently interested in bringing us those equal opportunities?

Thank God we have a Commission which can go to the employer in such an instance and show him the irreparable damage his policy is doing and how easy it would be to correct that policy. Thank God we have a Commission which can go to all the employers, labor organizations and employment agencies which have a discriminatory policy and show them all the irreparable damage being done and how easy it would be for them all to alter that policy.

Today we are spending some 400 millions in Turkey and Greece to help the people there combat the forces of communism. But it is unlikely that the Communists would attempt a frontal attack on the armed and industrial might of America. Their policy is to bore from within. A fair policy of employment is the best security from such an attack and it won't cost 400 millions but will probably save many times that amount in the process, for all that such a policy consists of is to hire, upgrade, and retain in employment the one best qualified for the job.

That's a good sound business practice and any firm which pursues it will have a better financial statement as the result. Employers must realize that by possessing a discriminatory policy they are playing right into the hands of Stalin; that if they were on his pay roll they could do nothing more effective for him in fertilizing the ground for communism. Ladies and gentlemen, in the name of the Commission, I am asking for your whole hearted support in effectuating fair policies of employment in New York State.

Should Investment Bankers Sell World Bank Debentures?

(Continued from page 6)

ones." Doesn't this fit right in with what is being attempted today? Default upon default, bankruptcy such as the world has never seen, and here comes this International Bank and makes it possible for these war bitten, debt ridden, bankrupt countries to forget all about the billions they already owe to us, while it opens wide the door for loans at ridiculously low interest rates at a proposed 3%, to 3½%.

Quoting some Bank propaganda just issued: "44 countries have put money into the capital of the Bank. But only a small part of this capital is loanable funds. Of this capital a large part is static, to be used as a cushion against unforeseeable difficulties," (plain English they mean defaults). Out of the Bank's total authorized capital of $10,000,000,000 by May, 1947, 20% of the total subscriptions of the members has now been called for payment—this is free working capital. Out of the total of this original 20% contribution to capital, 2% of the subscriptions is payable in gold or United States dollars. Original members of the bank were required to pay this 2% on or before Aug. 24, 1946. An original member whose territories were invaded is entitled to postpone payment for five years of ½% of 1% of such 2%. Six members have availed themselves of that privilege. Of the balance of the 18%, for the time being at least, the only part of the remaining 18% due which will be available to the bank in its lending operations is the $571,000,000 which will have been paid in by the United States. Nevertheless, the Bank's publicity department claims that the 80% of the Bank's capital which is authorized but **unissued** remains a "pillar of strength" to protect the holders of the Bank's obligations. Here is a case where an unissued, nonexistent, reserve fund of unsubscribed capital, is represented as security for the obligations of borrowers who may default in the first instance, and later these very same defaulters will be required to provide further necessary contributions to capital funds. That is what you might call the bankrupt guaranteeing the bankrupt. Under such conditions is there any doubt that if there will be any cushion for the subscribers to the obligations of such an institution it will be because the United States Treasury once again puts up the cash.

After the first World War, Dr. Stoddard stated "Even a cursory glance at our post-war world will suffice to make us realize that Keynes put the matter conservatively. The war half-bankrupted most of Europe. It left every one of the European belligerents, save Britain, obviously insolvent; and Britain's solvency was probably technical rather than actual. Certainly none of them, except Britain, even attempted to pay those astronomical war debts. Instead they began almost immediately to repudiate them in various ways. Some nations, like Germany, repudiated by inflating their currency to the moon; others like France and Italy, did the trick by currency "devaluation" which scaled down government obligations by about 80%." Doesn't this sound familiar? Isn't this what we have today multiplied over-and-over again?

Back in 1932 when Senator Borah stood up in the United States Senate and warned the American people against taking the same course which we are now blindly following only on a vaster and grander scale than ever before, he was publicly condemned by the same kind of International New Dealers that control our foreign policy today. His predictions were borne out by the experiences of time itself. He said, "It will cost us something to come out of Europe, but it will bankrupt us to stay in. Since 1915, in one way or another we have put close to $45,000,000,000 in Europe. It has not ended Eupe's economic crisis and it has brought an economic crisis to the United States." If Senator Borah were alive today he could look back upon those words of wisdom and he could have said, "Amen, and we are doing it all over again."

What good will it do if we give our wealth away? Where will we be when our natural resources have been traded for more fiat money? Today, we the supposed victors in this last war are being milked dry by the very nations we are supposed to have conquered. Hundreds of millions of dollars have already been given to the Germans and the end is not in sight. Japan is now talking about getting a billion from us. Italy has already received $100,000,000. The President of Mexico just paraded up lower Broadway in New York and went home with $50,000,000 for currency stabilization purposes plus another direct loan of $50,000,000 (they don't come here for the ride). But Mexico is also a member of the Bank and the Fund, and don't forget that Mexico's record of debt repayment reeks with repudiation and default. France has been earmarked for a $500,000,000 loan, but the average Frenchman still believes we are Uncle Shylock. Meanwhile the government of France is unstable, unreliable and dominated by Communists. If we look at Britain, what can we say? Here is a stupid government, stumbling and fumbling around in Socialism, that came here begging for $3,500,000,000 and got it just about a year ago. Now even this tremendous fund is insufficient — dollar exchange is dwindling — British production is lagging — people are discontented and discouraged — labor unions strike against the government—and the United States is already being condemned by the British man in the street.

As for Russia, our former ally has just forced us to send $400,000,000 into Turkey & Greece, in order to protect the sovereignty of these two countries from Russian aggression. Because of Russia we are forced to keep millions of troops under arms all the way from the borders of Germany to Korea. We are pouring hundreds of millions of relief into defeated as well as former Allied nations, meanwhile Russia is siphoning off the dwindling wealth of these countries in the form of reparations. Now it is quietly rumored that Russia may consent to cooperate with us in establishing some form of world cooperation and peace, providing we send a few billion in the direction of Moscow. From the looks of all this, did we win the war or did we lose it?

In the very near future the investment banking firms and security dealers in this country will be asked to recommend and sell the debentures of the International Bank to their customers. I quote again from a recent publicity release of the Bank: "The Bank will sell debentures, first to the United States and later to some of the member countries." First they will get all they can out of us, then the rest of the world will get in on it. Can you imagine in what amounts of these various issues of debentures will be purchased by investors in England, France, Italy, Russia, (who is not a member of either the Bank or the Fund) etc., etc.?

Analyze this entire scheme in the light of sound business procedure and you will come to one conclusion. The only way the American investor could be mulcted out of his money today by the entreaties of the vast majority of foreign nations is through such a device as this Bank. The subscribing members are in themselves not worthy of credit. Collectively they are not a much better risk; except **that the American taxpayer through the United States Treasury is the principal security behind this institution.** Without our money and our credit the whole idea would not be possible.

In 1933 the Congress passed laws with the avowed objective of protecting the American investor. If the investment dealers of this country wish to live up to the spirit of those laws they will advise their customers not to buy the debentures of the International Bank. Meanwhile by so doing they will perform a patriotic service to their country. Every dollar we lose in foreign loans is eventually taken out of the pockets of our people and from the production of our fields, forests, mines and factories.

Those nations which have **character**, who come to us with clean hands, can borrow from our people in the open market at rates of interest comparable to the risks involved. The others will only recover their place in the family of nations by standing upon their own feet. Unless we learn this lesson now and refuse to become a grab-bag for the whole world, our own future will someday be as bleak as those nations which are now eager to take advantage of our profligacy and our impulsiveness.

There are attractive opportunities right here at home that investment firms can offer to their customers — and incidentally the rate of return today on these investments is much more liberal than that which it is reported will be offered by the debentures of this International Bank.

HENRY SCHOUTEN

New York City
June 2, 1947

Frank Edmonston With H. O. Peet & Company

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Frank J. Edmonston has become associated with H. O. Peet & Co., 23 West Tenth Street, members of the New York Stock Exchange. Mr. Edmonston was formerly an officer of E. W. Price & Company.

Sees Treasury Debt Redemptions Drain on Spending Power

(Continued from page 9)

of $13 billion. As the following table brings out, the surplus on a budget basis came to no more than $1.8 billion over these same four months, which works out to an annual rate of around $5 billion.

Government Actual Cash Income and Outgo Compared with Net Budget Receipts and Expenditures, January-April, 1947.

(In Billions of Dollars)

	Budget Basis	Cash Basis
Income	16.4	17.9
Outgo	14.6	13.5
Surplus	1.8	4.4
Annual rate of surplus, approx.	5	13

What a radical change this represents from the wartime period, when in each of four consecutive years the government poured out $35 to $50 billion more than it took in, is suggested in the accompanying chart. In fact, it would be necessary to go back more than 15 years, to a period not covered in the chart, to find a time when taxes were pulling more money out than government expenditures were putting back in.

This counter-inflationary force, on the scale that has been experienced, had been neither expected nor planned for. It has developed, not out of expenditure cuts, which are being laid out for next year, but out of a tax system which raises tax yields automatically and disproportionately when the level of the national income rises. The buoyancy of the national income, fed by private spending and investing, has confounded theorists who predicted vast unemployment as government spending came down from its colossal peaks. It has required one upward revision after another in official revenue estimates for the fiscal year ending June 30—from an original figure of $31½ billion forecast in January, 1946 to the latest estimate of $42½ billion given out April 19, 1947.

On the other hand, there should be no reason for surprise that, coincidentally with the development of this billion-a-month cash surplus, we should be reading of official reports of a leveling off in business volumes, overall, and more especially in business investment. In this latter field taxes act as a deterrent even apart from the algebraic balance between cash income and outgo.

In other words, there is a question of how much of a tax-drag a free economy in peacetime can stand. No one can predict with any confidence just how much that is, but the biggest present risk is that of undermining the vigor of the economy by overtaxation.

Easing Influences in Money Market

The banks, following last year's loss of most of their government deposits and the associated reduction in short-term government security holdings, this year have experienced a contraction in private deposits as an incident to the government surplus. The decline in deposits would have been more pronounced except for gold and currency receipts and for the substantial amounts placed to the credit of business borrowers in the early months of year. In some areas banks have also been active in extending real estate mortgage credits and personal loans, though at the same time collateral loans have fallen off to new low levels. In recent weeks business borrowings have dropped back to the end of February level, partly reflecting repayments of commodity credits.

Sales of gold by foreign central banks and governments, to help finance their imports, have been around $1 billion since the turn of the year, and the return of currency from circulation since Christmas runs to about the same magnitude. These factors, since they add to bank reserves, tended to ease the money market, but were substantially offset by the public debt retirement and official counter-moves.

In January and February the Treasury drained off bank reserves by letting its own deposit balances with the Federal Reserve Banks move up from a normal one-half billion to well above $2 billion. In March and April, easing tendencies were countered by a $1½ billion reduction in certificate holdings of the Federal Open Market Account and by a resumption of selling government bonds by Treasury investment accounts.

Beginning at mid-April and continuing through May 22 the Treasury redeemed a total of $1 billion Treasury bills. Since these securities are predominantly held by the Federal Reserve Banks, their retirement led to a drain on bank reserves. By mid-May the banks were back in a position where they were having to sell certificates in order to replenish their reserve balances.

Retirement of Treasury Bills

The retirement of Treasury bills came during a two months' gap in certificate maturities, when they represented the only outlet available for debt retirement. Nevertheless, some observers were inclined to the view that the action, the first significant reduction in the outstanding amount of bills in five years, might presage other steps leading up to an "unfreezing" of interest rates on short-term Government securities.

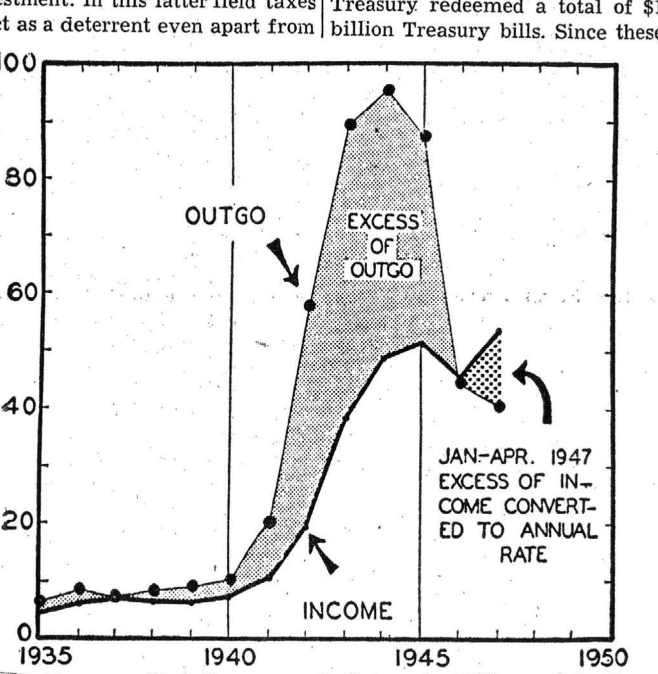
As Chairman Eccles of the Federal Reserve Board indicated in testimony before the House Banking and Currency Committee in early March, the ⅜% rate on Treasury bills, set by the Federal Reserve Open Market Committee five years ago, is out of tune with the market. As a result, the Federal Reserve Banks, buying freely at this rate, have accumulated about 90% of the entire amount outstanding. Mr. Eccles, at the same time, suggested that it might be desirable to allow short-term rates to rise to keep the long-term rates from falling further.

That the authorities had in mind, when they considered the time propitious, at least letting the Treasury bill rate find its own level, seemed to be confirmed by two other actions taken during the latter part of April. The Federal Reserve Board levied interest charges, payable to the U. S. Treasury, on Federal Reserve note issues not covered by gold certificates. This action, which in effect reimposes a franchise tax on Federal Reserve Bank earnings, would return to the Treasury the bulk of any increase in interest earnings of the Reserve Banks resulting from the restoration of some flexibility of rates on short-term Government securities.

The second action, taken by the Treasury, was to permit holders of maturing Treasury bills to use them in payment for the new weekly offerings. This procedure enables the Federal Reserve Banks, the principal holders, to replace their maturities directly instead of relying on dealers and banks to bid for excessive amounts for immediate resale to the Reserve Banks at the fixed ⅜% rate. In effect, the ⅜% rate, at which the Federal Reserve Banks stand ready to buy bills, is now narrowed in scope to the billion or billion and a half "remnant" of bills not already in the Federal Reserve portfolio.

Government bond prices, meanwhile, have displayed remarkable stability in the face of many rumors of impending policy changes. Their performance, and the ready absorption of top grade corporate, State, and municipal bonds, bear witness to the abundant supply of funds for investments where the market evaluates the risk of non-payment as small or negligible. It also reflects the bottlenecks and high costs in construction, which are holding up the supply of real estate mortgages, and the pressure on banks to shift to longer term governments in order to improve investment returns and meet higher costs of operation.

At the same time, the supply of genuine risk capital, as clearly evidenced by the depression of stock prices and new stock offerings, presents a radically different picture. Compared with the 2.3% available to investors by the purchase of long-term Government bonds, Moody's Investors Service calculates that the average yield on 200 common stocks has now risen to 5.1%, highest in three and a half years.



U. S. Treasury Cash Income and Outgo, in Billions of Dollars (Calendar years).

Source: Treasury Bulletin except that April, 1947 is computed from Treasury Daily Statements.

Washington and You

(Continued from page 5)

be held shortly by the House Commerce Committee. Action can't come before next session.

* * *

Less likely is postponement of a bill opening FPC pincers on end production and distribution of natural gas. That measure is about to be okayed by Senate and House Commerce Committees. Enactment is certain eventually — possibly prior to July adjournment.

New York, New Haven and Hartford Railroad stockholders are kidding themselves if they expect to recover through the Reed Railroad Reorganization Bill. So says New Haven Vice-President George T. Carmichael. He has warned the Senate Commerce Committee . . . "there is no equity for the stockholders of the New Haven Railroad, and I do not see how the proposed legislation can pump any value into the property either by anticipated earnings or increase in the value of assets."

* * *

Congress, nonetheless, is about set to give the Reed Bill a through ticket to the White House, to give shareholders in the New Haven and other insolvent carriers a whack at reorganization recoveries.

* * *

Legislation reincorporating the Export-Import Bank five years beyond June 30 was passed unanimously by the House on Monday. Previously initialed by the Senate, it now awaits Presidential approval.

* * *

There never was—isn't now—any doubt Congress will freeze the 1% social security old age insurance tax. You can discount as payroll nerves the unrest stemming from congressional tardiness. Definitely slated for postponement is the Jan. 1 rise to 2½% on employer and employe.

Federal Land Banks shouldn't expect legislative authority to hike their maximum farm property loans until—and unless—a depression hits us. Slated for abeyance are bills authorizing the banks to lend 75% rather than 65% of normal agricultural value.

* * *

Today Federal Land Banks are financing only 8% of all farm mortgages. This contrasts with 74% at the depression peak in 1933 and 1934, with a 12% average in normal times. Combination of two factors is blamed for the present low average; (1) high farm land market prices, and (2) the 65% normal agricultural value limitation.

* * *

Here's a bureaucratic paradox in two cycles: (1) Agriculture Secretary Anderson is calling private lenders to Washington June 9, will urge them to fight farm land inflation by making smaller loans, and (2) Anderson underlings concurrently are boosting the inflationary scheme for raising the Land Banks' lending authority. Now who's tilting with the economic windmill?

* * *

Legislation liberalizing the District of Columbia law controlling investment of trust funds is being quarantined by district judges. The bill would permit trust funds to be invested in securities an ordinarily prudent man would buy. Local bankers, the ABA and Bar Association argue that (1) the prudent investment philosophy means less rigid investment lists, and (2) less rigid investment lists mean greater safety and returns on trust funds. District justices dissent. Congress, ipso facto, concurs with the jurists. Net result—nothing.

* * *

As a sequel to "The Egg and I," Federal handout men are scripting "The Egg and You." The egg's the villian. You're the taxpayer hero expected to shell out $181,000,000 to support farm egg prices in fiscal year 1948.

* * *

Agriculture Secretary Anderson tried to be nonchalant about this new egg drama when he casually told the House Appropriations Committee . . . "we hope we will get out with only a few million dollars on the egg program." Anderson's budgeteers later testified they expected to spend $181,000,000 on a price floor under eggs, that $42,899,000 of this would be written off as outright loss.

* * *

And here's a glance at other tidy sums the Commodity Credit Corporation plans to disburse on price supports; corn, $230,000,000; peanuts, $65,000,000 (with $16,000,000 loss); rice, $27,113,000; wheat, $389,634,000; beans, $1,000,000; chickens, $21,500,000 (with $10,250,000 loss); dry milk, $11,500,000; sweet potatoes, $25,444,000 (with $8,699,000 loss); white potatoes, $101,670,000 (with $30,000,000 loss); barley, $8,686,000; oats, $30,000,000; rye, $430,000; grain sorgums, $15,000,000.

* * *

In round figures, Commodity Credit foresees price support outlays totaling $1,844,057,000, envisions a $160,870,000 loss on the deal. They hinge their forecast on anticipated farm price declines.

* * *

Rebel Republican Senator Tobey of New Hampshire can't get a congressional nod this session on his bill arming the Federal Reserve Board with bank holding company controls. He may—probably will—pry it out of the Senate Banking Committee. House Banking Committeemen he'll find much less acquiescent.

* * *

Ditto for the Tobey vision of a special Federal agency to make loans to small enterprise. Don't look for this proposal to progress beyond the hearings phase.

* * *

Take it from venerable Representative Sabath, Illinois Democrat, four-score-and-one and Dean of Congress, when the lawmakers cut farm funds they "turn the farmers back to the tender mercies of the loan sharks and merciless bankers . . . and play into the hands of the same Wall Street sharpshooters who have been hammering down the prices of sound investment stocks on the market."

* * *

You haven't yet seen—and won't see—much congressional arm waving for Mr. Sabath's prayer that short sales be taxed into limbo.

* * *

But for you short selling sinners, here's a lyrical omen from official House debate on Sabath's plea.

Declared Nebraska's Republican Representative Buffett:

"He who sells what isn't his'n
Must pay it back or go to prison."

Responded Mr. Sabath with equal solemnity:

"He who sells what isn't his'n
When he is catched, shall go to prison."

Public and Private Construction Outlook

(Continued from page 9)

which is likely to work itself out in a reasonably short time with a relatively minor dip in construction activity. If this is correct, we have already discovered among the similarities between the present period and the earlier postwar decade an important difference.

Overall construction volume in the 1920-1929 decade amounted to $91,912,000,000, of which $19,463,000,000, or 21.4%, was for public construction. That decade was one in which construction demand, both public and private, arose almost exclusively from the demands of the free market and the economic needs for public building and engineering facilities. This suggests that the construction pattern of the 1920 decade, in its broad outlines, is more likely to be followed in the coming decade than either of the other patterns previously described. This would call for public construction expenditures within the range of 20 to 25% of the country's construction total. Obviously, such a conclusion cannot be based merely upon an earlier statistical record, but must also take into account probable demands for private construction in the period ahead. Private construction demand is generally recognized as being, potentially, very large.

There is another statistical relationship in the 1920-1929 record that is highly significant. During the decade total expenditures for new construction amounted to 10.8% of estimated gross national product. In the succeeding decade, 1930-1939, construction accounted for only 6.5% of gross national product. As has already been pointed out, the deficit in the later period was due to a marked decline in private construction. These figures may be taken as indicating a rough measure of the difference in construction activity as between a period of peacetime economic expansion and a period of depression.

