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Congratulations!

They all call him "Vic."
He's a very swell guy!

He was born in Landsdown,
The seventeenth of July.

He lives in New Jersey,
Collingswood is the town,

There his two pretty daughters
Will bring him renown!

He works for Stroud Comp'ny,
His specialty there,

Equipment Trust Issues
He'll trade anywhere.

He joined Union League.
In the Army, we're told,

He once made a Captain
Both handsome and bold.

He's liked very well,
All folks think he's grand,

In NSTA
He's much in demand.

Once head of the traders
They insisted he stay,

So he's President again
Of NSTA!
Thanks for the Cooperation! Boston Is Glad What They Did at the Convention You Came!

By JOHN L. SHEA, Jr.
Chairman, Publicity Committee, Boston Securities Traders Association

The National Security Traders Convention, held in Boston Aug. 10-14, by all reports was known as the most successful convention in the history of the Association. 

The delegates started to arrive at the Hotel Statler Saturday afternoon and continued to arrive Sunday afternoon. Special trains pulled in a number of cars of traders and their activities began with a reception and cocktail party. The feature of this group was the large number of past conventions and a scenic film on the beauties of New England. This was followed by a dinner at the Statler Hotel, our photographer extraordinarily.

Monday morning the Post-Conference Breakfast was held and the National Committee Meeting. The Officers evoked the interest of the meeting. An interesting welcoming talk was given by Sinclair Weeks, Director of more companies than most people can count. We turned from a trip to Europe for the United States Government. He was introduced by Lloyd Waring and he gave a very fine talk on the Russian situation and what we should do about it. Another excellent speech of welcome was given by Michael T. Kelleher, President of the Boston Chamber of Commerce. Monday afternoon, the Municipal Forum was held. Speakers were Robert Cutler, President of the Old Colony Trust Company of Boston, and Dr. Paul W. Ehrlich, President of The Daggett Trust Company. Both of these addresses appear in subsequent pages of this supplement. 

Monday evening was a very pleasant cocktail party and the Association also provided 250 tickets to the ball game which was held in the Statler Garden, where half the crowd went to the ball game.

On Monday, the ladies took a trip to Hilton and viewed scenery. Remarks and reports, they had a splendid time.

Tuesday was rather an active day. After attending to various plants, golf tournaments and a number of local travel spots to the north of Boston. One Highlight of the day was a visit to the outskirts of Boston, where I found that the old-timers had undergone a change in outlook. I changed to a new way of life.

Wednesday there was a special dinner and most important events which was very much enlivened by the presence of many old-timers and Mr. McVey, our President. There seems to be a very cordial spirit of cooperation about quotations throughout the country.

Wednesday afternoon and evening constituted the big day of the Convention. A surprise banquet for Robert H. Bernhard of the Entertainment Committee, who received the support of our membership, I am sure the National Security Traders has a good year in store for 1948.

R. V. Mosley, President
National Security Traders Association

President's Greetings

The National Security Traders Association, through its President, extends its best wishes to its ever increasing circle of friends and sincere appreciation to those firms, services and financial publications that have so willingly assisted in our endeavors. Especially, do we acknowledge the aid, both editorially and financially, received through the "Commercial & Financial Chronicle." The Boston Securities Traders Association planned and carried through the conception of the Convention in faultless manner. Every one in attendance carried back home with them a new understanding of New England's hospitality and Yankee hospitality, 1948—The Bond Club of Dallas—a challenge to surpass the Boston Convention.

Annual reports of most American corporations make pleasant reading today. The NSTA might well be likened to a large corporation, with 28 branches (affiliates) in nearly every large city and a personnel consisting of 5,800 individuals. I believe the company products—"Good Will" to each other and the maintenance of "High Standards" toward the investing public. We can report a substantial growth over preceding years and current financial conditions, though humble, is sufficient for our immediate needs. The Association has added several new affiliates and shows a 20% increase in membership over last year. 

With the aid of the newly elected officers and staff for next year, and an increase in the number of corporate members, we are sure that the National Security Traders Association has a good year in store for 1948.

R. V. Mosley, President
National Security Traders Association

To the Members of the National Security Traders Association and their guests:

We extend the greatest pleasure to welcome you to our annual Convention which is this year located in the great city of this great city. We are pleased that our acquaintance has been established between our Association and the NSTA.

The future of our Association must be bound by the success of past conventions and the greatest appreciation we extend to all of those who have contributed to our success. 

We are pleased to extend our appreciation to Donald E. Summerell, Vice-Chairman, Wagoneller & Burst, Inc., Los Angeles; Thomas Bourge, Cohn & Torrey, and Lewis, Pappas, Weedon & Company, in charge of the photographic efforts in producing the largest number of reprints. 

Recognition with thanks must be given to our President, Harold B. Smith, Vice-Chairman, Geyer & Company, and Sumner W. R. Wolley, President, Security Traders Association of Louisville, Ky.

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**Investor Confidence in the Securities Market**

By EDMOND M. HANRAHAN*  
Commissioner, Securities and Exchange Commission

Ascertaining "the old ringside atmosphere that clouded our relations is disappearing," Commissioner Hanrahan tells securities dealers "it is unnecessary to blow the whistle too frequently for minor inadvertent violation of rules. Stresses need of having honest investment market and holds securities dealers to an advanced professional standard of dealing in maintaining orderly markets, and cautions against excessive missteps, churning and misrepresentation. Says Commission may be driven by public clamor to adopt market disclosure rule.

Of course, we do not measure our progress in terms of the number of prosecutions or injunctions we obtain. It is measured by a more subtle, but more pervasive and significant factor, the growth of ethical standards and ideals of a new wave advantage of the securities business itself. As a public body charged with the protection of investors we justify ourselves more by our constant effort to have the standards of the law become innate rules of behavior than by alleging in bills for injunctions or indictments. To us these injunctions and indictments obtained against members of the industry are considered not so much evidence of work done as they are indications that our main objective has not been accomplished; they are glaring signs that members of the industry are not merely abiding by the rules of the game and are not only exercising a direct, restraining, and governing influence over their own personal.

If they have not already attained it, persons engaged in the securities business approach professional standards, and as professionals or quasi-professionals, must be judged by standards worthy of that status. It is not enough to insist with the public interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard. They must not only have a marketable reputation in the public's mind, but must be acquainted with the public's interest to judge them by any other standard.

Diligence Not Believed

We can never afford to relax our diligence in curbing violations and enjoining or bringing criminal actions in our sworn duty to administer laws. They are the work of public confidence in the market. It is not possible that any violations will be ignored. Your diligence should not come from extrinsic, unnecessary, or unfair dealing with customers.

Education in Fair Dealing

In my opinion one of the greatest challenges now facing professional organizations such as yours is to educate its members in the principles of fair trading and have such a steady influence over the business of their business alphabet. Yours is but a part of the market among several in a great business success which I believe to be essential to the existence of your present economy. Your business has been an ever present market where purveyors of securities in the public interest, Members of your business are not "hucksters," they are the persons upon whom the public relies for market information and advice. They are the persons to whom the bulk of investors go for guidance. This reliance of individual investors upon the professionals in your field is the natural result of the public being made aware of the field of finance, a bewildering which you and your profession, a public persons, has throughout the years successfully sought to foster this dependence of the public upon the securities market. Of course, you deal, you must give recognition to the responsibilities which spring from that dependence. That must be done by keeping the securities market of the public consciousness and by maintaining high standards of conduct in your customer relations. Give the customer the information they need to have when buying and selling securities. Buy from or sell to any one who will purchase or sell for them at the price possible. Put yourself in the customer's shoes. Deal with him as you would want to be dealt with yourself. (Continued on page 29)
Free Enterprise—A Challenge to Business

BY LAURENCE F. WHITTEMORE
President, Federal Reserve Bank of Boston

New England banker, in pointing out U.S. is only great nation reverting to competitive free enterprise after war, holds public sentiment here is turning to the Right and the regimented economy of last 15 years is disappearing. Holds all this means we must make free enterprise work and asserts U.S. economic weight is sufficient to counterbalance Socialist economies of rest of world. Advocates revival of spirit of risk, and sees need of revision of tax laws and end of Government subsidies and tariffs.