There are some other facts worth noting in the statistical relationship of construction expenditures to gross national product. In 1920 construction accounted for only 7.7% of the total. This percentage rose steadily to 12.2 in 1927 and then fell off, gradually for a couple of years and then, precipitously. The percentage relationship of public construction to total construction was fairly constant during the whole decade of the 1920's.

Construction Volume and Economic Expansion

By thus relating construction expenditures to gross national product, we have illustrated in terms of statistics, three truths whose importance is much greater than the figures:

(1.) Construction volume is related to what the economy can afford.

(2.) What the conomy can afford is measured by its productivity.

(3.) Construction activity, public and private, is intimately involved in economic expansion, the activity is part of the expansion, it produces the physical facilities of expansion, and its volume is in the end limited by the extent and duration of the expansion.

If we care to assume certain figures representing reasonable anticipations of gross national product in future years, and to assume that the future construction pattern will be approximately that of the 1920 decade, it takes only a few minutes to produce some figures for postwar construction volume. I have done so in a rough way, without subjecting the results to any critical study. By this method I arrive at a physical volume of private construction during the next 10 years three and a half times that of the 1930 decade, and a physical volume of public construction 35% greater than in the 1930 decade.

Some three and a half years ago, we at Dodge made and published some postwar construction estimates, which we even then regarded as quite conservative. We estimated private construction in the postwar decade at two and a half times the volume of 1930-1939, and a physical volume increase in public construction at 26%. A carefully studied revision of our earlier estimates in the light of present knowledge would undoubtedly result in upping those earlier figures. To cite any of these figures in billions of dollars, whose purchasing power for construction has so radically changed, would serve no useful purpose at the moment.

More important than astronomical aggregate figures are the assumptions made about the postwar economy in making any advance estimates. The principal assumption I make is that there **will be no major depression** in the next 10 years. If this proves to be correct, a great many people are going to be disappointed.

Avoidance of Depression

My assumption of avoidance of depression, for at least 10 years, is based in part upon the similarity of the present situation to that of the 1920's.

After World War I it took six years, to the end of 1924, to catch up with deferred construction demands. However, since there was a two-year setback due to price deflation and adjustment, the net recovery period was four years. I have already stated my belief that the current price adjustment and stabilization will not be accompanied by a depression of anything like the severity of the one we had in 1920 and 1921.

Many people are currently predicting a future depression for the time when deferred demands have been met. I think these people have an inadequate comprehension of the dynamics of a free enterprise economy. The essence of free capitalism is its necessity to expand in order to survive; it must expand to larger and larger volumes of activity and production and to higher standards of living. A dynamic economy thrives on new ventures, new needs and new standards of its people, not merely on backlogs of unfilled orders upon accumulated blue prints of potential public works.

Depression was expected to follow after deferred demands were caught up in 1924. The reverse happened. Instead of a depression came a five-year period of general economic expansion and greater peacetime prosperity than the country had ever previously enjoyed. Basis of that expansion was a sound industrial development, in which the growth of the automotive industry and allied industries played dominant roles. In that period, gross national product was greater than in the preceding five-year period, and a larger percentage of gross national product was expended for private and public construction. Unfortunately, a sound growth of basic industries was accompanied by a deflation of agriculture, speculative excesses in capital values, and an unsound foreign policy, which in combination produced the imbalance that resulted in the collapse of 1929.

I do not suggest that this pattern of the 1920 decade is a surefire formula for the period ahead. It does suggest that avoidance of depression is very much a matter of recognizing and correcting imbalances early enough to prevent an economic collapse.

I would say that the question of whether there will be a future economic crisis when deferred demands have been met depends for its answer upon the solutions we find in the current recovery period for our immediately pressing problems of industrial labor relations, taxes, public debt and international relations. Sound and workable solutions to these problems will determine whether the phase of postwar recovery following the catching up with deferred demands will be one of expanding prosperity, of comparative stagnation, or depression. To assume at this time that our people will fail to set their own house in order and to meet their responsibilities is to sell America short. That I am not ready to do.

In an expanding economy every new enterprise, every new development in education, in religious, social and community life creates a demand for new construction. Each new activity must be fittingly housed in appropriate buildings suited to its functions. New needs of families and individuals, new modes of living, new means of transportation all feed the demand for new structures.

Responsibility for Postwar Expansion

Responsibility for postwar expansion of the American economy rests in part on government, in part on private industry, business and finance. Government's role is largely that of removing restrictions and recreating opportunities; its responsibility also includes re-definition of the appropriate roles to be played by our various governmental jurisdictions, Federal, State and local. The responsibility of industry, business and finance is to resume its peacetime progress in providing an ever-increasing volume of goods and services at lower and lower costs. In considering the vastness of the potential demand for community facilities and services, it seems to me that it is also incumbent upon public officials to see that community facilities and services are provided with a minimum of extravagance and waste.

It is to be hoped that Federal grants-in-aid, which were resorted to in the depression emergency, will in the future be held to a minimum. There are a number of cogent reasons for this.

The budget now up for consideration by Congress includes about a $1 billion for grants-in-aid, without any depression emergency or war emergency programs. When we consider that annual interest obligations of the Treasury amount to $5 billion, that we shall have continued heavy expenses for aid to aviation, national defense, and veterans' benefits, and that we may have some new grants-in-aid programs for education and public health, and view these things in relation to total Federal budget, the present debt, and the probable necessity for this country to advance some billions to the shattered economies of Europe and Asia, it looks as if any large-scale Federal subsidies for public works would lead us a long way along the road to ruin. I do not believe our Federal establishment is prepared, financially or administratively, to carry all these loads plus a large number of dependent local governments.

More than $35 billion was paid out by the Treasury in direct payments to States under cooperative agreements and for expenditures within States for relief and other purposes between 1934 and 1946. The peak year of Federal grants-in-aid was fiscal 1939, when such payments totalled more than $4,400,000,000.

Grants-in-aid were entirely charged against Federal deficits. During the fiscal years 1934-1940, before defense and war spending started, grants-in-aid for all purposes amounted to 80% of the deficits that accumulated during those years. It was as if a benevolent *pater familias*, himself skating on the verge of insolvency, had told all the members of his family that they might have everything they wanted at the store because the family had a charge account.

It is difficult to determine which is worse, the fiscal unsoundness of continued deficit spending or the political and economic demoralization that accompanies it.

When spenders have no responsibility for earning or collecting the funds, it does not take very long to get the idea that the items you charge on the bill do not cost anything. Those members of the family who are careful at first see the others buying lavishly and decide they might as well get theirs while the getting is good. In the meantime a Federal bureaucracy grows up, imbued not only with the joy of spending for spending's sake, but also with certain ideological enthusiasms it wishes to propagate and with deep convictions as to the necessity of winning the election. I firmly believe that it is just as essential, for maintaining the American way of life, to preserve the autonomy and financial independence of State and local governments as it is to preserve the system of private enterprise.

Should Pay for Construction With Real Dollars

If we are going to balance the Federal budget and reduce the Federal debt, we will have to pay for our postwar public improvements with real, not phony dollars; with dollars earned by productive work and paid to our public servants in the form of taxes. It seems to me that local taxpayers, and the taxpayers who support the governments of the 48 states, will hesitate to send their dollars to Washington, in order to support the overhead cost of a Federal bpureaucracy which will not only prescribe rules and conditions under which the money may be spent, but will also charge 25 or 30 cents on every dollar for the dubious service it performs.

Deficit financing for public works, relief, aid to agriculture, and other purposes, was resorted to in the depths of the depression largely because states and local governments had exhausted their financial and credit resources. Today their situation has changed greatly. At the end of the fiscal year 1944, 34 of the 48 states had sinking fund, cash and investment assets exceeding their outstanding debt, and total sinking fund, cash and investment assets of the 48 states exceeded their combined debt by $633 million. At the same time aggregate debt of local governments had been reduced 20% from the peak of 1933 and 1934, and further reductions have taken place since 1944.

Local Financing

While state and local treasuries are in relatively better shape than is the Federal treasury, their total assets, their taxing power and their credit resources are small in comparison with the tax revenues and the expenditures of the Federal government in recent years. Postwar demands for public improvements and community facilities will be very great. If the states, and, very particularly, the local governments, are to meet these demands without subsidy from Washington, it may be necessary for them to get larger shares of the national tax pie. There is still a need, long recognized and as long neglected, for the creation of a national tax commission of qualified experts to make a comprehensive study of the several responsibilities and fiscal relationships of Federal, State and local governments, and to recommend a sound basis for allocating adequate tax sources to those governmental units to which they are appropriate.

It might also be found, after careful inquiry, that there is also a need to provide credit facilities for state and local governments. This was done in a rudimentary way in connection with the public works programs of the 1930's. The Federal public works administrator was authorized to advance money to state and local governments in exchange for their bonds, which were in turn sold to the RFC and by the RFC later sold to private investors. This was a banking operation of considerable usefulness at the time. It might well be that existence of some such banking facility for state and local governments would come in very handy at some future time of stress in the municipal bond market. This deserves some study by financial experts. In passing it is of interest to recall that one of the functions of the Credit Foncier, French home loan bank system, was to make direct loans to municipalities.

Problems of financing postwar public improvements will be particularly difficult for the larger municipalities, whose needs for improving traffic conditions, for redevelopment of blighted areas and for expanded services of many kinds will be very great. Their problems will be complicated by a continued trend of decentralization of population, industry and retail trade. At the moment they are solvent, but they are going through the universally necessary adjustment of pay rolls and other expenditures to a postwar price level, which is itself a difficult adjustment to make. They are finding that urgently needed public construction is being currently priced at figures beyond their estimates and their appropriation. That, however, is a passing phase. The basic problem will remain after these current adjustments are made.

I earnestly believe that the kind of solutions we find for the postwar fiscal problems of our local governments, the municipalities in particular, will have a tremendous bearing on the kind of economy and the kind of society we will have hereafter. I believe it essential for the preservation of our liberties, that we preserve the autonomy and independence of our local governments; this we cannot do if we permit them again to become dependencies of the Federal treasury.

L. W. Smith, Former Head Of Harris Forbes, Weds

Lloyd W. Smith, for years President and Chairman of the former New York bond house of Harris, Forbes & Co., was married May 24 to Mrs. Ethel Merwin Georgia of Livingston, N. J. Mrs. Georgia was the widow of C. A. Georgia, formerly of East Orange, N. J. Mr. Smith's first wife, Helen N. Smith, died in September, 1944.

The Smith birthplace, a 1,000-acre farm, known as "Boxwood Hall," at Florham Park, N. J., is one of the largest land holdings in New Jersey and the abundance of old English box wood has made it a veritable show place. Mr. Smith after his retirement from the Wall Street investment field and his directorship in the Chase National Bank in 1931, retired to his farm to engage in private activities and hobbies. His collection of over 30,000 stone implements used by the New Jersey Indians and his Americana collection of literature and documents of our first President and Revolutionary topics is probably the largest collection of Washingtonia in private hands.

Mr. Smith is President of the Washington Association of New Jersey and at a cost of $250,000 purchased and gave the 1,000-acre site of the Revolutionary army encampment in Jockey Hollow, near Morristown, to the Federal Government.

Securities Salesman's Corner

By JOHN DUTTON

Harry L. Perkins of Tifft Bros., Hartford, Conn., Has the Right Idea

Last week's mail brought a note from Harry Perkins who is a member of the sales staff of the Hartford office of Tifft Bros. and he ended it thusly: "Maybe what I've sent you is of little interest to you but I thought you might be interested to know of one salesman at least, who is not out of ideas." Well Mr. Perkins, we not only think you have sound ideas in connection with security merchandising, but we suspect that your customers and friends also think so.

It seems that this progressive salesman had been writing letters to some of his customers. These letters dealt with economic conditions in general, such as the outlook for certain lines of industry, and pertinent facts about various securities that now have an attractive outlook. The burden of writing personal letters to a growing clinetele caused him to suggest to the resident partner that he might secure the same results through mimeographed digests. He offered to spend the time in research and preparation and to make copies available to other salesmen.

Each month since he started preparing these bulletins the list of active users has continued to grow. Other salesmen now find them valuable. If you would read some of them you could understand why they build good will for both the salesman and for Tifft Bros. Here are typical subjects covered: "A SEARCH FOR VALUE" which states that recent increases in dividends by many companies indicate that their own managements, who are better judges of the future than many so-called outside forecasters, have confidence in the outlook. Along with these general observations concerning the future outlook for security prices, there is comment on CHRYSLER, GENERAL MOTORS, HUDSON MOTORS, STUDEBAKER, NASH-KELVINATOR, and MACK TRUCK, WHITE and REO in the truck group. Others mentioned are BORG-WARNER, DOEHLER-JARVIS, LIBBY-OWENS-FORD, AINSWORTH MFG., MULLINS, TIMKEN DETROIT, MOORE DROP FORGING, and SCOVILLE MFG. Another bulletin is entitled "FORECASTING IS NOT AN ABSOLUTE SCIENCE." This is written in a style that is interesting for the lay investor and presents sound reasons why, in the opinion of this firm, stocks are now in a buying zone. Along with this comment is presented some interesting well researched data on THE PETROLEUM INDUSTRY. On the second page of the Petroleum Industry survey is a short study of two securities namely WELLMAN ENGINEERING and MULLINS MFG. CO. Another very well done bulletin deals with "SECURITY YIELDS." Here is the way Mr. Perkins starts off: "Money is the most sensitive commodity in the world, and goes to work for a degree of return commensurate with risk. . . . When there is a reasonable spread between the yields on bonds and stocks so that the latter provide the extra income to offset the greater risk, the stock market is usually in a favorable buying or holding position." Then the bulletin points out the closeness between spreads on bond and stock yields a year ago (when the stock market was much higher) and today. A statistical comparison is presented and the following summary says: "Currently the average return on Barron's 50 stocks is 1.80% greater, and on Moody's 200 stocks is 2.00% greater, than the average return on Barron's 10 highest grade bonds, where A YEAR AGO it was only 0.84% and 0.96% greater, respectively. (Date of this bulletin was Jan. 29, 1947, should you be inclined to use these figures.)

At the top of the bulletin to the left of the heading is a space which is also imprinted with the words "Sent with the compliments of ————————," where the salesman can sign his name or use a rubber stamp. Also the note paper used by Mr. Perkins was smaller in size than regular letterhead paper, measuring 5½ inches by 8 inches. On the top left is printed "A personal note from Harry L. Perkins," at the bottom is the name of his firm and their address is on the lower right side. The more often your customers see your name the better. This note paper comes in handy when you want to send a clipping to a customer, or add the personal touch to any short message.

Bulletins that are as well done as these can be sent to new prospects, to friends of regular customers, or those already on the mailing list. They will open the door for a salesman when he calls the first time to see a prospect. They will keep regular customers on the "good will" side of the ledger. They will pay for themselves in new business many times over if they are used properly. With such good ideas and the knowledge of investments shown by the writer of these bulletins, we are quite certain he is sure to be a continued success in the investment securities business.

Erwin Steubner Joins Kidder, Peabody & Co.

PHILADELPHIA, PA.—Kidder, Peabody & Co., members of the New York Stock Exchange, announces that Erwin A. Steubner, formerly a Vice-President of the Fidelity - Philadelphia Trust Company, has become associated with the firm in charge of the statistical and research department in Philadelphia. Mr. Steubner previously had been connected with Kidder, Peabody & Co. when he helped organize the Philadelphia office of that company in 1934, serving at that time as Assistant Manager in charge of investment advisory and statistical research activities. Following his return to inactive status as a Lieutenant Colonel in the U. S. Army Air Corps in 1945, Mr. Steubner rejoined the Fidelity - Philadelphia Trust Company with which company he became associated in 1938.

With Harris, Upham & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—William W. Argall has become connected with Harris, Upham & Co., 740 Seventeenth Street.

Don't Expect 1941 Prices With 1947 Dollar!

(Continued from page 2)

ourselves out of the hole we are in.

In thinking about all this confusion and turmoil, I am convinced that if we can find an approach to getting and presenting the real economic facts we can all get back on solid ground and work out the job together.

Inflated Prices The Inevitable Effect of Cheap Money

There is a great deal of misunderstanding about the relationship between money and prices. It is axiomatic that you cannot have cheap money and cheap goods at the same time. The very phrase "cheap money" carries the implication that all other things are high priced in relation to money.

Now as a way of getting at the underlying facts of the inflationary spiral we are in — have you ever stopped to figure what has happened to our American dollar during the past 15 years? It has increased in quantity and reduced in value until today our 1947 dollar even by the most optimistic appraisal cannot be valued at more than 60 cents as compared with the 1941 dollar.

That process of increasing the quantity and decreasing the value of our dollar is the greatest single cause of inflated prices. Until we take practical steps to reverse that and get our dollar back to a basis where it is economically worth 100 cents in purchasing power all this talk and pressure to reduce prices is useless.

According to the Federal Reserve Bulletin the total currency outstanding in December of 1946 was 28 billion 860 million dollars against an average pre-war of 5 or 6 billions. An official of the U. S. Treasury recently stated before the Tenessee Bankers Association that the money supply was now about 168 billions against an average of 60 billions in 1939. This money supply included both currency and bank deposits in checking accounts.

With this kind of excessive increase in the money supply at this time when the output of consumers' goods is restricted by the delays of reconversion from war to peace time production, it is really amazing that the prices of products are not higher.

By no stretch of the imagination can it be said that our 1947 dollars are the equal of our 1941 dollars, or of any other pre-war date.

On top of this is the fact that we face a very real increase of 225 billion dollars in the Federal debt since 1939.

A Time for Action

In the face of realistic economic facts like these it is a glib and fast bit of double talk to try to maintain the fiction that you can talk prices down by official pressure on business and industry.

Prices must include the value of money. Let's take a simple illustration that points the fact. What do you think would happen to the value or "price" of a can of beans if you made the can smaller, reduced the proportion of beans and increased the proportion of water? Do you think that would increase the economic value or the market "price" of the beans? Of course not. And by the same inexorable rule you cannot increase the value or the purchasing power of money by increasing the quantity and lowering the quality at the same time. And during the past 15 years we have been doing both to our money.

The basic substance of currency on paper money is gold. Gold for many years has been the internationally accepted standard for appraising the value of the various paper monies of the world.

Four Practical Steps That We Should Take Now

The four most important things we must do in order to get back on our feet again are these:

(1) Increase production.

(2) Reduce the Federal debt.

(3) Reduce the tax rates.

(4) Establish a free gold market.

Everybody knows we are short of all the things we need and want. The basis of all American prosperity has been volume production. Nothing can take the place of production as a means of increasing prosperity and of reducing prices.

Right there is where labor and labor leadership can help. This is not asking labor or labor management to work against themselves, but for themselves and their own interests and for everybody's interest at the same time. Consumers get their necessities, and labor, management, capital and government get their incomes, from production.

There is no way to increase wealth except through production. There is no road to prosperity except work. For everybody to have more we must get on with the job of making more. It is as simple as that. Here we are facing the greatest pent-up demand for all kinds of goods that we have ever had offered us, and we waste time arguing with each other. The whole world is looking for American goods — telling us to get to work and start producing as we never did before. Now when we have a chance to work, not for war and destruction, but for individual and national prosperity, we have every reason and every personal incentive to get on with the job. That is the first step.

As for the Federal debt there is not much need to stress the importance of balancing the Federal budget so that we can start paying off the debt.

As matters stand now the war debt alone is a first mortgage of more than $6,000 against every family in this country. Everybody is feeling the pinch and pressure of high taxes. The Federal tax burden amounts to about 40% of the national salary and wage income.

That brings me to the third step, namely the need to reduce the tax rates. This is not to say that the Federal Government should reduce its income. It is rather, to point the way to increase the government income by the same practical economic procedure through which business and industry increase their volume and their total dollar income. Business gets increasing volume through lower unit prices and lower unit profits. Businessmen know that when you over-price a market you cut volume and reduce profits. Prices can be raised up to a certain point perhaps, but when you reach that point the Law of Diminishing Returns gets into operation and the end result is less volume and lower profits.

I do not believe that anyone can maintain that our present tax rates are helpful either to the individual, to business or to the government. The rates are so high that they defeat themselves. Taxes are part of all costs, and at present so large a part, that they are serving actually to reduce government income by restricting consumer demand, and thereby leaving a smaller sum on which to assess the tax rates. The corporate income tax of 38% is an example. It is so high that it is gradually drying up corporate income. A lower rate here would stimulate instead of restrict corporate dollar volume and result in a bigger dollar income for the government. And in a practical sense the important thing for the government is the actual dollar income, not a theoretical rate of taxation. Government, just like business, can penalize itself by over-pricing its market.

Free Markets and Honest Money Make Prosperity and Progress

Among the most important things that we as a nation can do now is for the government to return to honest money by setting up the mechanism for a free gold market. This means that we should get a free gold auction market out in the open and stop the international bootlegging of gold and American currency which in itself is a cause of the confusion and doubt which restrains trade.

In some European black markets gold is selling at $65 to $70 an ounce. What is gold really worth in terms of dollars — or how much is our dollar really worth in terms of gold? Nobody is smart enough to figure that out theoretically, nor is any one smart enough to pull a figure out of a hat and say, for example, that $35 of American paper money are worth an ounce of gold, without a free market where dollars are convertible into gold at that ratio.

Money in the economic sense is the common denominator for all values. It is sheer nonsense to say that all other commodities will find their true economic level in terms of money, while gold is pegged at an arbitrary price, unless dollars are freely convertible into gold at that price. There can be no free markets for commodities until and unless there is a free market for gold.