The chief support of the American way of life. The sternness of purpose of the friends of free enterprise is being tested at the present time, as the sternness of purpose of our system was tested during the recent war, although in a different manner. While the gigantic challenge of fighting the war and producing the goods to win the war called for tremendous effort, there was a lack of conclusion and a singleness of purpose which we do not seem to have today. In those stirring days the path for Americans was plain to see. Though rough and rugged, it led to a definite goal; a goal which was achieved in less time than most of us would have predicted. The path now is often obscure, leading off byways of disagreement, self-sufficiency and shortsightedness stimulated by the climate of organized minorities. If our economic system is worth saving, we must act as though we think it is, we must bring back completely the forces of supply and demand by elimination of competition and the forces of supply and demand. We are on our way to a free enterprise system more nearly we will be able to get by government, without subsidy payments by government either directly or indirectly to various classes of our citizens.

The last two decades will go down in history as those in which the opportunity of the majority of the people to be free was circumscribed by the policy of organized minority properly or improperly seeking special favors for special groups. The present seems to be the day when we must reassert the organization of the majority, not in one group or under one leadership, but in many several groups, under many leaderships, having in mind the same great purpose, that is, the return to free enterprise. This constitutes a challenge to Americans.

For the last 15 years responsibility for the economic future of this country has to a greater or lesser degree been turned to the central government. Government took the initiative from business during the great depression following 1929 and with the excuse of one emergency after another held the initiative until the outbreak of the war which necessitated central direction of the whole private economy.

Public Sentiment Away From Left

There has been a significant turn of public sentiment during the last year away from the left at least toward the middle. I say toward the middle because I implore that public sentiment has turned to the right might well be understood as a declaration that it has turned reactionary, whereas in fact it has merely turned back toward the system of private initiative and individual freedom which is in the best tradition of the country. With this change in public sentiment, private business and industry have shouldered, whether they like it or not, a degree of responsibility which a good many people have forgotten that they once had. When the government controlled a large area of the economy, private enterprise took possession of a large part of what used to be very small by the war—critical op-

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Security Prices and Inflation

By IVAN WRIGHT and MARGOT HENN

Using experiences following World War I as a basis, authors analyze effects of inflation on security prices. Although results show common stocks in general are a better hedge against inflation than fixed-interest bonds, it is pointed out stock prices did not rise as rapidly as currencies depreciated. The importance of selectivity and the effects of inflation on specific commodities emphasized. Authors conclude established companies with reserves of working capital and plants in sound physical condition are best able to withstand severe depreciation and post-inflationary slump. Hold fire insurance stocks in post-inflationary crises constitute a good inflation hedge.

The Effect of Inflation on Security Prices

During any economic crisis whether large or small, the securities market acts as a sensitive barometer, registering all the whims of buyers and sellers alike. It is in times of rapid daily upheavals of gigantic proportions such as occur in an inflation period that the behavior of the stock market becomes particularly dramatic. All the cumulative forces of the money, wholesale, and retail commodity markets come to bear upon the securities market. Consequently, as inflation causes commodity prices to rise, so does it cause security prices to join the upward spiral.

There are four basic economic phenomena that prompt general price increases of this sort, and these are: (1) a surplus of demand over supply; (2) a larger supply of money; (3) a more rapid circulation of money; and (4) a bear of course. The buyers are willing to pay a higher price for the goods, and the sellers are willing to accept a lower price for their goods. The effect of this is that the prices of the goods are bid up, and the prices of the securities are bid down.

Moneymaking and inconvertible paper money. As minor inflationary tactics gain momentum, all of these factors are brought into play simultaneously in each one of the following. When money becomes too abundant, people begin to distrust it. Their common distrust and resultant flight into tangible goods causes a great scarcity of these products, a situation which, according to the law of supply and demand, is brought about by way of higher prices. This scramble into tangibles also precipitates a more rapid circulation of the monetary medium, which has an effect to increase the amount of money placed into circulation.