In a free gold market gold serves not only as the standard of values, but it also functions as the statistical standard for all international currency relationships. There can be no basis for such international monetary relationships unless there is one common standard for all values. And by universal practice and acceptance the one and only universal standard is gold.

Ever since our dollar was pegged to gold at a fixed or arbitrary price our dollar has served, with gold, as an international "statistical index."

It Can Happen Here

What is happening in China is different in degree, but not in kind, from what has been going on here in America.

China has reached the point in the inflationary process where she can not afford to print paper money of less than $1,000 denomination. In other words white paper is so high, and paper money in China is so cheap, that she cannot waste paper by printing it into money except in thousand dollar bills.

If we do not stop the expansion of bank deposit credits and do not slow up our government money presses, we may, sooner than seems possible now, reach the point where paper will be so high and our paper dollar so cheap, that we will not be able to afford one dollar bills.

Why We Should Take The Lead

The American government should take the lead in practical efforts to reestablish a free gold market—and I mean free even to Americans.

Our whole modern economy is built on the basis of free markets —and that means free markets for everything—gold included.

Unquestionably the reopening of free gold markets would cause price flurries. Prices of some things would go up—while others would go down. And that would be healthy — because it would be the first practical proof that we were on our way towards reestablishing honest relationships between money and gold on the one hand, and between money and products on the other.

Without honest money, and without realistic economic relationships between the various monies of the world in terms of free gold and money and product markets, all other freedoms are endangered.

The Law of Supply and Demand is the inescapable regulator. It honestly and impartially adjusts all values to each other in free, open markets.

The United States is the one country in position to take leadership in reestablishing the free functioning of free markets.

How should we do this? First let us make our dollar as honest as it once was — let us make the American dollar as good as gold. Let us set up in New York a free market where any money in the world can be bought and sold in terms of gold or dollars for exactly what it is worth in a free and open market. Then let prices of commodities find their own level, without subsidies and without monopoly either by governments, private monopolies or labor organizations.

Naturally the end result would be that prices would be somewhat higher than they were before the war. We are on a higher plateau. Just as we went to a higher plateau after World War I.

What would happen in such a free market is that some prices would go up, others would go down, with the net result that an honest and functioning relationship would be established. This would make for stability— it would reestablish confidence and would enable governments and industry and business all over the world to plan with confidence.

A Job We All Must Work At

All of us—and I mean all of us— can perform no greater social, political and economic service to America than to bring pressure to bear on our representatives in Washington to get on with this basic job of restoring an honest monetary system as the beginning of a new and brighter era of real, not make-believe, prosperity for all. No amount of talk—official or otherwise — will make our 1947 dollar worth as much as the 1941 dollar. But we can get our monetary system on an honest basis as a result of the free operations of economic forces in free and honest markets.

Domestic and international trade will get back on its feet when world markets for all commodities are free to establish values and prices.

The most important contribution America can make to help get the world back to constructive work, economic progress and political peace is to go through with a realistic program to:

(1) Increase production.
(2) Reduce the Federal debt.
(3) Reduce the tax rates.
(4) Establish a free gold market.

We can't have 1941 prices with the 1947 dollar!

With Marache, Sims, Speer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert L. Lindstrom has joined the staff of Marache, Sims & Speer, 458 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with the First California Company and R. F. Ruth & Co.

With Holton, Hull & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Edwin Page has become associated with Holton, Hull & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. Mr. Page was formerly with Marache, Sims & Speer and in the past with White, Wyeth & Co.

The Financial Outlook

(Continued from first page)

international viewpoint, wide participation in the great money markets, national and international, sharply increased participation in the capital markets and the beginning of widespread expansion of security holdings, particularly government bonds, were some of the "apples" of change which came int othe banking Gardens of Eden.

These changes inevitably meant that bankers could no longer confine their attention and concern solely to their own local community. Whether they liked or no, they had become a vital, integral part of the great national and international mechanism of credit and exchange. The stock market crash of 1929, the worldwide moratorium of 1932, and the depressed prices of the thirties taught, in ruthless economic fashion, the dependence of even the smallest, local, unit bank on international and national developments. Most bankers who disregarded these basic outside influences gave up the banking business in the early thirties!

Now we have World War II back of us; I might even say that we have it on the books! The economic and financial changes largely initiated by World War I, were magnified—yes, multiplied many times—in World War II and its aftermath. Our economic destiny is now truly subject to many elemental forces over which we have but little control. Banking is more under the control of these basic forces than any other segment of our economy.

In the period of change we are now entering, I am concerned that the bankers of America may overlook the fundamental character or underestimate the local impact of international and national developments. The controlling effect of these outside developments on local conditions should always be kept in mind.

A Managed Economy?

As you bankers well know, we have a managed public debt, a managed money, a managed international trade, and, in several respects, a managed economy. Management of our public debt and management of our money and credit have become so intertwined that they have to be viewed as a single problem. Of course, it would be better if credit control could function with an eye single to the needs of business rather than to the policies of the Treasury; but our method of financing the war puts such an aim in the category of wishful thinking. Added to the necessity of handling our money and credit and our debt as one problem, we now have the further complication of fitting both debt and money management to a change in economic conditions. In fact, the principal message I have today is this: For a long time to come, economic conditions will exercise a controlling influence on debt and money management.

Now, let us briefly analyze the economic side of the problems to get some idea of where we are and whither we are bound. The national income is running at a rate in excess of $180 billion a year, which is more than twice the $82 billion of the boom year of 1929 and nearly four times the $46 billion of 1933. Manufacturing activity in March was running, on a quantity basis, 55.6% above the highest peak recorded prior to World War II. Durable goods were being produced at the rate of 2.23 times the 1935-39 average. Moreover, the *value* of the factory output showed an even greater increase, reaching an index total, based on 1935-39, of 334.5. Retail trade continues in extremely large volume. Employment is at peace-time record levels. Prices of farm land have soared so high that President Truman has called a conference to consider ways of preventing a sharp decline such as we had in 1920. Prices of old houses have reached fantastic levels, and the prices of construction on new houses have risen 95.1% since 1939. There is an unprecedented demand for goods, particularly consumer durable goods; and, while the demand for soft goods has declined, the level is still far above anything in the past.

Put on a quantitative basis, there are substantial backlogs of demand for nearly everything, especially housing, and the American people have more than $150 billion in liquid assets to back up these demands. In addition, there is the possibility of a great increase in consumer credit expansion.

Why Has Recession Started?

In view of these extremely favorable factors, why has a recession started? Why are some men worried that we may have a repetition of the 1920 break, particularly in agricultural and land prices?

The reason, I think, is a very homely, down to earth one. In Kentucky, my friends told me that, considering the costs of production, the price of burley tobacco is about right, but that other prices are too high; in Georgia, I was assured that the prices of cotton and peanuts at three or four times the prewar level are economically justified, but that prices, in general, are far too high; in South Carolina, they likewise insisted that current costs of production warrant price levels three or four times those of prewar for naval stores, but that the prices of other goods are too high; my Ohio friends assured me that $2.00 corn and $3.00 wheat in a starving world are not out of line, but that the prices of the things the farmer has to buy are outrageously high; and so it goes, state after state, industry after industry, and individual after individual. Obviously, when men feel that all prices are too high except their own, they will slow up buying until prices come more in line with their expectations.

This has happened already in most soft goods lines and is particularly noticeable in jewelry, cosmetics, women's wear, shoes, nylons, frozen foods, canned goods, etc. Even more important, it has happened in the building industry where consumer resistance to high construction prices has reduced the government estimate of the number of private homes, which will be started this year, from 1,500,000 to 750,000. Furthermore, construction in general is far below expectations.

High Level Inventories

Inventories, especially manufacturers' inventories, are at high levels. Department store inventories are likewise at high levels, and markdown sales have been drastic and widespread. Undoubtedly, the inventory boom is over. Orders are being canceled, failures are increasing, and unemployment is beginning to materialize, here and there, on a local scale. There are many indications of the necessity of a thorough-going price adjustment. Beyond question, many prices have outrun current purchasing power. This is indicated by the drop in the rate of annual savings from $33 billion in 1945 to $16 billion in 1946. This is indicated by the increase in the volume of consumer credit. It is indicated by many statistical factors which I could cite. But, why labor the point? Every man in this audience knows that prices have reached the point where they hurt. And even if prices had not, in fact, outrun purchasing power, the consumer has a deep-seated conviction that they have, and that is what counts. There is a psychological resistance which prevails despite enormous liquid assets and the possibility of a great expansion of consumer credit. So, gentlemen, the die is cast; the bets are down!

What can an individual banker do about these adverse economic developments?

Well, first, by closely observing the behavior of prices, you yourself can judge the extent to which you should take the traditional banking precautions of tightening your credit policy, reducing your valuations and appraisals, increasing your liquidity, reducing your credit expansion, and establishing reserves. I say this because the extent, severity and duration of this recession will depend on the rapidity with which prices are brought into line with purchasing power.

Costs Can Be Cut

High prices and what I call the evils of over-employment are the principal economic maladjustments which need correction. Declining prices causing some unemployment will do more to increase the productivity of those remaining employed than anything that management can do. When men can too easily shift from payroll to payroll, productivity is bound to suffer. Competition for the available jobs will increase the average output per worker in most lines. Also, we must frankly face the fact that there are many wastes on the part of management, which can be eliminated. A little economic adversity will change many an executive's ideas as to what are business necessities and what are business luxuries! Business efficiency necessarily deteriorated during the war when volume became the sole criterion rather than economy and efficiency of operation. I mention these things because they indicate that there are costs which can be eliminated. No matter what anyone tells you, costs can be cut and will be cut. Also, abnormal profit margins will return to normal, and in many cases to less than normal. Reduced costs and lower profit margins will permit efficient producers to lower prices and take over some of the volume of the high cost producers who cannot meet the strenuous competition of peacetime. This means bankers must be very selective in all credit operations. Be sure you pick the winners in the bitter competitive struggle which lies ahead. Remember: Prices are going to come down and high cost producers inevitably will suffer.

We shall not, however, despite what many have been saying, have a repetition of 1920. We have moved to a higher standard of living. In addition to the great reservoir of future wants arising from this change, we have backlogs of unfulfilled past wants. We have price floors under the principal agricultural products. We have enormous liquid wealth in the shape of current purchasing power and current assets which can be quickly converted to effective demand for goods. We have a worldwide demand for goods, particularly food, and we have the International Bank for Reconstruction to make such demand effective. And, above all, as I said earlier, there is nothing wrong with our economic situation which a little managerial initiative, a dash of American ingenuity, and a large measure of old-fashioned American effort and hard work will not cure.

Economic Situation Sound

Proof of the basic soundness of our economic situation is furnished by the way good quality products at fair prices are literally fought for by consumers. True, off-brand, poor quality, wartime ersatz products linger on the shelves, but good merchandise, decently priced, has never been easier to sell!

Now, let us turn to the purely financial side of your problems.

Here we find the picture much more encouraging. For example, the Federal budget is not only being balanced; it is being trimmed. Your great Senator Byrd is no longer a John the Baptist crying out in a wilderness of New Deal spenders. His mighty labors and his patriotic courage in spearheading the drive for government economy are at last bearing good fruit. In fact, I venture to say that history will record his efforts as one of the greatest contributions to real democracy made by a Democrat in modern times.

We can, also, look ahead to some tax reduction although how much, no one can say.

The monetary authorities have, for the time being, at least stopped their $200 million weekly redemption of Treasury bills. The redemption of these bills was, as you know, designed to narrow the credit base. It was a deliberate effort on the part of the Treasury and the Federal Reserve authorities to prevent government bonds from going higher and, at the same time, to discourage a continuation of the very rapid expansion of commercial and real estate loans on the part of the commercial banks. Whether the monetary authorities feel that these aims have been fully accomplished or whether they have changed the policy because of the uncertain economic outlook, I, of course, do not know; but I suspect that the immediate economic outlook was the controlling factor. In any event, the change in policy removes the pressure from government bonds.

Commercial Loans Will Increase

Looking ahead, I think it safe to say that commercial loans will increase in volume after we finish our little inventory—price shakeout. Savings deposits will continue to increase but, of course, at a much slower rate than in the past. The total of demand deposits will hold up much better than many people think. Treasury redemption on the grand scale of the last 12 months is over. Loans, as I indicated before, will, after a few months, begin to expand once more. The unemployment and lower prices, which are now materializing, should start a return flow of currency to the banks. Likewise, deposits should be increased by an inflow of gold from other countries. All in all, the deposit outlook is quite favorable.

In conclusion, let me repeat: Competition has returned: high cost producers will fall by the wayside; but, low cost producers will reap the profits reward on their own production volume and also on the volume they inherit from producers who cannot meet the tests of peacetime competition.

Bankers will once more have an opportunity to exercise banking ability and credit judgment in the selection of risks and the handling of loans already on the books. So far as their largest asset, government bonds, is concerned, banks are in exceptionally good shape. There is nothing to worry about in this connection; in fact, all recent developments in the field of government finance have been highly favorable.

E. F. Gillespie & Co. Adds H. Cox to Staff

Harry T. Cox has become associated with E. F. Gillespie & Co., Inc., 37 Wall Street, New York City. Mr. Cox was formerly with Amos Treat & Co., specializing in industrials.

Bankers' Responsibility in Debt Management

(Continued from page 5)

essential, therefore, that each individual citizen knows what the debt is, and what it means to the community. As our Government grows and becomes more complicated with the passing of years, and it will, make no mistake about that, it is essential that the citizens of this country become better acquainted with the activities of that government. They have more than a duty of just going to the polls and voting for a candidate whom they like. They have a duty to follow up and see that when that candidate is elected he follows the mandate of the people, and that he advocates the course of action which is in the best interest of all of the people, and not just a few. In order that each citizen may discharge that duty faithfully, he should keep generally acquainted with the national budget policies and particularly those that concern public debt management, and he should be generally familiar with all governmental procedures affecting the business of the nation, which in turn have an influence on his employment or on his individual business. A person is much more interested in a project in which he has his money invested than in one in which he has no financial interest. Therefore, the individual citizen who continues to hold the Government securities which he or she purchased during the war, and those who continue to buy additional securities as they are issued from time to time by the Treasury (and Savings Bonds are on continuous sale), have a very definite interest in watching the affairs of Government to see that nothing is done by that Government to interfere in any way with the soundness of their investment.

Here is where you bankers can help further. Here is where not only as bankers, but as citizens, you are interested. For years you have preached thrift and the benefits to be derived by the individuals who practice it. By this method you have brought numerous customers into your bank. They have relied upon you for financial as well as other advice. I am sure that by advocating and promoting the Treasury's program of "Bond-A-Month," you, as leaders in your community, will be performing a real service to your own institution, and also a real public service to your customers and to the public in general.

You can remember some of the criticisms during and after World War I when the government decided to continue its insurance program in force for the benefit of the veterans. The government was accused of going into business and that its action in this respect would be an interference with private business. As a matter of fact it turned out to be the greatest boon to insurance that had ever taken place in this country. More than four million men had become insurance conscious. Likewise in World War II, some 14 or 15 million men and women have been taught the value of insurance by their government. The insurance companies, I believe, are doing a greater business, due in part at least to the activities of government in this field, than they have ever done before. And so it has been with the Treasury's Savings Bond programs. Don't get me wrong. I am not advocating government in business by these statements. These were strictly governmental affairs. But the Savings Bond programs have instilled the habit of thrift into the minds of millions of people, and those programs have demonstrated to them the benefits to be derived from such habits. The banks have benefited by these programs too. While billions of dollars of Savings Bonds have been sold under these programs, your individual time deposits have increased by billions during the same period. It seems to me, therefore, that these particular governmental programs have been beneficial to all concerned, and that the program of "Bond-a-Month," which starts on June 1 can likewise be beneficial to us, by bringing more people into the bank, getting them acquainted or better acquainted with the bank's officers, and thereby getting them to rely more on you and your officers for financial advice; it would be beneficial to the participants and also to the community in general.

During my career in the Treasury it was my good fortune, particularly during the past 20 years, to work rather closely with American bankers. I came to the conclusion a long time ago (and I might add long before I became a banker) that if you could convince the bankers that a thing was good for the community in general, you never had any difficulty in getting them to put their efforts behind the movement. I have never found them altruistic when a government or a civic matter was concerned. I think it can be truly said that the bankers are leaders in this field. Of course, they get some collateral benefits through an improvement in their public relations.

Now a Public Debt of close to $260 billions is hard to grasp. To emphasize its magnitude, I remind you that there have been only slightly more than one billion minutes elapsed since the birth of Christ. But a truism such as this only helps to complicate the picture. Possibly if the debt is broken down into segments represented by the amount of government securities owned by each of the various investor classes, it would simplify the problem some. For example, individuals now own about $65 billions of the debt or about one-fourth of the total; insurance companies own about $25 billions; mutual savings banks own $12 billions, and government trust funds own about $31 billions. I won't break them down any further, you are familiar with them. But whenever you hear anyone criticizing the fiscal authorities for the policies adopted in financing the war and in managing the Public Debt, it might be well to point out these figures and show that 54% of the total Public Debt obligations outstanding is either directly in the hands of individuals, or indirectly in their hands by being owned by private financial institutions and governmental trust funds which are holding those obligations as investments for the benefit of individuals. In addition there are many other corporations and funds which hold government securities as investments for the benefit of individuals, the total of which would substantially increase this percentage.

These individuals, and there are millions of them, own a share of America, and that ownership is in a type of security which meets their investment needs as near as the Treasury could provide it in line with the overall policies adopted to govern war financing. Two very important policies in Public Debt Management were laid down when war financing started—and I must say at this point that Public Debt Management had to begin right at the moment war financing got under way. The first policy was that the debt should be so constituted as to fit as near as practicable the essential needs of each investor group, and the second policy which is corollary to the first is that the debt should be spread as widely as possible among all of the people. Those policies have been strictly adhered to ever since and are being followed today. That is one of the main reasons for the continuation of the Savings Bond program.

You hear the suggestion made many times today that the Treasury should fund its short-term debt by offering a long-term obligation. This seems to be on the theory that the short-term debt is too large and that the Treasury should relieve itself of the responsibility of constantly turning this debt over each year, or oftener in the case of Bills. In my opinion the short-term debt should be funded into long-term debt only when there is a sufficient accumulation of funds in the hands of long-term investors to justify an operation of this kind. I have seen no statistics that show any large accumulation of uninvested funds in the hands of insurance companies and savings banks, and they are the main institutional sources for funds which could absorb any substantial volume of long-term securities. In any funding operation of this kind, restrictions on the availability of funds (and I don't mean those funds temporarily invested in certificates awaiting more permanent investment) would have to be applied or a non-market security issued so as to prevent the shifting of short-term securities from non-bank sources into commercial banks in order to acquire funds with which to subscribe to the long-term securities. Otherwise there would be no sense to any such funding program. Furthermore, when the Treasury issues long-term securities it should be satisfied as far as it is humanly possible under present circumstances that these securities will to a large extent remain in the hands of the original subscribers and that they would not be dumped on the market periodically as the interest curve fluctuates—in other words be satisfied that they reasonably represent permanent investments. If they did not represent permanent investments, it would just create a continuous market problem for the fiscal authorities.

There is one group that continues to have an accumulation of uninvested funds and that is the individual group. It has been estimated that they have an aggregate of about $129 billion in currency, checking and savings accounts (including savings and loan). But the Treasury certainly would not be justified in offering a long-term marketable security to this group when the Savings Bonds, continuously on sale, admirably meet the investment needs of a large majority of its members, and without any market risk whatever to them. I might add that through the medium of Savings Bonds, to the extent the Treasury receives excess funds from their sale, the short-term debt is being retired from the commercial banks. So there is a funding program going on continuously. I know it will be said that this is funding into a demand obligation, but I think if we will look at the 12-year record, we will find that Savings Bonds have stood the test of permanent investment fairly well. Individual ownership of the debt is slightly larger today than it was a year ago.

I would like to say a word about a sinking fund to be applied to debt reduction, which is a part of any debt management program. Debt reduction is deflationary. A sinking fund should therefore be made to operate so as to have the most beneficial effect on the economic conditions of the nation. We should retire debt in good or boom times, or during periods of inflationary spirals. On the other hand if we are in the midst of a depression, debt reduction at that time might possibly be a deterrent to recovery. It would in all probability be far better for the country if during such a period, debt reduction could be postponed and a tax reduction program adopted instead. It seems to me, therefore, that the amount of any sinking fund created should be determined automatically by some formula tied in with economic conditions. The sinking fund policy might well tie in with the whole budgetary and tax policy of the Government. It would be a fine thing, it seems to me, if Congress could adopt some formulas under which certain governmental policies could automatically be adjusted to current economic conditions. Suppose for example (and the amounts stated here would have to be fixed after careful study) that the Congress should lay down a national budgetary policy placing an overall limit on annual Federal expenditures of say $25 billion, or better still a range of $22 to $25 billion, leaving some room for unexpected programs which would have to be adopted from necessity. Then adopt a sound tax program with such administrative changes as now seem desirable, which would raise on a basis of a national income of say $140 billion, an annual sum of $28 billion in revenue, including receipts from miscellaneous sources. The surplus revenue representing the difference between the expenditures of $22 and $25 billion, as the case might be, and the revenue of $28 billion would be used for debt reduction. If the national income should increase beyond the basic $140 billion, the Treasury would automatically get more revenue and likewise there would be more surplus available for debt reduction. On the other hand if the national income should decline below the basic national income figure, then there would be less revenue and less debt reduction. This would gear the amount of the annual sinking fund to the economy of the country, and its amount would be automatically determined.