After the First World War, all of these forces took hold as inflation became the order of the day in France, Germany, Austria, and Italy. In France wholesale commodity prices increased eight-fold by the end of the inflation; in Italy they climbed to more than twice the 1913 level; while in Germany wholesale prices had, by December, 1922, reached a fantastic height of 147,500% as compared with 100 for 1913. Yet, they continued to climb still vastly higher so that by the time the inflation had reached its peak in October, 1923, commodity prices stood at 4.5 trillion against 100 in 1913.

People of small means in these countries bought up commodities of all sorts in an effort to rid themselves of their paper—past savings and current income alike. Any durable and storable commodity served the purpose. Competition on the part of buyers to obtain the few available goods created an even greater scarcity and in its wake drove prices ever higher as confidence in the prevailing currency dwindled. The sellers' market was such in France and Italy that commodity prices soared higher percentage-wise than did gold exchange rates of the paper currencies.

While some were purchasing actual physical goods, others of greater means, like-wise fleeing from cash, sought to prevent their wealth from depreciating as much as money by purchasing the securities of enterprises engaged in the manufacture of tangible goods, or otherwise related to something tangible, such as for instance, the insurance of tangible property against losses. As may well be expected, securities followed the familiar pattern of increased prices as demand overtook supply. However, the securities market presents a more intricate problem, and it is continually necessary to distinguish between securities representing debt and those representing equity. For the most part, stock prices rose while bond prices fell.

Bonds were at a disadvantage because of the sharp rise in interest rates accompanying the stabilization of government borrowing. Interest rates rose to as much as 10% in France and 40% in Germany. As a result, the price of these securities dropped to about 45% (1926) and in Germany to about 35% (1926), with the 1914 average taken as 100.

After the franc was revalued in 1926 at 20% of the prewar unit, the French stock market continued its upward trend. The experience of the inflation did not deter the country from increasing the credit of a wave of increased production and speculative fever.

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(Continued on page 43)
How Things Look to a Yankee Banker

Robert Cutler

Boston banker, urging American people be told the facts, points out domestic and world conditions are not very sound. Says Great Britain no longer occupies position as economic and financial stabilizer and deplores actions of United States officials. Favors spending large sums in telling Russian people "real facts of domestic life" and holds domestic problems ahead are: (1) decay of family life; (2) loss of America's urge to produce more, and (3) legal redaction in working hours. Warns we may have hard times to take up the slack.

By ROBERT CUTLER
President, Old Colony Trust Co., Boston

There are 60 million presently employed; the honest dream comes into reality. The Department of Labor tells us in a very recent bulletin, which seems to have been overlooked by a great many people, that factory workers' real purchasing power in May was 12% to 27% depending on exemptions and dependents, higher than in 1929, even after adjusting for the vertical increase in the cost of living.

Of course, I am not referring to members of your profession or to the unorganized workers. This refers to the factory worker.

There are other good things. Corporate profits--aren't they something terrific? All the beneficiaries in the trust companies getting these fancy ideas of what we ought to be able to do for them. I just tried to think of the future.

In the first half year, our corporate profits, after taxes, were running at an annual rate of $17 1/2 billion for a total of about $7 billion. And the stockholders are getting a lot more money. Well, that makes everybody feel pretty good. If you have more money, you can spend it and spend it in securities, not on a margin, but you can trade.

And, of course, President Truman indicated over the GI's to cash their bonds, and they can also spend the GI's. It's a good sign. I had personally thought it to be one of the most foolish things that could be done, but they say it is going to make the GI's spin faster.

And, there are other good signs with which you are all familiar, and which I am not going to bore you with. Isn't it just dandy to have everything going so well? Well, my friends come to me and they talk to me about that speech I made in Des Moines, and they say, "How about it?" About that speech? that you forecast; that inflation that you were talking about?" Well, I suppose it is Yankee and being obstinate in part. All prophets feel sure they are right until they are killed like Sandia.