As a further desirable step in this program it would be extremely helpful if the Congress could adopt some method of reducing taxes automatically when it definitely appears that we are heading into a depression. A tax reduction first under such conditions would in my opinion be the best and most effective stimulant that could be offered. To be most effective it would have to work quickly and it would lose much of its effectiveness if it had to wait months while the Congress debated the subject, and while the country was sinking lower and lower into a depression.

As a part of this overall policy, as much as possible of our whole public works progam should be held up during prosperous times, and the state and local governments should be encouraged also to hold back on their programs, although plans for proceeding with such programs should be formulated and kept current. Then if the tax reduction program is not sufficient to provide the necessary stimulant, we could go forward with the delayed public works program. From the standpoint of the taxpayer, depression periods would seem to be the most favorable time for proceeding with these public works programs because they would be carried on during a period of lower prices, and at a time when they would be most beneficial to the country as a whole from the standpoint of economic conditions. But I am afraid even if Congress were willing, we will have to have a more peaceful atmosphere before it could adopt any such program as this. Yet great progress has been made during the past year towards long-range planning. The Congress has reorganized and has made provision for receiving and studying the President's reports on economic conditions which are based on the findings of the Council of Economic Advisors. This is a step in the right direction and is very encouraging.

But the job before us at the moment is to keep this huge debt in the hands of non-bank investors and to make every effort to increase their holdings and decrease the commercial bank holdings. We, as bankers, the custodians of the people's money, and those to whom the people look for financial advice, have a deep responsibility to do all we can to help guide and implement sound fiscal policies. It is therefore our duty to back the "Bond-a-Month" program of the Treasury, by endorsing it, advertising it, encouraging our customers to participate in it, and by providing the machinery in your banks whereby it can function successfully. You gentlemen did a magnificent job during the war selling Government securities to the public, and one of which you may well be proud. But the job of managing the Public Debt will be with us continuously for a long time to come, and we just can't stop now supporting the programs of the Treasury, nor can we stop supporting them in the immediate future. We must hold ourselves in readiness at all times to help the Treasury in any way we can in its tremendous and vital undertaking of Public Debt Management. I am sure that the Treasury can continue to count on us in the future for any service it might think we are able to render just as it has in the past.

Taft Lauds Tax Cut Plan

(Continued from first page)

ation today in the United States, practically 30% of the national income, is a serious burden on every individual and every business. A free economy can't operate successfully with such a tremendous burden. Everything is all right as long as prices keep going up, but once inflation stops a tax burden of this kind might turn a slight recession into a serious depression," the Senator declared.

"All the spenders want to keep the tax receipts up to $40 billion in order to maintain a high standard of government spending. The quicker we can revise our sights downward, the lower we can keep the expenditures. I don't believe the President can afford to veto this bill, because it would put him definitely on the side of high taxes and high expenses.

"Furthermore, the determination of tax policy has always been peculiarly the function of Congress and the House of Representatives just as foreign policy is peculiarly the function of the President. The President ought not to veto this bill unless he regards it as a dangerous threat to the welfare of the country, which it obviously is not," the Senator said.

W. Frank Harlow Now With Kidder, Peabody

Kidder, Peabody & Co., 17 Wall Street, members of the New York Stock Exchange, announces that W. Frank Harlow has become associated with the firm. Mr. Harlow formerly had been with Lazard Freres & Co. which firm he became associated with in 1943 following a 12-year association with General American Investors Co., Inc.

The Outlook for Gold Mining Stocks

(Continued from page 4)

standard price of gold in this country.

Under the Gold Reserve Act of Jan. 30, 1934 the weight of the gold dollar was fixed by President Roosevelt at 15 5/21 grains of gold 90% fine, i.e., 13.71429 grains of pure gold. This action established the dollar at 59.06% of its former weight, and raised the price of gold from $20.67 to $35 an ounce, the price which remains in force today.

Higher Price for Gold?

There is a perennial rumor that the gold content of the United States dollar may be lowered; in other words, that the price of gold may be raised. Those who believe that there is some foundation for this expectation look for an increase in the price within the next four or five years, especially if there is a resumption of the use of gold as the basis for foreign currencies.

A good statistical argument can be made for a higher gold price eventually, and there are two essential elements that can be cited in support of it. One is the present high level of gold-mining costs and the consequent shrinkage of output and profit. The other is the decreasing gold coverage for outstanding currencies and bank credit. While these factors may seem relatively unimportant, since specie payments have been abandoned in the principal countries of the world, gold still is the means of settling international obligations, and no really practical substitute has yet been developed.

The ratio of gold to currency and commercial bank credit which pre-war the world over was about 40%, is estimated to have dropped to about 15% at present. In this country the gold coverage backing currency is now 25%.

Shortage Possible

On the assumption that the war has established a permanently higher price level, that there will be no appreciable rise in gold production, that the volume of currencies and credit will not decline to any marked extent, and that the black market in gold, especially in the East, will continue to be a drain, there seems a possibility of a relative shortage of gold.

On the other hand, the price of gold has become a government monopoly, except in the limited free market and the black market, and in theory government could control the price as long as it wished.

Since 1934, all the major powers have resorted to managed currencies, using gold only to settle international trade balances. Through exchange rate manipulation and revaluation or devaluation of currencies, monetary policies have been employed to stabilize domestic economies.

In order to effect some stability in exchange rates and free international trade, the $8.8 billion International Monetary Fund has been organized and put into operation. Although partly backed by gold, it recognizes the prevalence of managed currencies, and no doubt over the next few years gold will continue to be frozen in government treasuries, with neither silver nor paper currencies convertible into gold.

Should the International Monetary Fund prove ineffective or a failure, an increase in the price of gold may be adopted to scale down national debts or to offset severe deflationary pressures.

Canadian Gold Mining

In some quarters it is believed that Canada may revalue gold next year. Canadian law requires that the gold be sold to the government. Some Canadian gold producers are said to be holding their gold for a higher price, withholding newly-mined gold in the expectation that they will receive from the government some concessions to compensate them for the loss they suffered when Canadian dollar exchange was raised to parity with the American dollar last July. They now receive only $35 an ounce; formerly they received the equivalent in Canadian currency of $38.50 an ounce.

While American gold-mining companies had only limited production last year, their output is now increasing, and, despite rising costs, the better companies not only show a more-than-average yield at present but should show defensive quality in recession and even do well in the event of a marked depression. For the Canadian companies the earnings trend is uncertain; their costs are high also, and for compensation to replace the 10% premium for gold which they formerly enjoyed they must look to government action.

We are of the opinion that among the domestic companies Homestake and among the Canadian companies Dome, Hollinger, Kerr-Addison, Lake Shore and McIntyre, should be considered for inclusion in any general portfolio of securities at this time, primarily for their defensive quality.

Conclusion

We do not now expect an increase in the price of gold in the United States and Canada to occur in the foreseeable future, but as time goes on developments could occur to make it more of a possibility. In the present readjustment or recession period, gold-mining stocks can offer a defensive hedge. In the event of a depression or a *currency* inflation, they should be even more advantageous holdings and, contrariwise, they can be expected to react somewhat favorably to improved prospects for business generally. — **From the May 29 issue of "Investment Timing," published by the Economics & Investment Department, National Securities & Research Corporation, New York City.**

Table 2

UNITED STATES GOLD IMPORTS AND EXPORTS ON BALANCE

(in thousands of dollars)

	Total Net Imports	United Kingdom	Canada	Mexico and other Latin American Republics	All other Countries
1940	$4,744,472	$633,083	$2,622,330	$158,139	$1,330,920
1941	982,378	3,779	412,056	78,653	487,891
1942	315,678	1,955	208,917	79,696	25,110
1943	68,938	88	66,920	10,202	(— 8,272)
1944	(—845,392)	(—695,483)	46,210	(—218,255)	22,136
1945	(—106,250)	160	53,148	(— 26,654)	(—132,905)
1946	311,494	458	344,130	(—130,814)	97,719
1947					
Jan.	(— 16,820)	—	51,174	(— 97,136)	29,143
Feb.*	20,361	9	30,319	(— 30,119)	20,151

Source: Federal Reserve Board. *Preliminary.

Table 3

	GOLD RESERVES OF CENTRAL BANKS AND GOVERNMENTS (in millions of dollars)			INITIAL PAR VALUES UNDER INTERNATIONAL MONETARY FUND	
Country	1939 Sept.	1945 Dec.	1947 Feb.	Grams of Fine Gold per Currency Unit	Currency Units per U. S. Dollar
United States	$16,932	$20,065	$20,330	0.888	1.00
Argentina	449	403	645‡[11]	--	--
Belgium	615	716	691	0.020	43.83
Brazil	36	354	354	--	--
Canada	218	7*	7	0.888	1.00
Chile	30	82	63[11]	0.028	31.00
Colombia	21	127	125	0.507	1.75
Cuba	1	191	226[12]	0.888	1.00
Czechoslovakia	58	61	61[13]	0.017	50.00
Denmark	53	38	32	0.185	4.80
Egypt	55	52	53[13]	3.672	0.24
France	2,709	1,090	796	0.007	119.11
Germany	29[10]	29[1]	--	--	--
Greece	28	28[1]	--	--	--
Hungary	25	24[1]	--	--	--
India	275	274	274	0.268	3.31
Iran	26	131	124[14]	0.027	32.25
Italy	194[9]	120[2]	--	--	--
Japan	164	164[3]	--	--	--
Java	88	216[4]	--	--	--
Mexico	30	294	148	0.183	4.86
Netherlands	754	270	245	0.334	2.65
New Zealand	23	23	23[11]	--	--
Norway	107	84[5]	--	0.179	4.96
Peru	20	28	24[11]	0.136	6.50
Poland	84[6]	--	--	--	--
Portugal	69	60	60[15]	--	--
Rumania	149	260	--	--	--
South Africa	234	914	851	3.581	0.25
Spain	525[7]	110	111[12]	--	--
Sweden	357	482	324	--	--
Switzerland	587	1,342	1,432[11]	--	--
Turkey	30	241	238[11]	--	--
United Kingdon	1†	1	1	3.581	0.25
Uruguay	68	195	200[13]	--	--
Venezuela	52	202	215[16]	--	--
Yugoslavia	59	83[8]	--	--	--
Other Countries	155	247	236‡[11]	--	--

(1) Dec. 1944 (2) Dec. 1940 (3) Feb. 1941 (4) Jan. 1942 (5) Mar. 1940 (6) July 1939 (7) Apr. 1938 (8) Feb. 1941 (9) Mar. 1939 (10) June 1939 (11) Jan. 1947 (12) Dec. 1946 (13) Nov. 1946 (14) July 1946 (15) Mar. 1946 (16) Aug. 1946

*Transferred to Exchange Control Board.
†Transferred to British Exchange Equalization Account.
‡Preliminary.
Source: Federal Reserve Board and International Monetary Fund.

Table 4

OFFICIAL & "FREE" EXCHANGE AND "FREE" PRICE OF GOLD

	Official Rate (in cents)	"Free" Rate (in cents)	Discount (in %)	Price of Gold (in dollars per oz.)
Allied Countries				
Canada	99.50	89.75	9.81	$46.00
Great Britain	403.75	250.00	38.08	35.00
United States	100.00	100.00	--	35.00
Former Occupied and Satellite Countries				
Belgium	2.28	1.82	20.18	45.00
Denmark	21.05	13.79	34.49	--
France	.84	.51	39.29	61.50
Netherlands	37.74	18.18	51.83	--
Norway	20.32	14.29	29.67	--
Rumania	.006	*	--	78.00
Neutral and Misc. Countries				
Chile	5.16	2.33	54.84	48.00
Egypt	414.00	295.00	28.74	65.00
India	33.00	39.00	18.18†	71.00
Mexico	20.00	20.00	--	44.00
Sweden	27.78	23.53	15.30	39.50
Switzerland	23.31	27.40	17.54†	38.50
Turkey	354.61	333.33	6.00	63.00

*So-called "free" rate is about 1½ million lei to the U. S. dollar.
†Represents premium.
Source: Dr. Max Winkler.

Table 5—GOLD MINING STOCKS

	1946 Earnings per Share	1946 Dividends Declared	1947 Price Range High	1947 Price Range Low	Recent Price
American					
Alaska Juneau Gold Mining Co.	$0.11‡	--	6¼	4	4½
Homestake mining Co.	1.18	$1.40	45½	35¼	43¼
Natomas Company	1.26	1.00	12⅞	11⅛	12⅞
N. Y. & Honduras Rosario Mining Co.	5.68	4.45	47½	31	32¼
South American Gold & Platinum Co.	0.32*	0.20	5¼	3½	3¾
Sunshine Mining Co.	0.35	0.40	13⅝	8⅝	8¾
U. S. Smelting, Refining Mining Co.	1.62	1.00	51	38½	41½
Yuba Consolidated	0.35§	0.20	5	4	4½
Canadian					
Bulolo Gold Drdg. Ltd.	--¶	--	17	14¾	14¾
Dome Mines, Limited	1.05	1.15	21	16¼	18½
Hollinger Consolidated Gold Mines	0.35	0.35	10⅞	7⅞	9
Kerr-Addison Gold Mines	0.22*	0.30	14⅝	12⅝	14⅛
Lake Shore Mines, Ltd.	1.15	0.76	15⅛	11¼	13½
McIntyre Porcupine Mines, Ltd.	1.82†	3.17¼	56¾	46½	52½
Pioneer Gold Mines of B. C., Ltd.	0.15‡[2]	--	4	2⅝	3¼
Premier Gold Mining Company, Ltd.	0.008‡	--	1⅜	½	½
Teck-Hughes Gold Mines, Ltd.	0.14	0.15	3½	3	3¼
Wright-Hargreaves Mines, Ltd.	0.20[3]	0.19	3¼	2¼	2⅝

*9 months ended Sept. 30, 1946. †9 months ended Dec. 31, 1946.
‡ Deficit. §Estimated by Standard & Poor's. ¶Operations resumed Feb. 20, 1947.
(2) Year ended March 31, 1946. (3) Year ended Aug. 31, 1946.

Russia and Peace

(Continued from page 8)

the war to occupy a position where I had the opportunity to see General Marshall at work. As a result, I am convinced that he is one of the greatest men that this nation has ever produced and that we have nothing to fear as long as we have him representing us. Stalin knows him, as he always accompanied President Roosevelt at the various conferences, respects and admires him and they have gotten along very well.

Stalin himself is not a man to be taken lightly. He possesses great courage, endurance, patience and perseverance. He is shrewd, ruthless and cunning. He was the only one of the old revolutionists who had the courage to stay in Russia after the collapse of the Revolution of 1905. No torture or suffering could ever break him down. But Russia today needs help very badly. She has 180 million inhabitants, made up of many different tribes of peoples, who speak 200 different languages and dialects. The Communist Party claims to have five million members which is probably greatly exaggerated, but still a small percentage of the population. Russia comprises one-sixth of the earth's dry surface. She certainly does not need any more land, but she does need money, food and machinery. She looks enviously at the United States with only one-half her territory and only 6% of the world's population, turning out 25% of the world's goods and having a current annual income of $176 billion. She sees us untouched by the ravages of war and remembers the Biblical injunction that from unto whom much has been given much shall be expected. It is no surprise that she is trying to get the most out of us; every other country is doing the same. One by one, they are making requests for hundreds of millions of dollars to save them from Communism. So far, they have all been successful and as Russia was our ally, she feels that she also should be considered.

But the time has come for some action. General Marshall knows that Russia's two greatest enemies are Germany and Japan. We hold the keys to the future of those two nations and Stalin, who is suffering from a heart ailment, is anxious to have peace. The fact is that in order to survive, Communism must have peace.

The business men of this country who have allowed themselves to be frightened by the fear of another war would profit more if they were to put such fears aside and get down to some good old-fashioned hard work and constructive thought and let Secretary of State Marshall handle the Russian situation for them. Let us stop worrying about war, as we have more than enough domestic problems to challenge our ingenuity and occupy our thoughts.

Present Problems of Trust Funds Investment

(Continued from page 8)

ments best suited to any given set of circumstances.

As we have stated, the fundamental objectives of a trustee are to preserve the principal for the remainderman and to provide an income for the life tenant. There must always be a certain amount of conflict between the interests of the life tenant and those of the remainderman exemplified by the desire for income on the part of the life tenant and, on the part of the remainderman, the desire for the preservation of the principal amount of the trusts. While it is my own belief that the average man who provides under his will that a trust be set up, is very much more interested in the welfare of his wife and children as income beneficiaries than he is in the number of dollars the ultimate beneficiary may receive, trust law has always required an emphasis on safety for the benefit of the remainderman. Traditionally this legal concept, inasmuch as it carried a threat of surcharge, naturally affected the investment policies of the trustee so that he was likely to confine his investments to fixed-income securities even in those trusts which by their terms afforded him some degree of latitude in the selection of investments. It was a practical certainty, then, that in a period of declining interest rates, those income beneficiaries whose funds were entirely invested in bonds would find themselves in a rather unhappy position. This is just what has happened over the past several years, and the hardship of the beneficiaries' position has been aggravated by the decided upward trend in the cost of living.

I believe that most trustees under present conditions are giving increasing consideration, within the realm of prudence and practicability, to this phase of their problem and that, as a result, the modern conception of a trustee's objective emphasizes the investment of the funds under his control so as to serve the best interests of the income beneficiary in terms of purchasing power and at the same time protect the ultimate value of the fund in terms of purchasing power. If this is so, what effect will those twin objectives have upon investment policy under present day conditions?

Since the investment of funds is not an exact science and money invested is always at hazard, although in varying degrees, a trustee can never expect to accomplish perfect results. Further than this, the circumstances surrounding any particular trust must be considered in relation to an overall investment policy. However, under present day conditions, any investment policy that envisions a substantial increase, over a period of time, both in the principal value of the account and in the income derived therefrom must include the purchase of common stocks because, obviously, the purchase of bonds with their fixed-interest rates precludes the possibility of any increase in so far as the income is concerned and, with perhaps few exceptions, bonds suitable for trust investments are presently selling at or above their maturity value.

Investment Program

So far, we have talked about concepts, theories, and objectives. I think it would be interesting to set up an actual investment program, based on the theories we have been discussing, in order to see from a practical standpoint what a trustee might expect with respect to the probable income and probable safety of a fund.

Each trustee will arrive at his own studied conclusion as to what is the proper percentage to have invested in common stocks, considering the circumstances surrounding the particular trust as well as general market conditions. These ideas may vary widely. However, since for purposes of this study we have accepted under the Prudent Man Rule the idea that common stocks have a place in a trust portfolio, and since we are attempting to study what effects the inclusion of common stocks in a trust portfolio may have on income and safety over a period of time, it would seem fair at least for the purposes of this discussion to give equal weight to bonds and to stocks. Furthermore, if we set up this experimental trust account on the basis of 50% in bonds and 50% in stocks it will be relatively easy for anyone who is interested to find out, by a simple reconstruction of the account, what the results might be if different percentages of equities and fixed-income securities were used.

The bond portion of this portfolio is not of particular interest in so far as the selection of individual issues is concerned. It is difficult for a trustee to obtain more than a 2.65% return on any diversified list of high grade corporate bonds. For this reason most trustees have become G men. Furthermore, if a trustee plans to place a substantial portion of the trust fund in equities, he will wish to so invest the bond portion as to insure maximum stability.

Let us therefore proceed with the investment of a $100,000 fund, which we will say is for the benefit of a widow with two young children and after her death will continue for the benefit of the children. We will put $50,000 in U. S. of A. Series G 2½% bonds due in 12 years, and $50,000 in common stocks.

In considering what stocks to select we will first decide that adequate diversification is desirable and will spread our risk over 20 different stocks so that the investment in each will represent approximately 2½% of the fund. We will also diversify our investments as to industries. The selection of each individual stock will be on the basis of its earnings, dividend, and market records, and an endeavor will also be made to appraise the future possibilities of each company.

Consider now that the preliminary investigations have been completed, the following 20 stocks have been selected, and our $50,000 earmarked for stocks has been invested as of April 18, 1947, as outlined in the attached program. Over the next 10 years it is reasonable to expect that some of these stocks will do very well, some will perform in average fashion, and some will be disappointments, but our ambition is to produce results, over-all, that will be somewhat better than average.

At current dividend rates the $50,000 invested in stocks produce $2,429 or 66% of the income of the fund; and $1,250 or 34% is produced by the $50,000 Governments. The bond yield is 2½%, the stock yield 4.85%, and the overall yield 3.68%. The total interest and dividend income amounts to $3,679, which is about 39% greater than could presently be obtained if the funds were entirely invested in high grade corporate bonds yielding 2.65%. To the extent that dividends continue on a reasonably stable basis this program has initially attained at least one desirable objective, that of increased income for the beneficiary.

If we could step on a magic carpet and arrive in the land of ten years from now, we could judge how well these various investments had fared. Not being able to do that, let us go back ten years and work forward. I think you will all agree that these last ten years have been pretty rugged. While hindsight is not a substitute for foresight, it represents experience which in turn forms an integral part of our projected thinking.

Ten years backwards brings us to Monday, April 19, 1937. The Dow-Jones Industrial Average stood at 180.82, some 13 points under the 1932-37 high of 194 which had been attained earlier that year. In retrospect, the market was in a downward trend and the averages were destined to break through 100 within the next 12 months, so a commitment in stocks as of that day would have indeed been poorly timed. In order to see what would have happened to our portfolio during this ten-year period, we have adjusted for stock splits and stock dividends and recast this program in terms of a $50,000 investment as of April 19, 1937. At the then dividend rates the gross income from these stocks was $2,263, a 4.52% return compared with a 2.75% return then obtainable on long-term Government bonds. Today, ten years later, the $50,057 invested in 1937 is worth $51,115—and that, my friends, may be termed preserving principal by perseverance.

During this ten-year period the value of the stock portion of the fund, at the low price for each individual stock, would have declined to $24,842 or 49.6% of cost. At the high price, the fund would have had a value of $68,286 or 136% of cost. The high value of the fund would have been 274% of the low value. These figures of course overstate the fluctuations somewhat because all of the stocks would not have had either their high or their low prices on the same day.

So far, we have learned that even a list of relatively high-grade stocks such as a man of prudence might select, has in the recent past been subject to wide fluctuations in value, and it is therefore reasonable to conclude that common stocks cannot be expected in the future to afford any degree of price stability. We have also learned that while what stocks you buy is important, when you buy them is even more important. Had this investment been made five years ago, in 1942, the current value would be in excess of 200% of cost.

The Income Picture

Now let us look at the income side of the picture and see how the life tenant fared. Initially her income was 37% greater than the amount that would have been produced by the fund if it had been invested entirely in 2¾% Government bonds, and over the 10-year period she received an average of 21% more income. In no year did she receive less income than she would have derived from an investment entirely in Government bonds. Perhaps, then, we may deduce that while dividend payments vary from year to year it is likely that the income beneficiary will be better off over a period of years if some stocks are included in the trust portfolio.

In conclusion we might add that the Department of Labor Cost-of-Living Index stood at 102.7 in 1937 when dividend income was $2,263 and at 153 in March, 1947 when dividend income was $2,429. In other words, there was a 50% increase in the cost of living against a 10% increase in dollar income so that the ideal of maintaining purchasing power for the income beneficiary was accomplished only to a limited degree.

Quite a different story would have been told, however, if we had glanced back five years instead of 10. These same investments made in 1942 would presently show an increase of 100% in market price as against an increase in the cost of living during the five years of 32%. A 15-year backward glance would show market appreciation of close to 220% against a cost of living increase of 60%.

Results of Proper Timing

From this study, at least one fact is evident, that is, that the better the timing the better the results. People, however, are not particularly considerate, from an investment standpoint, about when they die or when they establish trust funds. Like the show, the investment of trust funds must go on, and the immediate needs of the income beneficiaries can play havoc with well-planned timing policies.

In the case of this particular program, a trustee may derive some comfort and confidence in the knowledge that even though timing was far from perfect, even though the initial investment in stocks was relatively large, even though he took no steps to cut back the proportion of stocks when they stood at 68% of the original value of the trust; nevertheless, the account today, with the Dow-Jones Averages lower than they were on April 19, 1937, is worth more than the original investment.

	April 18, 1947			April 19, 1937		
Security— Common Stocks—	Amt. Shs.	Cost	Est. Inc.	Amt. Adj. to Mkt. and Stk. Splits Shs.	Cost on 4-19-37	Value at Mkt. 4-18-47
Du Pont	15	$2,692	$120	17	$2,669	$3,051
Eastman Kodak	10	2,280	70	14	2,226	3,192
Monsanto Chemical	50	2,600	100	87	2,601	4,524
S/O New Jersey	40	2,580	120	37	2,562	2,385
Continental Oil Co.	70	2,520	140	54	2,524	1,944
Minn. Honeywell	50	2,650	100	49	2,634	2,597
U. S. Gypsum	25	2,400	75	21	2,457	2,016
Sherwin Williams	20	2,710	95	20	2,760	2,710
Sears	80	2,520	140	113	2,528	3,559
J. C. Penney	60	2,500	162	77	2,509	3,234
Woolworth	55	2,420	137	46	2,403	2,024
Inland Steel	75	2,512	142	65	2,519	2,177
American Tobacco	40	2,500	140	31	2,534	1,937
General Foods	60	2,400	120	57	2,380	2,280
General Electric	75	2,550	120	47	2,561	1,598
Commonwealth Edison	80	2,320	112	83	2,314	2,407
Pacific Gas & Elec.	65	2,405	130	75	2,400	2,775
Procter & Gamble	40	2,480	140	39	2,457	2,418
General Motors	45	2,475	135	42	2,478	2,310
American Brake Shoe	65	2,535	130	42	2,541	1,638
		$50,069	$2,428		$50.057	$50,777
					(Adj. stk. div.)	337
						$51,114
Bonds—	Amt. Shs.	Cost	Est. Inc.			
U. S. A. Ser. G 2½, 1959	50,000	50,000	1,250			
		$100,069	$3,678			

		Cost	Est. Inc.	
Value of stocks at 1942	Low	$24,842	49.6%	of cost
Value of stocks at 1946	High	68,286	136 %	of cost
Income from stocks for 1937		2,263	62 %	of total income
Income from stocks for 1946		2,428	66 %	of total income
10-year average income from stocks		1,968	59 %	of average income

Dow Jones Averages—	
Industrials, April 19, 1937	$180.82
Industrials, April 18, 1947	166.77
Utilities, April 19, 1937	31.07
Utilities, April 18, 1947	31.55

How Britain Sees It

(Continued from page 6)

is, at what interval the 'net' will be calculated and what interim arrangements will be made."

July 15 Arrangements

July 15 will mean that sterling balances now being accumulated in London will have to be blocked, since the convertibility clause referred to above does not require that these presently accumulating balances be made convertible and Britain cannot afford to convert them. Some arrangement will have to be worked out with the owners of such balances.

Finally, there is the big question of the so-called blocked sterling—sometimes referred to as Britain's war debt, although it involves not only dominions like India and Australia, but independent countries like Egypt, Iraq and Eire, as well as others in both hemispheres. That sterling has not been legally blocked, except as to convertibility into hard currencies. Its owners have been free to spend it for whatever they wanted and could buy from Britain. Witness the fact that last year India liquidated close to £100 millions of its holdings. While the Australians and some others have refrained from putting such pressure on Britain in these difficult times, India and Egypt in particular are clamoring for their pound of flesh. If no settlement of the question is reached with such countries by July 15, there is a very good prospect that the wartime-accumulated balances actually will be blocked. Indeed, the Chancellor of the Exchequer is being urged to block those balances at once, both to prevent any further conversion thereof into goods and services prior to July 15 and to strengthen the hand of the Treasury in its bilateral negotiation of settlements.

Further U. S. Help

While no part of the $3,750,000,000 American loan of 1946 to Britain was intended for use in converting the wartime-accumulated "blocked sterling" balances, some of the loan definitely was understood to be for the purpose of enabling Britain to make new current sterling convertible after July 15. It now appears, however, that the United States may sooner or later be asked for further help in handling this problem. The Indian delegation at Bretton Woods, for example, did not conceal the fact that it would not consider it amiss for the U. S. A. to take the sterling off India's hands. A recent example of similar thinking from Egypt comes to hand in the suggestion emanating from the Egyptian Finance Minister looking toward the application of some of Egypt's sterling balances to the purchase of Britain's shares in the Suez Canal and in the Anglo-Egyptian Oilfields Company. The rest of the "blocked sterling," Egypt would fund into a long-term sterling loan bearing 2% interest, in return for which the Finance Minister would expect—according to the report—Britain's help in obtaining an American loan to Egypt of like amount at 3% interest and equal maturity.

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ST. LOUIS, MO.—Sherling M. Friedman has been added to the staff of Stix & Co., 509 Olive St., members of the St. Louis Stock Exchange.

Eccles Favors Federal Reserve Guarantee Of Term Loans

(Continued from page 16)

loans amortized out of profits meet this need. This type of financing is particularly suitable for small businesses that need a substantial period of time to retire loans by gradual repayment from earnings.

There has been considerable objection to the bill from some of the larger banks on the ground that the smaller banks, in cases where the amount of the loan was beyond their legal limit, would resort to the guarantee even though the loan was of such quality that it could be made without the guarantee by giving participation to their correspondent banks or other banks in the community. In order to meet this objection, the Board recommends that the Committee adopt the suggestion of the Federal Advisory Council of the Federal Reserve System by inserting in the bill a provision that the guarantee shall only be available "when it appears to the satisfaction of such Federal Reserve bank that the business enterprise is unable to obtain requisite financial assistance on a reasonable basis from the usual sources." H. R. 3268 contains language of similar purport, but it would be preferable, I think, to substitute the wording favored by the Advisory Council and the Board.

The Board also favors the recommendation of the Federal Advisory Council that the bill be amended to provide that the guarantee be restricted to "chartered banking institutions" only. H. R. 3267 refers in one place to "chartered bank" and in another place to "financing institution."

It should be borne in mind that the Reserve System has had the authority under 13b for the past 13 years to make direct loans or to make commitments to purchase loans made by private banks. On principle, we feel that the private banks should originate and make the loans based on their credit judgment, and that neither the Federal Reserve Banks nor any other governmental agency should extend such credits directly.

Section 13b, moreover, is not adapted to present day needs. It limits the extension of credit to loans for working capital only and provides that loans cannot be made for more than five years and can be made only to established businesses.

Bill No Drain on Federal Budget

The proposed bill does not call for government appropriations and, therefore, no drain on the Federal budget is involved. The Reserve Banks would use their surplus funds as a basis for the guarantees, and should losses be sustained they would first come out of the fund created by the guarantee fees charged. If this were not adequate, losses would be met out of the Reserve Banks' net earnings or surplus. I am sure that this responsibility placed on the officers and directors of the Reserve Banks, under regulations and supervision of the Board of Governors, will not encourage easy and unsound credits on the part of the private banks.

Under section 13b Federal Reserve Banks handled some 3,500 applications for commitments and advances, aggregating about $560 millions. Similarly, under the V-loan program, 8,771 authorizations for guarantees of war production loans, aggregating nearly $10.5 billions, were handled. The interest and fees collected in connection with this total of about $11 billions of operations were more than sufficient to cover expenses and losses and to show some profit. In other words, the record is not one of loose lending.

This bill, of course, does not place the Reserve banks in competition with the private banking system. Credit judgment and responsibility would remain primarily with the lending bank. Loans guaranteed would originate with local banks dealing with local people whom they know and with whose character, capability and capacity they would be familiar. A Federal Reserve Bank could not guarantee any loan unless requested to do so by the local bank. If approved by the Reserve Bank the guarantee would be made promptly available without referring the matter to any agency in Washington. Each loan would have to be passed upon by the Federal Reserve Bank. There would be no blanket approval. The 12 Federal Reserve banks and their 24 branches provide a regional organization through which local financing institutions in all parts of the country would have convenient access to a guaranteeing agency if needed. The Federal Reserve System, which is a permanent organization created by Congress and responsible to Congress, is especially qualified to provide this service because of its close contacts and daily relationships with banking institutions. Its responsibilities for maintaining sound credit conditions, so far as its powers permit, make it the appropriate agency for this purpose.

As in the case of war production loans under the V-loan program, a maximum interest rate would be set for guaranteed loans. The present maximum rate under Section 13b is 5% and it is contemplated that the initial maximum rate under the new legislation would be the same. Within this limit, which may be subject to change with changing conditions, interest rates would be determined by the borrower and the bank. Guarantee fees charged would be specified percentages of the interest rate, graduated according to the percentage of the loan guaranteed. The method would be similar to that used in the V-loan program, when guarantee fees ranged from 10 to 30% of the interest rate, according to the percentage of the guarantee. This has been and would be the operating procedure.

It is evident, therefore, that the lending banks must carry some portion of the loans without guarantee and this will be a deterrent on their making undesirable and risky loans. The steeply graduated guarantee fees will induce banks to carry as much of the risks as possible and thus cause them to exercise careful judgment and prudence in passing upon credits.

Business and credit conditions at present and at some other times may not be such as to require extensive use of the guarantee authority. However, the Reserve banks should have a stand-by service of this kind to render to business and industry when necessary. The amount of long-term funds that individual enterprises may need is often relatively small. Many loan demands do not exceed $10,000 and relatively few exceed $100,000. The bill is intended and designed primarily to help the smaller enterprises. The larger ones, as a rule, do not need this sort of assistance because they can go to the capital market and raise funds either by bonds or equity financing.

The guarantee service, as provided in this bill, would be available in the future, as it was in the past, without discrimination for all banks, whether members of the Federal Reserve System or not.

It would be ill-advised and shortsighted, in my opinion, for Congress to repeal Section 13b in order that the $139 million of government funds thereunder may be returned to the Treasury and fail to provide this proposed alternative authority to the Federal Reserve banks. The proposal is the result of long and extensive experience which the Federal Reserve System has had in connection with the loan guarantee principle. It is a tried and tested principle exemplified in Federal Housing Administration loans as well as in loans to veterans. This bill is a means of aiding the private banking sytem of this country to meet particularly the longer term financing needs of the smaller business institutions without assuming excessive risks.

Opposes Reduced Taxation

During his examination by the Committee, Mr. Eccles expressed strong opposition to the tax bill just passed by both Houses of Congress on the ground that it would result in an addition of $3½ billions of consumer purchasing power and thus would lead to higher prices of commodities.

"Deflation only comes about the hard way," Mr. Eccles told the Committee. "That's the way it always comes and that's what's going to happen this time. We lost our economic balance by taking off controls too soon and the longer we sustain inflation through expanded consumer credit the deeper and longer will be the period of liquidation. A substantial reduction in taxes tends to sustain prices. I would like to see it come later on as a brake on deflation rather than as increased pressure on inflation. The sooner the adjustment comes the less painful it will be."

Mr. Eccles told the Committee the only way to get present high prices down was through the pressure of surplus goods on the market. He added that a majority of the public is being priced out of the market for consumer goods, have spent all its savings and are returning to the use of consumer credit and a considerable volume of mortgage credit. In addition to this, he added the growing list of foreign loans through the World Bank, the Export-Import Bank and other agencies, since all constituted a demand for goods that sent prices ever higher.

Wants RFC Ended

While under examination by the House Banking Committee, Mr. Eccles expressed the opinion that the Reconstruction Finance Corporation and other similar Federal lending agencies should be abolished. "If these concerns can't get out now, they never will," Mr. Eccles told the House committee. "If there ever was a time when these agencies could dispose of their loans and security holdings, it is now. The main objection to the Government getting into the loan business is that it never wants to get out," he added.

Continuing, Mr. Eccles said:

"If the RFC is to be continued as a permanent agency of government, it would seem to me that its authority should be greatly restricted and limited to a peacetime operation and to a period of normalcy or a period of inflation rather than one of deflationary pressure."

"I don't thing the RFC should have authority to guarantee loans," he added. "And its authority to make loans other than to banks should be retained only as a standby provision. But it should not make loans to banks since they can get all the money they want from the Federal Reserve System without use of their budgetary funds.

"The banks certainly have had a long enough time to raise such capital as they need without using Government funds," Mr. Eccles continued. "Capital debentures put into the banks by the RFC should be paid off. And if they are ever going to be paid off, the time is now. I can see no reason for Government financing the capital and surplus of banks.

"The Federal Reserve System was set up as a bankers' bank and if a borrower is not a member bank it can get all the money it needs from a correspondent bank. It may be that the RFC should lend to railroads unable to go into the financial markets for funds and for such worth-while public projects as the San Francisco Bridge, but under present conditions such projects are extremely limited in number."

What Program for America?

(Continued from page 4)

gent nations and public officials to make the necessary adjustments to guarantee peace for a long time in the future.

Need Sound Fiscal Policy

The result of this upheaval to our own economic situation has been beyond human calculation. It makes indispensable the adoption of a sound fiscal policy on the part of the United States, if it is to accept and maintain the leadership which has been thrust upon it, and which is so essential to our own well being and that of the world in general.

We are now enjoying the greatest national income in the history of the United States. Our total national income for the present current year is running at the rate of approximately $180 billion. This is more than twice the national income of any previous peace time year, and it is greater than that of any period during the war. We cannot overlook the fact that this enormous and unprecedented income is due, in part, to inflationary causes, which we have not altogether been able to check, and which are even now in substantial progress. The manner in which we treat our national debt and our national income will have an abiding effect upon the welfare of American business and American labor. The interest alone upon our public debt is $5 billion per annum. This is five times greater than the total cost of government in the year immediately preceding our entrance into World War I. The obligations which we have assumed to our veterans amount to approximately $7 billion per annum. This makes a total, for these two items alone, of $12 billion. We cannot escape or reduce this expenditure until we have reduced the debt itself, and until we have discharged our obligations to those who defended our flag and our institutions all over the world.

When we add other essential governmental expenses, which are not involved in ordinary governmental budgets, we must admit that it will be a long time before we can see a reduction of our annual governmental expenditures below $25 billion per annum. In the midst of this situation, we are confronted with the problem of taxation, and there is now pending in Congress a measure reducing the government's income by approximately $4 billion per year.

There ought not to be any politics in budgetary legislation. There ought not to be any politics, in a partisan sense, in the matter of establishing a sound fiscal policy that will preserve the faith of our people in the solvency of their government. There are $50 billion in E, F, and G bonds held individually by the American people. There are $92 billion of government bonds, of various denominations and series, held in the banks of the United States.

If there should unfortunately be a recession in the immediate future, or in any predictable year, of as much as $10 billion in our national income, this would mean a loss to the Treasury of $3 billion dollars. I do not predict such a recession. I fervently hope that it will not occur. But, we cannot escape the conclusion that inflationary prosperity cannot proceed forever, without some halting, and we cannot overlook the fact that, if, for political or any other unsound reason, we should destroy the confidence of our people in the financial solvency of our government, or in its sound budgetary administration, these governmental obligations, to which I have referred, would immediately become the victims of fear, which would result in their hasty and improvident disposition, to such an extent as might bring about a serious financial condition, not only in the government itself, but in our economy. For these reasons, there are some of us who feel that, as between a temporary tax reduction, and a permanent and stable financial policy for our government, which means our people, we should first devote most, if not all, of any temporary surplus to the retirement of our public debt. I know of nothing that would more completely and totally stimulate business confidence than complete faith in the financial integrity of our government. And, by the same token, nothing could so frighten the American people as a growing belief that the financial obligations of our nation are to be made subservient to some political exigency, wholly unjustified by present national and world conditions.

Prices and Wages

Let us look, for just a moment, at the price and wage situation with which we are confronted.

It was obvious to every intelligent observer one year ago that if the price controls were entirely lifted, there would be a further and rapid upsurge in the cost of living. There was a hiatus from June 30 to the middle of September, due to the delays in enacting price legislation. During that period, prices of many commodities increased abnormally, and though the law provided for the resumption of price controls, it was never practicable to restore the situation which existed on June 30. At this time, the cost of clothing in the United States stands at an index of 202%, as compared to an index of 100% for 1939. Yet, notwithstanding the fact that we produce only 35% of the wool which we consume in the United States, serious efforts are being made at the moment to restrict the importation and the use of wool from other countries, thus crippling their ability to buy from us the production of our American labor.

As compared with the first quarter of 1946, the total compensation of all employees in the United States as a whole has increased 13% during the first quarter of 1947.

Price Increases

Consumer prices have increased 19%. Wholesale prices have increased 35%. The gross weekly earnings per worker in manufacturing in the United States increased 15%, while their hourly earnings increased 15%. Wholesale prices of manufactured goods are 37% higher in the first quarter of 1947, than they were in the first quarter of 1946. The real weekly earnings of factory employees in the first quarter of 1947, as compared to the first quarter of 1946, declined 3.6%. These index figures for the second quarter of 1946, as compared to the first quarter of 1947, are approximately the same, with some variations, one difference being that the real weekly earnings of

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Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

The all-important 170 level may prove a boomerang for shorts. Expect early penetration followed by new decline.

I spent last weekend—the Memorial Day holiday—going over the market and the factors that made it tick. At least those were my intentions. I filled the brief case full of things to study because the weather forecast said "Rain."

* * *

The weather bureau must have gotten its advance dope from the market because it didn't rain. And because it didn't rain, I was forced to mow the lawns, first chopping down the weeds with a scythe. And if you've ever tried using that long blade you'll know that after an hour or two all you want to do is collapse and not study markets.

* * *

I know there are lawn mowers on the market and men to run them. But my lawn mower just knocks the tall grass down. And so far as getting a man, one of the local residents (I'm a country gentleman, in case you want to know) has promised to attend to what is laughingly referred to as my lawn, since last April. He has yet to come around. Besides at $2 an hour I can swing that scythe myself. It's good for me.

* * *

In driving back to the city, I became involved in a discussion about trading with my young son. He's now studying, or rather exposed to the study, of Economics One, and certain he knows all the answers. So I did think about the market. At least I spoke about it, though my son didn't think much about my replies. A condition he didn't bother to hide.

* * *

Monday, forgetting all those aching muscles, I actually spent considerable time looking at the market. I realized there had been a three-day rally last week. A rally which shouldn't have been surprising. But on Monday the rally seemed to have hit a snag and while there was no sharp increase in volume, prices started to turn down. This, too, isn't surprising. Anybody who even casually looks at the market would have foreseen an obstacle at or around the 170 level. Putting a couple of things together it would be concluded that after about an eight-point break, prices don't start up just like that.

* * *

The question of course is what will the market do from here. Will it flounder around at present levels or will it start down again? Or will it start moving up?

* * *

Frankly, I don't know in the sense that I am certain. But I suspect that the lows of mid-May are not the substantial bulwarks we would like to think them. Rallies and declines will always be with us. Sometimes one will be greater than the other. In the long run the pendulum evens things out.

* * *

Taking a long look at the market you will see the important high was made a year or so ago around 212. The first break took prices down to about 163, latter part of 1946. Early in 1947 the rally moved them up to around 184 and on May 17 the low was about 163 again. Today they're back to about 170. That 170 figure, by the way, has become a kind of symbol for far too many traders and advisers. I believe the importance of that figure has been greatly over-rated. I think the market will go through it on comparatively small volume. I also think that once it goes through the chances of a sharp break will become that much greater.

* * *

So what to do? Well, my advice is to find a comfortable seat on the sidelines and watch. If there is any experimenting to do, let the other man do it.

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.]

What Program for America?

(Continued from page 43)

factory employees for the first quarter of 1947 were 5.7% below those for the second quarter of 1946.

These figures are taken from authentic governmental reports, and they show that the costs of commodities in the last 12 months have increased more than the increase in the cost of wages. If the cost of commodities had increased only to the extent of the increase in wages, the index figures for such increases would be approximately identical, subject to some variations due to the cost of materials, in which the cost of labor is always calculated.

The Government's Duty

Now, in the absence of any price controls, which are not to be resumed, in my judgment, what is it the duty of the government to do? We have had comparative industrial peace during this year, outside of one or two industries, and we are now in the midst of labor legislation, which poses the question and the problem to every thoughtful person as to what shall be the relationship between government and labor on the one hand, and government and business on the other. These labor stoppages and industrial controversies have revolved mainly around the question of wages and hours. There are many collateral problems, which call for thoughtful attention on the part of business and government, but the main causes of industrial controversies have been wages and hours, and when we pause to consider the fact that prices have outstripped wages in the past year in their relative and respective increases, we are bound to come to the conclusion that there are imponderable elements that enter into the solution of these questions, that cannot be resolved by any piece of legislation that can be conceived by the mind of man.

To enter into any satisfactory discussion of these problems, would carry me far beyond my function or my time, but it is obvious that government cannot escape its responsibility in helping to guide business, and labor, and agriculture, in the accomplishment of a sound economy for all classes of our people. It is obvious that we cannot continue to increase the cost of life to the average American family beyond his ability to meet that cost, with some hope of saving something from his annual income for the maintenance of a comfortable home, the education of his children, and the accumulation of something for the proverbial rainy day. It is obvious that we cannot shut our eyes to the necessity for cooperation between business and government, between business and labor, between business and agriculture, so as to produce a generally stable level in national and individual incomes, so essential to our domestic happiness, and to the accomplishment of our world-wide obligations, and the maintenance of that leadership which America enjoys, but which some few of our people seem to begrudge.

Voluntary Action

The President has urged voluntary reductions in prices. I realize, and we all realize, that there is a moral obligation resting upon American business, just as there is a moral obligation resting upon American labor, and American agriculture, not to be stimulated by greed, though they are entitled to be stimulated by the desire for a reasonable profit. It is much better for our economy to enjoy a reasonable profit over a long period of years, than to enjoy a flush profit for a year or two, to be followed by an economic crash that will take away all profits. How this equilibrium can be accomplished is a subject for the thoughtful consideration of statesmen, businessmen, professional men, philanthropists, laboring men, and farmers, and all others who are interested in preserving what we are happy to call the American free enterprise system. But, we must not define free enterprise as the right of any man or group of men to exploit his fellow man, by the exercise of unwholesome economic power. We must understand free enterprise to mean the right of every American to be free to pursue his individual enterprises, his ambitions, and his hopes in life, without unnecessary interference or restriction by the government, beyond that which is required to protect all the people in the enjoyment of their rights. If we can maintain a wholesome respect for our government, politically and economically, a wholesome respect for our nation's opportunities and our nation's obligations, a wholesome respect for the rights of other nations, and a wholesome respect for the transcendant opportunity which we now have to guide the world out of the morass of economic and political frustration, fear, and the possibility of collapse, to a firmer foundation upon which struggling mankind can plant his feet again, in the hope of peace and happiness, and that prosperity and well being which are so indispensable in the enjoyment of what Jefferson, in the Declaration of Independence, called "life, liberty and the pursuit of happiness," we will have justified, in a measure, the sacrifices we have been compelled to make in blood and treasure to attain this dominant position in the world. With such a national concept, and such a world consummation, however long it may require, the need for charity will be constantly reduced, and the ability to respond to whatever need there may be, will be infinitely increased. These hopes, in a sense, may be idealistic, but I am happy to entertain them and to believe in their ultimate fulfillment.

Observations

(Continued from page 5)

situation, we may be soothed by the fact that electric power production, freight traffic, and bank clearings are all continuing at levels considerably above even the highs of previous active years. And the supposedly frustrated and impotent consumer last weekend spent record amounts cramming the baseball stadiums brimful, in betting on the Belmont Park horses, and in holiday travel.

Unfortunately, the prophecies of United States' doom have joined our other exported products. The London "Economist" issue of May 24 in a major article cabled by its correspondents resident here, marshalls all the arguments to justify its interesting title "Recession Under Way." Not-too-deep reflection thereon as well as listening to the vigorous argument as expounded by our domestic protagonists quite obviously reveals that their honest mis-guidance is largely based on their prior reading of the stock-market quotation page. How different would be the public's interpretation of the "economic facts" if they were viewed through glasses trained against the background of a bull instead of a bear market! Incidentally, we wonder whether the many writers who are citing the recent alleged stock market "collapses" to prove all manner of pet political and economic cases, at all appreciate the true perspective of the present market price level. Actually, the present "collapsed" state of the Dow Jones Index at 168 must be seen against the following past levels (mean prices): 134 in 1931, 164 in the rousing bull year of 1936, 138 (with 156 the high) in 1939, 107 in 1942, and 173 in the climactic bull-market year of 1945.

Dishonest Material Omissions

Misjudgment of the significance of stock market movements is chronic and honestly misguided. But not so is the distortion of known factors. The perpetration of one category of "material omission" (a cause of jail sentence likewise under British Law and New Deal reform here) has been pointed out above. Other misleading omissions in the Public—although not in the private—statements of these "political"-economists—include the counteracting constructive elements in the present picture consisting of careful day-to-day pruning of inventories by businessmen, the good condition of our banks, the healthy financial situation of our farmers, the absence of over-expansion of our productive capacity, and the general conservatism of industry.

Economic Somersaulting

A perfect manifestation of economic somersaulting is to be found in the sudden hair-tearing of these gentlemen over the enormity of the public debt—present hair-tearing which was all smiles while the Roosevelt Administrations in peace and in war were blandly increasing it 13-fold from $22 billion in 1932 to $260 billion, which is still smiles when there is a question of Federal spending, and which will be completely absent during the Election year of 1948 when it is strategic for the Democratic Party—as a straight party measure—to hand the voters the tax-cut bonanza. And even then (in the words of ADA) alleviation of the war-imposed tax burdens must be confined to the lowest-income groups which "will leave money at home in the (sic) right homes." Meanwhile, despite the professedly mortal fear of deflation and the charges against the Republican "deflationists," tax relief with its stimulation to purchasing power, is to be postponed.

* * *

The columnist has not the slightest illusion about scientific exactitude of economics or even of statistics. Nor, of course, does he expect political warfare to be carried on without ammunition drawn from the arsenals of economics. But he does expect it to be thus used by the Senator Barkleys—the recognized politicians—and not by politicians masquerading under their economist reputations.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Electric Corp., Cuba, N. Y. (6/23-27)

June 26 filed 132,740 shares ($1 par) common stock. **Underwriters**—Herrick, Waddell & Co., Inc., and First Colony Corp. **Offering**—To be offered publicly at $5 a share. **Proceeds**—Company will receive proceeds from the sale of 68,880 shares and four selling stockholders the proceeds from the sale of 63,860 shares. Company also will receive proceeds from the sale of 20,000 warrants for common stock to underwriters at an aggregate price of $200. Of the net proceeds ($292,940) $50,000 will be used to pay current bank loans; about $20,000 will be used for machinery and equipment, and the remainder for working capital.

● **Air Survey Corp., Washington, D. C.**

May 28 (letter of notification) 3,000 shares ($5 par) class A common and 10,000 shares ($4 par) class B common. **Price**—$5 a class A share and $4 a class B share. No underwriting. For purchase of equipment and other expenses.

Allied Finance Co., Dallas, Texas

May 26 filed 25,000 shares ($20 par) 5% cumulative convertible preferred. **Underwriting**—None. **Offering**—To be offered to present stockholders in the ratio of one share for each two shares of common held. **Price**—$20 a share. **Proceeds**—To retire present indebtedness.

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 (6/26)

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 of record June 10 on the basis of one share of new preferred for each seven shares of common held. Rights expire June 25. Price by amendment. **Proceeds**—To redeem outstanding 5% cumulative preference stock and to finance expansion program.

American Machinery Corp. (6/10)

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. Offering tentatively set for June 10.

● **American Maracaibo Co., Jersey City, N. J.**

May 27 (letter of notification) 135,100 shares of common stock. Of the total 67,500 shares will be purchased at $2 per share by Suffolk Co., Ltd., for investment and 67,600 shares will be publicly offered by Blair & Co., Inc. and A. M. Kidder & Co. at an aggregate price not to exceed $165,000, equivalent to a maximum of $2.44 per share. Proceeds for payment of indebtedness.

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.

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.

● **Australia (Commonwealth of) 6/16)**

May 29 filed $19,000,000 10-year 3¼% bonds, due 1957, and $19,000,000 of 20-year 3½% bonds, due 1967. **Underwriter**—Morgan Stanley & Co., New York. Price by amendment. **Proceeds**—To redeem 30-year 5% external loan of 1927. In lieu of cash payment of the bonds the Commonwealth will accept the 30-year bonds in exchange for the new bonds.

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.

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.

● **Beech-Nut Packing Co., Canajoharie, N. Y.**

June 3 filed 140,000 shares ($10 par) common. **Underwriter**—F. Eberstadt & Co., Inc., New York. **Price**—$40 a share. **Proceeds**—The shares are being sold by executors of the estate of Bartlett Arkell, a founder of the company and President until 1940.

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.

● **Berry Motors, Inc., Corinth, Miss.**

May 27 (letter of notification) 30,000 shares (no par) common. **Price**—$10 a share. **Underwriter**—Gordon Meeks & Co., Memphis, Tenn. To purchase assets and for working capital.

Bird Machine Co., South Walpole, Mass.

May 15 (letter of notification) 20,000 shares of (no par) common. **Price**—$12.50 a share. Offered for subscription to common stockholders of record on May 12, 1947, on the basis of one additional share for each five shares held. Rights expire June 13. Unsubscribed shares will be offered publicly. No underwriting. For additional working capital.

Blumenthal (Sidney) & Co. Inc., New York

Aug. 30 filed 119,706 shares (no par) common and subscription warrants relating to 30,000 shares thereof. **Underwriting** — None. **Proceeds** — For reimbursement of company's treasury for funds expended in redemption of 3,907 shares of 7% cumulative preferred on April 1, and for funds deposited in trust for redemption on Oct. 1 of remaining preferred shares. Although it was proposed to offer the stock for subscription to stockholders at $10 per share, company on Sept. 20 decided to withould action.

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.

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, 1946 filed 70,000 shares of cumu. 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.

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**—The company asked for bids for the purchase of the bonds on June 3, but the sale was postponed.

California Oregon Power Co. (6/10)

March 26 filed 60,000 shares ($100 par) cumulative preferred and 408,000 shares ($20 par) common. Under-

(Continued on page 46)

NEW ISSUE CALENDAR

(Showing probable date of offering)

June 9, 1947

Michigan Consolidated Gas Co.----------------**Bonds**
Great Northern Ry.----**Conditional Sale Agreement**

June 10, 1947

American Machinery Corp.--------------**Common**
California Oregon Power Co.----**Preferred & Com.**
California Water & Telephone Co.----------**Common**
Consolidated Edison Co. of
New York, Inc., 11:30 a.m. (EDT)----------**Bonds**
Dayton Power & Light Co.----------------**Preferred**
Mississippi Power & Light Co.----------------**Bonds**

June 11, 1947

Jewel Tea Co.------------------------------**Preferred**

June 13, 1947

Central Arizona Lt. & Pwr. Co.-------------**Preferred**

June 16, 1947

Australia, Commonwealth of----------------**Bonds**
Coast Counties Gas & Elec. Co.------------**Preferred**
Hawaiian Electric Co.-----------------------**Bonds**
Toledo Edison Co.
11 a.m. (EDT)------------**Bonds and Preferred**

June 18, 1947

Illinois Terminal RR.---------**Equip. Trust Ctfs.**

June 19, 1947

Wheeling & Lake Erie Ry.------**Equip. Trust Ctfs.**

June 23, 1947

Acme Electric Corp.------------------------**Common**
Seaboard Container Corp.--------**Preferred & Com.**

June 24, 1947

New York Telephone Co.
11:30 a.m. (EDT)--------------------**Debentures**

June 26, 1947

American Cyanamid Co.---------------------**Preferred**

(Continued from page 45)

writers—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.

California Water & Telephone Co. (6/10)

May 22 filed 15,200 shares ($25 par) common. **Underwriters**—Blyth & Co., Inc., San Francisco; and H. M. Byllesby and Co. and Central Republic Co., both of Chicago. Price by amendment. **Proceeds**—To finance new construction.

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 on basis of one new share for each 10 shares held. **Proceeds**—For general funds to finance expansion program of company and Canadian subsidiaries or to reimburse treasury for expenditures already made.

Capper Publications, Inc., Topeka, Kans.

May 28 filed $2,000,000, series 6, 4% first mortgage 5-year bonds, and $2,000,000, series 7, 5% first mortgage 10-year bonds. **Underwriters**—None. **Price**—At par. **Proceeds**—To finance improvement program and to redeem outstanding bonds. Balance will be added to working capital.

Carscor Porcupine Gold Mines, Ltd., of Toronto, Ontario

June 24 filed 400,000 shares of common stock. **Underwriter**—No underwriters. **Offering**—To the public at $1 a share in Canadian funds. **Proceeds**—For a variety of purposes in connection with exploration, sinking of shafts, diamond drilling and working capital.

● **Castleberry's Food Co., Augusta, Ga.**

June 2 (letter of notification) 21,900 shares ($10 par) 5½% cumulative preferred and 10,000 shares ($1 par) common. **Price**—$10 a preferred share and $8 a common share. **Underwriter**—Johnson, Lane, Space and Co., Inc. To retire short-term bank loans and for additional working capital.

Central Arizona Light & Power Co. (6/13)

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 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.**

● **Citizens Casualty Co. of New York, N. Y.**

May 29 (letter of notification) 1,000 shares $1.25 dividend prior preferred stock, being offered on behalf of Harry Hyman, Chairman of Executive Committee of company, and Jack Hyman, President of the company. **Price**—$25 a share. No underwriting.

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**—The North American Co. owned all the shares and offered 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 expired May 27 and 1,648,275 shares were subscribed for. 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.

Clopay Corp., Cincinnati

May 28 filed 250,000 shares ($1 par) common. **Underwriter**—Merrill Lynch, Pierce, Fenner & Beane, New York. **Price**—By amendment. **Proceeds**—Company is selling 35,000 shares and 215,000 shares are being sold by stockholders. Company will use its proceeds to repay bank loans, retire outstanding closed mortgage 4% registered serial bonds and to purchase plant property at Elmwood Place, Ohio.

Coast Counties Gas & Electric Co. (6/16-20)

May 22 filed 140,000 shares ($25 par) 4% preferred, Series A. **Underwriter**—Dean Witter & Co., San Francisco. **Offering**—Of the total, 75,000 shares will be offered in exchange for the company's ($25 par) 5% first preferred stock on a share for share basis, plus accrued dividends on the old stock. The remaining 65,000 shares and all unexchanged shares of new preferred will be offered publicly. **Price**—$26 a share. **Proceeds**—To retire all unexchanged shares of 5% preferred and to repay $1,150,000 of short term bank loans.

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.

● **Connell (W. W.), Inc., Fort Worth, Texas**

May 26 (letter of notification) 40,000 shares of common. **Price**—$5 a share. No underwriting. For drilling test oil well on property.

Consolidated Edison Co. of N. Y. (6/10)

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. **Bids Invited**—Bids for the purchase of the securities are invited on or before 11 a.m. (EDT) June 10 at company's office, 4 Irving Place, N. Y.

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 of record June 20 on the basis of one share for each five shares presently held. Rights will expire July 11. 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.

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.**

● **Crown Point Mining & Milling Co., Spokane, Wash.**

May 26 (letter of notification) 1,000,000 shares of common. **Price**—25 cents a share. **Underwriter**—To be sold through officers of company. For mine development, working capital and other expenses.

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.**

Dayton Power & Light Co. (6/10)

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. **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.

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.

● **Edgecumbe Exploration Co., Los Angeles, Calif.**

May 26 (letter of notification) 137,386 shares ($1 par) common, of which 68,693 shares will be offered publicly at $1 a share. The remaining shares are for promotional purposes. No underwriting. For development of mining claims.

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, 1946 filed 100,000 shs. ($5 par) Cl. 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.

● Florida Power Corp., St. Petersburg, Fla.

June 4 filed 100,000 shares ($7.50 par) common. Underwriters—To be filed by amendment. Offering—The shares will be offered for subscription to common stockholders in the ratio of one share for each 10 shares held. Price—By amendment. Proceeds—To be used in $9,450,000 construction program.

● Foote Mineral Co., Philadelphia

May 26 (letter of notification) 1,500 shares ($2.50 par) common. Offering to be made to employees at $35 a share. No underwriting. For general corporate purposes.

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.

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. Offering will not be made until company has qualified the sale of its shares in various bluesky states.

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.

Hartfield Stores, Inc., Los Angeles

June 27, 1946 filed 120,000 shares ($1 par) common. 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 (6/16-20)

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.

● Helena Mines, Inc., Eugene, Ore.

May 26 (letter of notification) $90,000 10-year 4% first mortgage bonds. Price—Par. To be sold through officers of company. For production of minerals from issuer's mines.

Helicopter Air Transport, Inc., Camden, N. J.

March 14 filed 270,000 shares of capital stock. Underwriter—Strauss Bros., Inc., New York. Underwriters may withdraw as such. Price—$3.50 a share. Proceeds—Net proceeds will be used to pay obligations, purchase helicopters and equipment and for working capital.

● Henna Mines, Inc., Boulder, Colo.

May 20 (letter of notification) 80,300 shares ($1 par) common. Price—$1 a share. No underwriting. For development of mining claims.

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, 1946 filed 200,000 shares ($50 par) cumu. 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 (6/11)

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.

● Kaman Aircraft Corp., West Hartford, Conn.

May 28 (letter of notification) 6,196 shares (no par) class A common and 400 shares (no par) class B common. Price—$25 a share each. Underwriter—Henry C. Robinson and Co., Hartford, Conn. To pay research expenses for development of aircraft.

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.

● Keystone Driller Co., Beaver Falls, Pa.

May 29 (letter of notification) $300,000 5% first mortgage bonds. Price—Par. Underwriter—S. K. Cunningham & Co., Inc., Pittsburgh, Pa., and Warren W. York & Co., Inc., Allentown, Pa. For payment of bank loans. Purchase of new machinery and 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—$25 per share. 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. Offering temporarily postponed.

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.

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.

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.

● Metalumber Corp., Columbus, Ohio

May 28 (letter of notification) 1,000 shares of common. Price—$100 a share. No underwriting. For organization and operating expenses.

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—Bids for the purchase of the bonds will be received at company's office, 415 Clifford St., Detroit, Mich. up to 11 a.m. (EST) 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.

● Midland Cooperative Wholesale, Minneapolis

May 29 filed $1,000,000 4% non-cumulative preferred Stock "D." Underwriting—None. Price—$103 a share. Proceeds—For operating capital and other corporate purposes. Business—Cooperative wholesale business.

● Mile-Hi Games Co., Denver, Colo.

May 28 (letter of notification) 25,000 shares ($1 par) capital stock. Price—$1 a share. To be sold through officers of company. For manufacture of card game known as "Ball Up."

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. (6/10)

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

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the terms of its mortgage and deed of trust. **Bids Invited**—Company will receive bids up to noon EDT June 10 at Room 2033, 2 Rector St., New York, for the purchase of the bonds.

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.

Morris Plan Corp. of America, N. Y.

Mar. 31 filed $3,000,000 debentures. **Underwriter**—Eastman, Dillon & Co., New York. Price by amendment. **Proceeds**—To retire outstanding bank loans.

● **National Ramie Corp., Tavares, Fla.**

May 29 (letter of notification) $100,000 ($100 par) common. **Price**—$100 a share. No underwriting. For planting Ramie Roots.

● **National Securities & Research Corp., New York**

May 29 filed 2,000,000 shares in investment trust fund, open-end diversified management type. **Underwriting**—National Securities & Research Corp., New York. **Price**—$10 a share. **Proceeds**—For investment. **Business**—Investment business.

● **National Supply Co., Pittsburgh, Pa.**

June 4 filed $15,000,000 debentures, due 1967. **Underwriters**—Goldman Sachs & Co. and Lehman Bros. **Price**—By amendment. **Proceeds**—To repay $11,250,000 instalment bank loans and other corporate purposes. **Business**—Manufacture of oil and gas well equipment.

● **Nevada-Wyoming Mines Co., Casper, Wyo.**

May 26 (letter of notification) 250,000 shares ($1 par) common. **Price**—$1 a share. **Underwriter**—Steele and Co., New York. For working capital.

New York Telephone Co. (6/24)

May 23 filed $125,000,000 of 35-year debentures. **Underwriters**—To be sold at competitive bidding. Probable billers: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Harris Hall & Co (Inc.). **Proceeds**—Proceeds will be used to repay $79,300,000 of demand notes to its parent, American Telephone & Telegraph Co., and a $3,000,000 short term note owing the Chase National Bank, New York, plus $25,000,000 it expects to borrow from Chase prior to the sale of the debentures. The balance of proceeds will be used to meet further construction requirements. **Bids Invited**—Bids for the purchase of the debentures will be received up to 11:30 a.m. (EDT) June 24 at company's office Room 1600, 140 West St., New York.

● **Nickel Cadmium Battery Corp., Easthampton, Mass.**

June 2 (letter of notification) 30,000 shares ($10 par) 6% cumulative convertible preferred. **Price**—$10 a share. **Underwriter**—Harrison White, Inc., New York. **Proceeds**—To be added to general funds for general corporate purposes.

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.

● **Olamont Mining Co., Butte, Mont.**

May 26 (letter of notification) 87,500 shares ($1 par) common. **Price**—$1 a share. To be sold through W. D. Tidrick, Butte. For development of mining property.

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.

● **Oneida, Ltd., Oneida, N. Y.**

May 27 (letter of notification) 20,500 shares ($12.50 par) common. **Price**—$12.50 a share. To be offered at par to common stockholders of record June 13 at rate of one new share for each 10 shares held, exercisable within a 60-day period. No underwriting. For additional working capital.

● **Pennsylvania-Central Airlines Corp., Washington, D. C.**

May 29 filed $9,850,000 15-year 3½% convertible income debentures, due 1960. The registration was filed as a step in obtaining consent of two-thirds of the holders of the outstanding income debentures to changes in the indenture to permit extension of a $4,000,000 bank loan. White, Weld & Co. will act as dealer-manager to engage in proxy solicitation. Holders of the outstanding debentures will be asked to approve changes in the indenture to eliminate present restrictions against creation of debt and give relief from any obligations to the sinking fund until 1950.

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 of record June 9 on the basis of one new share for each 10 shares held. Rights expire June 30. **Price**—$33 a share. **Proceeds**—For plant expansion and improvements and for general corporate purposes.

Popular Home Products Corp., N. Y.

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.

● **Princeton Mining Co., Missoula, Mont.**

May 23 (letter of notification) 600,000 shares (10¢ par) common. **Price**—25¢ a share. No underwriting. For development of mining claims.

Public Service Co. of Colorado, Denver

May 16 filed $40,000,000 first mortgage bonds, due 1977, $7,000,000 convertible debentures due 1962 and (by amendment) 160,000 shares (par $100) preferred stock. **Underwriters**—To be sold at competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Blyth & Co., Inc., and Smith, Barney & Co. (jointly); Glore, Forgan & Co. and W. C. Langley & 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. Of the preferred, 62,199 shares will be offered to holders of the outstanding first preferred on a share-for-share exchange basis. **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 used 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 construction program.

● **Public Service Co. of New Mexico**

May 29 filed $6,800,000 30-year first mortgage bonds and 20,000 shares ($100 par) cumulative preferred. **Underwriters**—To be sold through competitive bidding. Probable bidders include Blyth & Co., Inc.; The First Boston Corp. and White Weld & Co. (jointly); Otis & Co.; Glore, Forgan & Co.; Halsey, Stuart & Co. Inc. (bonds only). **Proceeds**—For redemption and prepayment of $6,684,220 of indebtedness. The balance will be added to general funds to be used for expansion 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.

Rochester (N. Y.) Gas & Electric Corp.

May 26 filed $16,677,000 first mortgage bonds, Series L, due 1977, and 50,000 shares ($100 par) preferred stock. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Glore, Forgan & Co.; Merrill Lynch, Pierce, Fenner & Beane; Harriman Ripley; Lehman Brothers; The First Boston Corp. and Smith, Barney & Co. (jointly). **Proceeds**—To redeem all of its outstanding $7,675,000 bonds and to repay $3,500,000 bank loan and to finance new construction.

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.

Seaboard Container Corp. (6/23-27)

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.

Silver Creek (N. Y.) Precision Corp.

May 23 (letter of notification) 125,000 shares (40c par) common. **Price**—$2 a share. No underwriting. For working capital.

Solar Manufacturing Corp.

March 19 (by amendment) filed 110,000 shares of 75¢ 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.

Southern Airways, Inc., Birmingham, Ala.

May 19 (letter of notification) 81,500 shares ($1 par) common. **Price**—$1 a share. No underwriting. To reduce bank loans and to increase working capital.

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.

Southern Webbing Mills, Inc., Greensboro, N. C.

May 20 (letter of notification) 16,215 shares ($10 par) capital stock. **Price**—$10 a share. No underwriting. For reduction of bank loans and for other current liabilities.

● **Statton Furniture Manufacturing Co., Hagerstown, Md.**

May 28 (letter of notification) 709 shares ($100 par) 6% cumulative preferred. **Price**—$100 a share. **Underwriter**—Joseph H. Dagenais, Hagerstown. For working capital.

● **Sterling Royalties Co., Tulsa, Okla.**

May 28 (letter of notification) 2,000 shares each of $100 par cumulative preferred and $25 par class A common. **Price**—$125 per unit, consisting of one share of each. No underwriting. For investment in oil securities and for organization and other expenses.

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.

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. (6/16)

Oct. 25 filed $32,000,000 first mortgage bonds, due 1977, and 160,000 shares of ($100 par) cumulative preferred. **Underwriters—To be determined by competitive bidding. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; and Smith, Barney & Co. Price to be determined by competitive bidding. Proceeds—Net proceeds together with $4,500,000 bank loan and if necessary, the $5,000,000 to be contributed by its parent, Cities Service Co., will be used to redeem outstanding debt and preferred stock, involving a payment of $56,906,590, exclusive of interest and** dividends. **Bids**—Bids for the purchase of the securities tentatively set for 11 a.m. (EDT) June 16, at Room 1600, 70 Pine St., New York City.

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.

● **Turner Construction Co., New York**
May 26 (letter of notification) 5,871 shares (no par) common. **Price**—$14.44 a share. No underwriting. For additional working capital.

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.

Weber Showcase & Fixture Co., Inc.
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.

● **West Steel Casting Co., Cleveland, Ohio**
May 26 (letter of notification) 7,500 shares ($10 par) preferred. **Price**—$10 a share. No underwriting. To pay off balance of real estate mortgage on plant property.

Western Electric Co., New York
April 16 (letter of notification) 1,500,000 shares (no par) common. Stockholders of record May 14 are given the right to subscribe for the additional shares at $40 per share in ratio of one new for each five shares held. Rights expire June 27. No underwriting. To reduce indebtedness and to reimburse its treasury.

● **Western World Industries, Inc., Salt Lake City, Utah**
May 26 (letter of notification) 200,000 shares (20c par) common. **Price**—30 cents a share. To be sold through officers of the company. For prospecting and other 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.**

Workers Finance Co., Newark, N. J.
May 26 (letter of notification) $225,000 6% 20-year debentures. **Price**—$100 per unit. No underwriting. To be sold direct or in exchange for outstanding preferred and debentures. **Purpose**—To eliminate outstanding preferred and debentures and to carry on business.

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)

● **Central RR. Co. of New Jersey**
June 3 company applied to ICC for authority to issue $1,605,000 equipment trust certificates, Series A. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Great Northern Ry. (6/9)
Company is inviting bids for the lowest interest rate at which the bidder will provide $2,460,000 for financing approximately 75% of the purchase of certain specified equipment under conditional sale agreement dated June 16, 1947. Bids will be received by F. L. Paetzold, Treasurer, 176 East 4th St., St. Paul, Minn., up to noon (CST) June 9.

● **Illinois Terminal RR. (6/18)**
Bids for the purchase of $1,030,000 serial equipment trust certificates will be opened June 18. Certificates will be dated July 1 and will mature in 20 semi-annual instalments.

● **La Crosse Telephone Corp.**
Company expects to sell about 15,000 shares additional common stock, to provide funds for construction in 1947. Stock would be offered for subscription to stockholders.

● **New York New Haven & Hartford RR**
June 3 company applied to Interstate Commerce Commission for authority to issue $5,955,000 of equipment trust certificates, in connection with the purchase of new equipment. Probable bidders include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Simmons Co.**
July 15 stockholders will vote on creating an issue of 75,000 shares of preferred stock (par $100).

Wheeling & Lake Erie Ry. (6/19)
Bids for the purchase of $2,940,000 equipment trust certificates will be received by the company up to June 19. The certificates will mature semi-annually from January, 1948, to July, 1957, and will finance not more than 80% of the cost of the equipment. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Wisconsin Power & Light Co.**
June 2 reported company contemplates issuance of $3,000,000 bonds for expansion purposes. Probable bidders: Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.; The First Boston Corp.; W. C. Lanley & Co.

Our Reporter's Report

Investment bankers are keeping a keen eye on the manner in which the current $200,000,000 of new American Telephone & Telegraph Co.'s 40-year debentures move out to investors.

Carrying top-rating and of such tremendous proportions this undertaking is regarded as in the nature of a "touchstone" which could readily give a real cue to the temper of the market.

This vast issue had the field pretty much to itself as things turned out, not surprising in view of the fact that the two syndicates which bid for the debentures, between them, embraced virtually the entire top-layer of the country's underwriting firms.

The successful group which paid the company a price of 102.2199 representing an interest cost to the issuer of 2.78% was made up of some 106 underwriting firms and distributing houses.

The competing group which offered a price of 102.13, and like the winning group, specified a 2⅞% coupon rate, embraced a total of some 215 underwriting and distributing firms.

The debentures were reoffered publicly yesterday at a price of 102⅞ to yield the purchaser a return of 2.76% to maturity.

Late reports indicated that the issue was somewhat more than half sold on the first day with several of the larger insurance companies taken down sizable blocks.

Slightly Firmer Note

Only about 90 cents on a $1,000 piece separated the bids of the two competing banking groups for the current 2⅞%. But the prevailing market, on the basis of this deal, shows slightly firming tendencies.

In March when the company offered a similar sized block of debentures, it specified a 35-year maturity. Virtually the same two banking syndicates bid for the business at that time.

The group which was nosed out on this occasion was then the successful bidder paying the company a price of 100.50 for a 2¾% coupon or an interest cost basis of 2.737%.

The group which lost out in the March competition offered to pay 102.4709 for a 2⅞% coupon, which would have indicated a cost basis to the company of 2.764%.

Consolidated Edison Next Week

Consolidated Edison Co. of N. Y. Inc., will be the center of investment banking interest next Tuesday when bids, just called for, on $60,000,000 of Series C, first and refunding 25-year bonds will be opened.

Indications are that the company will get at bids from at least two groups headed by much the same banking interests as competed for the American Telephone issue.

With this financing out of the way the big metropolitan utility will have pretty well cleaned up the task of reshaping its senior capital undertaken some months ago.

Stock Issues Ahead

Current reports indicate that the new preferred issue projected by Jewel Tea Co., to replace its currently outstanding 4¼% preferred stock will reach market on June 11.

The new issue, now in registration, is comprised of 75,000 shares of $100 par value preferred. It will provide the company with additional working capital as well as funds necessary to take up the old preferred.

Meanwhile there were indications that the task of replacing Dayton Power & Light Co.'s outstanding 4½% preferred, through exchange for new shares on a pro-rata basis, plus cash adjustment, and to provide the company with more working capital is nearing market.

The company has 100,000 shares of new $100 par series A cumulative preferred stock in registration and nearing the end of the required period.

Roosevelt Personal Files Held Private

Th Senate War Investigating Committee, which is inquiring into charges that the Navy paid too much for Saudi Arabian oil in 1945 and has been seeking to examine the papers of the late President Franklin D. Roosevelt for possible light on the situation, has been told by executors of the Roosevelt estate that they will not turn over any of the wartime President's papers unless specifically asked to do so by President Truman.

Mr. Truman has so far declined to request such permission, and the Committee has been informed by Mr. Roosevelt's executors, United Press Washington advices reported on May 21, that the late President directed that certain of his personal and confidential files should never be made public and that others should be impounded for a period of years.

Concern Grows Over Unwholesome Effects of '34 Securities Act

(Continued from page 3)

SEC—cannot be the best judge of what is best for society, particularly where its own powers are concerned. At this time, when the SEC is obviously trying to branch out, it is more important than ever, certainly, that criticism in a realistic vein, and understanding mood, be exercised in the direction in which the SEC would move.

According to many people who have done some solid thinking on the subject, desire by the SEC for additional power is without the slightest doubt involved in the complex of motives moving the SEC to ask Congress to extend certain features of the '34 Act to the officers and directors of the unregistered companies, as mentioned above. The top layer of the SEC bureaucracy would probably deny this since the turnover in its personnel has undoubtedly been too swift to permit of much continuity in its makeup. But deny it or not, the top layer would like more power nevertheless. As we said, to most people who have done any thinking on the matter, this is all just too plain. It is the lower staff, suffering from a combination, on the one hand, of the inertia, the petty fears and jealousies and inefficiency of civil servants in general and, on the other hand, of the insatiable desire of bureaucratic agents for more and more power in order to solidify their positions, individually and collectively, that is less able to conceal its intentions in the matter.

If monopoly, bureaucracy—it is all one and the same thing—is wrong in industry, and no one denies that it is, no one can deny either that it is wrong in government when government acts in the capacity of business agent, regulatory or otherwise. It naturally follows that one of the best things things that could happen to our economy would be to have monopoly—bureaucracy—of every type and description, industrial, governmental, or otherwise, cut right out of it bodily. The actions of monopolistic groups and bureaucratic agencies, if such are to be permitted under any pretext whatsoever, should be restricted within the narrowest of bounds. Any institution, any force, which concentrates the decision-making functions of the economy in bureaucratic hands, that is, in the hands of a few who think they know better than anyone else how to administer the twin mechanisms of finance and production, is inimical to the American philosophy of government, of business and of life. If there is anything the people of this country do not want it is Bureaucracy.

Provisions of the '34 Act applying to the operations of the officers, directors and 10% stockholders of the registered companies in the stock market were intended of course to prevent manipulation by "insiders" to the detriment of investors. Concerning manipulation itself, no one will argue about the merits of the law. The complaint, however, is that the SEC, which administers the law, does not always distinguish between manipulation and the legitimate processes of the securities markets. The SEC, dominated apparently by lawyers, that is, dominated by the legal mind with all its sophistication and verbosity, sometimes unintelligible versobity with double or hidden meaning and confusion running through its every line of thought, is prone, according to certain sources experienced in matters pertaining to the SEC, to give more consideration to legal niceties than economic considerations. In other words, though its decisions are likely to affect economic trends, the SEC is more a political than an economic body. It is difficult to separate the political from the economic, true, but in the case of the SEC the chief consideration has always seemed to be political. With certain prejudices towards the financial community coloring its thinking, it has come to regard every thought and deed of the men who operate the mechanism of the stock market and those who enter it as buyers and sellers of securities with deep suspicion and distrust.

In the first place, the '34 Act, by intimation has probably exaggerated the influence of the so-called corporate "insiders" in the stock market. As some put the proposition, management — the officers and the directors—does not own much of the securities of the various companies it manages. The reason for this is that the Federal progressive tax laws have worked to prevent any sizable accumulation of capital in management hands. The lower management especially, it has probably been very well pointed out, lives up to its income. Income after taxes for them, that is, is not the big swollen figure many thoughtless people think it is.

In the second place, the reports of purchases and sales of the securities of their own companies which the officers and directors must make are held by some to be "useless." The reports give the "what" but not the "why" of the stock transactions of these "insiders." Naturally, for the SEC's published reports to list all the "why's" would be practically speaking an almost impossible task. The SEC, thus, in trying to give investors all the information it thinks investors should have is attempting to do something which it is actually impossible to do. The "why" is as much if not more important than the "what." It is the qualitative angle of a quantitative transaction. Without giving the reasons for the purchases and sales made, the reports are just about meaningless.

An officer or a director may sell the stocks he has of his own company not because he lacks faith in the earning capacity of his company, for instance, contrary to what the average investor would think in learning about his sales, but because he wants to take advantage of a "loss" for tax purposes. Some men in management have attempted to build up their own interests in their own companies by borrowing money from their banks on their own personal credit and buying securities with the funds, depending on a rise in the market values of the particular securities to pay off their indebtedness to the banks. Thus, management, without any lack of faith in their own companies, may sell some securities to pay off their notes at the bank, acquiring by this act outright possession of the balance of the securities they hold. On the other hand, the banks themselves, in uncertain times, to maintain their own liquidity, may force sale of some or all of the securities so held by demanding liquidation in whole or in part of the debt they hold in this way.

Bank credit of this sort for the financing of stock purchases, by defeating the Federal Reserve margin requirements on stock purchases, in a real sense represents a breakdown of the whole system of margin buying which has been in practice in brokerage circles since the imposition of the 100% margin requirement and more recently of the 75% margin requirement by the Federal Reserve Board. Transference of extension of necessary credit for the financing of margin purchases of stocks from brokers who understand the whole business to the bankers who may but more likely do not of course can only introduce another element of instability to the stock market, revealing another place where governmental or quasi-governmental controls on the stock market have not been an unmixed blessing to investors.

Where the Securities Exchange Act of 1934 does the greatest harm, however, insofar as it attempts to put restraints on the actions of the so-called "insiders," the officers, directors and 10% stockholders of the registered companies, is to subject the profits accruing from the purchases and sales of the securities of their companies within any six month period to "recapture." A chief effect of this part of the Act it has become clear now, has been to divert the interests of these "insiders" from the securities of their own companies about which they know something to the securities of other companies about which they know little or nothing. Sometimes, "insiders" will look upon the status of the business of their competitors as being more or less indentical to the status of the business of their own companies and so, to avoid possible "recapture" of profits, will invest in the securities of the other companies rather than in the securities of their own companies. Capital, after all, always seeks fields for the most profitable investment.

The Securities Exchange Act of 1934 does not function in the interests of investors generally when it serves to discourage officers and directors of the various companies from investing their own money in the companies which they are themselves directing and managing. Funds which the men in management may have available for short-term investment especially thus flow almost inevitably into the coffers of other or even competing companies, as it were, and officers and directors of one company therefore may become more interested in the success of another, possibly competing, firm than in the success of their own company for the short-term period. With the world being what it is, however, even officers and directors who buy the securities of their own companies as long-term investments never know when they may have to sell within six months of purchase for entirely personal reasons. Thus, they are called upon to risk funds with the possibility that, if they must sell within six months, they might have to turn over their profits to companies which didn't have to assume that risk. Officers and directors are inclined to feel, consequently, that there are enough uncertainties surrounding the investment of funds already without adding some more, and so they tend to put their money where short-term prospects for gain are just as good as the long-term ones are.

The Congress, it is felt by many thoughtful observers, could do worse than to subject the Securities Exchange Act of 1934, as well also the Securities Act of 1933, and all the powers of the SEC itself emanating out of these Acts and out of judicial tradition, to careful scrutiny and examination before giving heed to any SEC recommendations for any further extension of power over the financial industry, corporate business and business executives, and investors generally.

Morgan Stanley Group Offers $200,000,000 Bell System Bonds—Priced to Public at 102⅞

Morgan Stanley & Co. headed a nationwide group of investment bankers which publicly offered June 3 a new issue of $200,000,000 American Telephone & Telegraph Co. 40-year 2⅞% debentures, due June 1, 1987. The securities were priced at 102⅞, to yield 2.755% to maturity. The issue was awarded at competitive bidding earlier that day on a bid of 102.2199. It was reported that more than half of the issue was taken up the first day by a few large institutional investors, including two of the "big five" life insurance companies. Out-of-town insurance companies and Massachusetts and New York savings banks were also subscribers, besides trust funds and other fiduciary buyers of prime-risk investments.

Except for an issue of A. T. & T. 2¾% debentures, also of $200,000,000, which was sold last March, the present offering, it is said, represents the largest single bond issue sold at competitive bidding in the history of corporate financing.

Proceeds from the sale of the new securities will be used for advances to its subsidiary and associated companies; for the purchase of stock if and when offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

The company expended $690,000,000 for new construction in 1946 and $160,000,000 during the first two months of 1947. It is expected that new construction expenditures will continue at a high level over the next few years.

Upon completion of the present financing the company will have outstanding $1,456,359,200 of funded debt and 20,789,928 shares of common stock, par value $100 per share.

The new debentures are redeemable at the option of the company at prices ranging from 105.88 if redeemed on or before May 31, 1952, to par, if redeemed on or after June 1, 1982.

American Telephone and Telegraph Co., incorporated under New York State laws in 1885, operates a network of toll lines and related equipment for telephone service between and through territories served by its telephone subsidiaries and by other telephone companies. It also operates wire and radio circuits for inter-connection between telephone systems in the United States, and those in many other countries throughout the world, as well as for ship-to-shore telephone service. The company estimates that approximately 95% of toll messages originating in the United States are routed in whole or in part over its lines or those of its subsidiaries.

On March 31, 1947, subsidiaries of the company had approximately 26,500,000 telephones in service, or about 80% of the total number in service in this country.

Diversion of manufacturing facilities during the war period to war purposes resulted in a backlog in September, 1945, of 2,100,000 unfilled applications for telephones. From that date through March of this year, the number of telephones in service increased about 4,600,000, resulting in overloading of facilities. The company reports that, as a result of the large number of new applications, there were approximately 2,000,000 unfilled orders for telephones at the end of March, principally from areas where sufficient outside plant or central office facilities are not yet available.

Erwin Eisen Officer Of Lucas, Farrell

KANSAS CITY, MO. — Announcement is made that Erwin H. Eisen has acquired an interest in and has become an officer and director of Lucas, Farrell & Satterlee, Inc., Columbia Bank Building. Mr. Eisen was formerly with the sales department of Geo. K. Baum & Co. for the past 10 years, except for five years in the U. S. Air Corps.

Our High Exports Continue

Only small part of export-import gap closed in April.

The Bureau of the Census has announced today that United States foreign trade in April continued to show an outstandingly high level of exports. The dollar value of exports reached $1,296 million, only a slight decrease from the March postwar high of $1,327 million, but higher than the $1,115 million for January and $1,151 million for February. At the same time, general imports in April showed an increase from $444 million in March to $512 million in April, closing up a small part of the gap between exports and imports.

Commercial exports, which comprise all exports except shipments under the UNRRA and the Lend-Lease programs, were valued at $1,230 million in April, $23.5 million less than the previous month. Exports under the UNRRA program amounted to $64.1 million in April, $6.2 million less than in March, while Lend-Lease shipments were valued at $2.0 million in April, about the same level as March.

The total shipping weight of April exports amounting to 25,693 million pounds represented an increase of approximately 6% from the March figure. The shipping weight of April general imports increased approximately 1% to 12,441 million pounds.

None of the export or import figures have been adjusted for changes in price level.

Coverage

Exports currently being made under the Lend-Lease program represent with few exceptions merchandise for which arrangements for repayment were completed prior to the exportation of the merchandise. In many cases these arrangements apply to merchandise which was in Lend-Lease procurement channels at the cessation of hostilities with Japan and call for a substantial down payment by foreign governments with the remainder to be paid in 20 to 30 years. In other cases the arrangements involved the full cash payment prior to the export shipments being made. In only a small percentage of the Lend-Lease shipments made during the war period were arrangements for repayment made prior to export.

Excluded from all export figures are shipments to the United States armed forces abroad, shipments between Continental United States and the Territories and Possessions, and shipments between the Territories and Posessions.

Data for April are preliminary.

Cousley President of Fidelity-Phila. Trust

PHILADELPHIA, PA.—Stanley W. Cousley, Senior Vice-President of Fidelity-Philadelphia Trust Co., has been named President of the organization. Mr. Cousley succeeded Marshall S. Morgan, who retired as an officer but continued as a director of the bank. Mr. Morgan has been with the bank 27 years in various capacities and as President since 1937.

Mr. Cousley has worked in many departments of the bank and has been in charge of the real estate and trust departments. He was elected Vice-President in 1929 and to the board of directors in 1941. He became Senior Vice-President in 1945. He is a member of the Pennsylvania bar, the council of administrators of Pennsylvania Bankers Association, the executive council of American Bankers Association and the publicity and public relations committee of the Philadelphia Stock Exchange.

Mr. Cousley is a Past President and Member of the Executive Committee of Corporate Fiduciaries Association. He serves as a director of Beneficial Saving Fund Society, Botfield Refractories Corp., Murphy Oil Co., Smith, Kline & French, John B. Stetson Co., Tacony-Palmyra Bridge Co. and F. W. Tunnell Co.

New Jersey Oil to Sell Kentucky Oil Shares

The Standard Oil Co. (N. J.) is arranging with a group of underwriters headed by Lehman Brothers to sell its entire interest in the Standard Oil Co. of Kentucky, consisting of 243,557 shares of capital stock. It is expected that a secondary distribution will be made after the close of the market today (Thursday). This block of stock represents 9.35% of the total shares outstanding.

The Jersey company decided to sell the stock because it represents a small non-operating interest in a non-affiliated company. The Kentucky unit distributes petroleum products in Kentucky, Alabama, Georgia, Mississippi and Florida, obtaining the bulg of its requirements from subsidiaries of the Jersey company.

E. H. Mackenzie Heads Hirsch & Co. Departm't

Hirsch & Co., 25 Broad Street, New York City, members New York Stock Exchange, announce that Edward H. Mackenzie has become associated with the firm in its main office as manager of the commodity department. Mr. Mackenzie in the past was with Goodbody & Co. and Dyer, Hudson & Co.

Simon Joel Messitte and Irving Hofstein have become associated with the firm as registered representatives at the branch office at 499 Seventh Avenue.

Business Man's Bookshelf

Foreign Trade Terms & Definitions—Foreign Division, The First National Bank of Boston, Boston, Mass.—paper.

Foreign-Trade Zone for Puget Sound, A: It's Economic Desirability and Feasibility—Charles J. Miller—Prepared for the Department of Conservation and Development of the State of Washington, Seattle, Wash.—paper.

Review of Railway Operations in 1946, A—Julius H. Parmelee—Association of American Railroads, Bureau of Railway Economics, Washington, D. C.—paper.

DIVIDEND NOTICES

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 165
Common Dividend No. 152

A quarterly dividend of 75¢ per share (1½%) on the Preferred Stock for the quarter ending June 30, 1947, and a dividend of 40¢ per share on the Common Stock have been declared. Both dividends are payable July 1, 1947, to holders of record June 10, 1947. The stock transfer books will remain open.

W. F. COLCLOUGH, JR., Secretary
May 28, 1947

CHEMICALS
TEXTILES
PLASTICS

CELANESE CORPORATION OF AMERICA
180 Madison Avenue, New York 16, N. Y.

THE Board of Directors has this day declared the following dividends:

FIRST PREFERRED STOCK $4.75 SERIES

The regular quarterly dividend for the current quarter of $1.18¾ per share, payable July 1, 1947 to holders of record at the close of business June 14, 1947.

7% SECOND PREFERRED STOCK

The regular quarterly dividend for the current quarter of $1.75 per share, payable July 1, 1947 to holders of record at the close of business June 14, 1947.

COMMON STOCK

25 cents per share, payable June 30, 1947 to holders of record at the close of business June 14, 1947.

R. O. GILBERT, Secretary
June 3, 1947

DIVIDEND NOTICES

CANCO AMERICAN CAN COMPANY

PREFERRED STOCK

On May 27, 1947, a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable July 1, 1947, to Stockholders of record at the close of business June 12, 1947. Transfer Books will remain open. Checks will be mailed.

R. A. BURGER, *Secretary.*

THE ATLANTIC REFINING CO.

At a meeting of the Board of Directors held May 26, 1947, a dividend of one dollar ($1) per share was declared on the Cumulative Preferred Stock Convertible 4% Series A of the Company, payable August 1, 1947, to stockholders of record at the close of business July 3, 1947.

At a meeting of the Board of Directors held May 26, 1947, a dividend of ninety-three and three-fourths cents ($.9375) per share was declared on the Cumulative Preferred Stock 3.75% Series B of the Company, payable August 1, 1947, to stockholders of record at the close of business July 3, 1947. Checks will be mailed.

RICHARD ROLLINS, Secretary
May 26, 1947

***International* MINERALS & CHEMICAL CORPORATION**

General Offices
20 North Wacker Drive, Chicago

★

Dividends were declared by the Board of Directors on May 22, 1947, as follows:

4% Cumulative Preferred Stock
20th Consecutive
Regular Quarterly Dividend
of One Dollar ($1.00) per share.

$5.00 Par Value Common Stock
Regular Quarterly Dividend of
Forty Cents (40c) per share.

Both dividends are payable June 30, 1947 to stockholders of record at the close of business June 13, 1947. Checks will be mailed.

Robert P. Resch
Vice President and Treasurer

★

Mining and Manufacturing
Phosphate • Potash • Fertilizer • Chemicals

DIVIDEND NOTICES

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

New York, May 27, 1947.

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share, being Dividend No. 97 on the Preferred Capital Stock of this Company, payable August 1, 1947, out of undivided net profits for the year ending June 30, 1947, to holders of said Preferred Capital Stock registered on the books of the Company at the close of business June 27, 1947.

Dividend checks will be mailed to holders of Preferred Capital Stock who have filed suitable orders therefor at this office.

D. C. WILSON, Assistant Treasurer,
120 Broadway, New York 5, N. Y.

J. I. Case Company
(Incorporated)

Racine, Wis., June 3, 1947.

A dividend of $1.75 per share upon the outstanding Preferred Stock of this Company has been declared payable July 1, 1947, and a dividend of 40c per share upon the outstanding $25 par value Common Stock of this Company has been declared payable July 1, 1947, to holders of record at the close of business June 12, 1947.

WM. B. PETERS, Secretary.

EATON & HOWARD STOCK FUND

The Trustees have declared a dividend of ten cents ($.10) a share, payable June 25, 1947, to shareholders of record at the close of business June 16, 1947.

24 Federal Street, Boston

EATON & HOWARD BALANCED FUND

The Trustees have declared a dividend of twenty cents ($.20) a share, payable June 25, 1947, to shareholders of record at the close of business June 16, 1947.

24 Federal Street, Boston

SOUTHERN UNION GAS COMPANY

Dividends on Preferred and Common Stocks

The Board of Directors of Southern Union Gas Company has declared the regular quarterly dividend of $1.06¼ per share on the 4¼% Cumulative Preferred Stock of the Company, payable June 15, 1947, to stockholders of record June 4, 1947. Checks will be mailed.

The Board of Directors of Southern Union Gas Company has declared the regular quarterly dividend of 15c per share on the Common Stock of the Company, payable June 15, 1947, to stockholders of record at the close of business June 4, 1947. Checks will be mailed.

H. V. McCONKEY,
Secretary and Treasurer
May 28, 1947

DIVIDEND NOTICES

GUARANTY TRUST COMPANY OF NEW YORK

New York, June 4, 1947.

The Board of Directors has this day declared a quarterly dividend of Three Dollars ($3.) per share on the Capital Stock of this Company for the quarter ending June 30, 1947, payable on July 1, 1947 to stockholders of record at the close of business June 11, 1947.

MATTHEW T. MURRAY, Secretary.

HOMESTAKE MINING COMPANY
DIVIDEND No. 864

The Board of Directors has declared dividend No. 864 of fifty cents ($.50) per share of $12.50 par value Capital Stock, payable June 20, 1947 to stockholders of record 3:00 o'clock P. M., June 10, 1947.

Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

JOHN W. HAMILTON, *Secretary.*
May 20, 1947

St. Louis, Rocky Mountain & Pacific Co.

Raton, New Mexico, May 31, 1947.

COMMON STOCK DIVIDEND No. 93

The above company has declared a dividend of fifty cents per share on the Common Stock of the Company to stockholders of record at the close of business June 14, 1947, payable June 30, 1947. Transfer books will not be closed.

P. L. BONNYMAN, Treasurer.

IRVING TRUST COMPANY

One Wall Street, New York

May 29, 1947

The Board of Directors has this day declared a quarterly dividend of 15 cents per share on the capital stock of this Company, par $10., payable July 1, 1947, to stockholders of record at the close of business June 9, 1947.

STEPHEN G. KENT, *Secretary*

OTIS ELEVATOR COMPANY

PREFERRED DIVIDEND No. 194

A quarterly dividend of $1.50 per share on the Preferred Stock has been declared payable June 20, 1947, to stockholders of record at the close of business on June 9, 1947.

Checks will be mailed.

C. A. SANFORD, *Treasurer*
New York, May 28, 1947.

WICHITA RIVER OIL CORPORATION

Dividend No. 5

A dividend of Twenty-five cents (25¢) per share will be paid July 15, 1947 on the Common Stock of the Corporation, to stockholders of record at the close of business June 30, 1947.

JOSEPH L. MARTIN, *Treasurer*
May 28, 1947.

Terms of Sterling Convertibility

By PAUL EINZIG

Dr. Einzig calls attention to speculation in Britain regarding exact meaning of Sterling convertibility and says it will be given a very liberal interpretation. Predicts after July 15, soft currency countries will increase their dollar reserves at Britain's expense. Sees need for a second loan from U. S.

LONDON, ENG.—For months speculation has been rife in British political and financial circles about the exact meaning of the restoration of the convertibility of sterling on July 15. British official circles were reluctant to provide the much sought-for information, presumably because they themselves were not quite sure how the new system would work. With only six weeks to go before the fateful date, the Treasury has now become more communicative. Even though no official statement has been issued up to the time of writing, an apparently officially-inspired summary of the terms appeared in the "Financial Times" of May 28.

Dr. Paul Einzig

It now appears that convertibility will be given a very liberal interpretation. It is true, only sterling balances acquired through current trade transactions after July 15 will benefit by it. But holders will be able to use their new sterling balances for purchases in hard currency countries, irrespective of whether they possess any hard currencies of their own. Until recently the view was strongly held that, according to the Treasury's interpretation, only countries without any dollars would be allowed to use their sterling for purchases in the United States. Now it appears that this interpretation, which would have safeguarded the British dollar reserve against excessive drain, had to be abandoned. After July 15 soft currency countries holding new sterling balances will not only be able to husband their own dollar resources by drawing on Britain's dollar resources, but will even be able to increase their own dollar reserve at Britain's expense. It is true, their sterling will not be directly usable for that purpose. But countries holding new sterling will be able to finance their entire imports from the United States with the aid of such sterling, and will thus be able to retain the full dollar proceeds of their exports to the United States.

Another point on which the Treasury had apparently to give way was in respect to its interpretation that only net sterling balances should become convertible after the end of a given period. This would have meant that holders would not have been able to use their sterling for purchases in the United States immediately they have earned the sterling; only if at the end of, say, three months they would possess a net balance it would have been released for that purpose. As it is, countries acting in bad faith will be able to spend their sterling in the United States as soon as they have earned it, even though their favorable balance is purely temporary. It is true they would run short of sterling later, but if they will have urgent purchases to make in the United States they will not be deterred from doing so with the aid of their provisional sterling surplus.

There can be no doubt that as a result of this liberal interpretation, Britain's losses of dollars will increase considerably after July 15. It seems strange that the Treasury should agree to such a costly interpretation. In many quarters the view is held that it has done so under pressure from Washington, in the hope of reward in the form of a second dollar loan sooner or later. This is not admitted, however, in British official circles where it is claimed that the United States Treasury brought no pressure to influence the interpretation of convertibility. Indeed, the British Treasury professes to be remarkably optimistic about the working of the new system. Its optimism is based on three assumptions:

(1) The monetary authorities of other countries will collaborate whole-heartedly and in perfect good faith in the working of the system, and will ensure that only sterling originating from current trade transactions should benefit by the change, and only in so far as it is needed for current trade purposes. Indeed the British authorities rely implicitly on the good faith of foreign monetary authorities.

(2) There will be an increase of demand for sterling, owing to the fact that under the scheme it will become once more an international currency. Holders will receive no dollars but will be able to spend their sterling in hard currency countries. (It is the latter that will convert their sterling into their own currency.) Soft currency countries will have to pay in sterling for their import of British goods, so that there will be a demand for it.

(3) Owing to the way in which Britain fulfills her obligation under the American loan agreement, sterling is expected to inspire confidence. Holders will therefore be in no hurry to liquidate their holdings.

On the other hand, the existence of a vast unfunded sterling debt and the large adverse trade balance in relation to hard currency countries are likely to weaken confidence in Britain's ability of maintaining the convertibility of sterling in the absence of a second dollar loan. The result of convertibility will be that the imperative need for such a loan will arise sooner than it would have arisen otherwise.

Ask Exchange to Lower Limit on Fully-Paid Stks.

Revision of the rule which prohibits extension of credit on stocks selling below $10 per share has been requested of the Exchange by the Customers' Brokers' Committee of the Association of Stock Exchange Firms according to "Association Progress" issued by the Association of Customers Brokers. This publication reports that: "It is proposed that the limit be reduced to five, so that firms that wish to carry these stocks on margin might do so, and it would also permit greater latitude in making subsitutions.

"The $10 rule was promulgated by the Exchange when speculation in low-priced issues was quite rampant. It was designed to reduce the possibility of criticism being leveled at the brokerage community that it had been encouraging such speculation. However, since that time many split-ups and the decline in the market have placed shares of many long-established companies in the below-10 class. Therefore, even with the possibility of margins being reduced to 50%, it would seem that an easing of the Exchange's rule would be in order."

Army Bans Cigarette Shipments to Germany

Purpose to stop their use as Currency.

Washington, June 4 (Special to the "Chronicle"). — The Army recently sent out word from Germany that it would shortly forbid the mailing of cigarettes to APO addresses. The purpose is to put a stop to the use of cigarettes as currency.

From the beginning, abuse of military currency by Army personnel and others has been a troublesome question. A number of steps have been taken from time to time to close loopholes through which Uncle Sam was being made a "sucker" by ingenious GIs and their officers, who all too often saw nothing wrong with the fellows abroad making "a few dollars." Sometimes the "few dollars" ran into thousands. The scandalous story has never been fully told, nor have the government's losses from the military currency racket ever been acknowledged in dollars and cents, although the War Department has publicly confessed to being "long" of reichsmarks.

In the case of cigarette mailing, as in various other steps taken earlier, a period of warning was given, with the obvious purpose of allowing the boys just a little while longer to "make hay while the sun shines."

If the full story is ever told, it will be before a Congressional Committee. The story embraces not only Germany, but wherever our troops were in Europe; not to mention China, where reportedly individual "killings" were made by converting troop pay—which was there made in U. S. currency—via black market currency deals into Chinese Government certificates and bonds payable in New York in dollars. It would take a Congressional Committee to pry out the reason Uncle Sam is called "Uncle Sugar" in China.

Commerce Department Revamp Rumored

WASHINGTON, June 4 (Special to the "Chronicle")—It is rumored that the Commerce Department may be reorganized into two offices, one domestic, other international. Present set-up includes five offices: Small Business, Domestic Commerce, Business Economics, International Trade and Field Service.

Also likely is better integration of personnel between offices.

David Bruce was yesterday introduced to Commerce Department officials as next Assistant Secretary, as predicted in last week's "Chronicle."

Bernard Cahn With Silver & Saperstein

Silver & Saperstein, 150 Broadway, New York City, announce that Bernard D. Cahn, formerly a member of the staff of the Securities and Exchange Commission, is associated with their firm.

Taxes Destroy Incentives

By ROGER W. BABSON

Mr. Babson points out present taxation impedes progress toward greater production, since it destroys incentive to save and to invest. Cites destruction of investment capital by death taxes and damming up of flow of new capital into industry. Says New Deal tax policy is to soak rich.

Many ask how present high prices can be reduced. My answer is that the best way to reduce high prices is by producing more goods at lower cost. But how can costs be lowered in the face of current high wage rates? To this I reply that production costs can be reduced by increasing the investment in labor-saving machinery. This will raise the real wages for all the people — not for just the strongly organized union groups.

Roger W. Babson

America has heretofore outproduced the world with steadily falling prices by continually raising the amount of money per worker invested in labor-saving machinery. To keep up this progress we must have incentive: (1) To save and (2) To invest savings profitably. Unfortunately, our present system of taxation is not only destroying capital that has already been accumulated, but it is also preventing the gathering of new capital. This can only end in a declining standard of living for all.

As an example of the destruction of accumulated capital by taxation, I like to cite the story of the House of Morgan. When the elder J. P. Morgan died in 1913 he left more than $70 millions to his son. Thirty years later this son died and, after his death taxes were settled, he was able to pass on only $5 millions to his heirs. Such a destruction of capital may be good for the morals of the heirs, but it bodes ill for you and me. There is little incentive to invest more money and hire more workers under such conditions.

Wiping out of capital by death taxes would not be so bad if our income taxes were not also damming up the flow of new capital into industry. The bulk of savings must come from those of sufficiently large incomes to create a reservoir of capital. Yet, today an executive with a fair salary has no urge to invest in a sound stock paying 5% because his net income from that stock is reduced by two-thirds through income taxes. All incentive has been destroyed.

The President has recently asked businessmen to lower prices so as to increase the volume of production. I believe the President should direct that same advice to Congress. Just as a business can sell a greater volume of products at a lower price, so can the government expect a higher tax-take if it can increase the national income. I believe the best way to increase the national income is by lowering taxes now. The stimulus to incentive will be so great that national income will rise. Then a smaller percentage tax rate would produce a greater total Federal revenue. Let the government take its own advice and lower the unit cost(i.e. taxes) of its selling price for its service. The resulting jump in total tax collections from a stimuated national income should soon balance the budget and leave enough to start a real job of debt retirement.

If Senators and Congressmen would only study history in greater detail, they would see at once how many nations have been brought to their knees by burdensome taxation. More empires have been destroyed by oppressive taxes than by enemy armies. Today's heavy burden on enterprise if continued will surely lead us along the road followed by Egypt, Rome, Spain, France and now England — all sunk by taxes.

The New Deal tax policy is to soak the rich — to fleece the sheep that have the fewest votes. This may be considered "good politics," but it certainly is bad business. If Uncle Sam confiscated all incomes above $10,000 a year, the total amount of money taken in would pay less than half of the current annual expense of government! Of course, if that were done, there would not be any incomes above $10,000. That's what would happen to incentive. However, I warn you — our present tax course is less spectacular than such outright confiscation. But it is none the less certain in the long run.

When writing the above, I am not interested in saving money for taxpayers. That is purely secondary. The less money my heirs inherit, the better off they may be. I am interested solely in the future of U. S. voters, who sincerely hope that every Senator and Congressman feels the same way.