World Not Very Sound

But, if you will look beneath the frosting, I really think the world would look a little Jerry-built and not very sound. A great Englishman, Lord Shaftesbury, thought a hundred years ago that England was going to hell right then and there. He only missed it by a hundred years.

It is the people thinking of England these days. The Rock of Gibraltar, the stabilizer of the world, through all of our conscious lives, certainly. How different is it from the rich and powerful collection of wealth and resources which we have in the United States.

I am not going to dwell about all the things that disturb an old man with a neuritis now. I am going to mention only four of them because I would like to have you worry about these things with me and go home to your towns and make other people worry about them. Let us not live in a dream world but in the reality of things.

Great Britain No Longer a Stabilizer

Naturally, the first worry is the disappearance of Great Britain as the stabilizer of the world; go, Rock of Gibraltar. I don't think there is any real doubt. I am not saying that the socialists, which England has evolved through centuries is about to pass. They will be remembered, too. The English are not without some ideas. Not so much about themselves, mostly about India and Greece too, although they have long since vanished into dust.

We see the United States loan--credit--being used up at a much greater rate of production than desecrated. We see Viscour Morgans coming back to prevent the oxidation of British arms. The loss of India is an accomplished fact. The Marquess of Londonderry, used to be Vice-Admiral, came to lunch at the Treasury, complained to me about the Big banks in England, Midland, and being a bright young man, asked him a lot of questions. Questions you are not supposed to ask a Marquess at lunch, I suppose. He can see nothing but black, civil war in India which the British are finally withdrawing from.

The status of British Consuls, who have been considered by trust, companies as good as "G-bonds," certainly gives us a sign. I do not mean to say that they are selling at today, but I assume they are because the English statement seems to be taking England in peace-time down the road to servitude and away from the road of freedom.

Somebody has got to step in and take England's place. There is an enormous vacuum, but I doubt that will exist there. It is very hard to think that the world and its economy will be the same without the assistance of Great Britain. I do not mean to say that by any manner of means the British were just doing it or that the British were not that kind of damn smart people. But, they are not going to do it much longer.

Russia's Attitude

My next worry is the attitude of the Russian Government, and I would particularly like to...

(Continued on page 22)
The Tax Battle on the Potomac

By HARLEY L. LUTZ
Professor of Public Finance Emeritus, Princeton University

Dr. Lutz deports veto of Congressional tax bill, though admitting measure did not remedy defects of tax system. Says complete recasting of income tax rates and provisions to preserve incentives to work and save and to provide additional capital investment for expanding economy. Holds time to reduce taxes is before a depression sets in, and denies lower taxes are inflationary and will prevent debt reduction.

Now that the fighting is over the intervals' drabness may be worth while to review some aspects of a recent battle over the Potomac, namely, the failure of a tax-reduction bill of 1947. It became a symbol of the thwarting of strong popular demands for the executive prerogative of the veto.

Let us dismiss at once the question of the President's constitutional right to veto this bill, once or more times. The Constitution does not exclude revenue measures from the veto power. Whether it was wise to do so the first time, or to repeat the performance a number of times in different matters, is a question of a different subject.

Presidential opposition to the tax bill was summed up in the sentence—The wrong kind of tax reduction at the worst time.

The veto messages give some indication of the thought process which led to this conclusion. They therefore afford an opportunity to consider the President's grasp of fiscal matters, and for this reason warrant some explanation.

It is the condemnation of the bill as providing the wrong kind of tax reduction, and for reduction that was not a perfect and complete one. For, on the question of individual income tax relief, we can agree at once that it was the wrong kind. It was never offered as the final and perfect solution of this problem. Quite possibly, it was not the best method, but it could have been devised, even as a first step toward the final solution. The weakness of the proposed reduction method is that it leaves intact the income, or tax, brackets in which individual income taxes are to be computed. It tends further, to create a situation that this existing scale is satisfactory, and the absence of emphasis, during the discussion, upon the fundamental inequity of the tax rates themselves may have given some support to this impression.

Complete Recasting of Tax Rates Needed

The fact is that the job of individual income tax revision cannot be satisfactorily finished without a complete and drastic recasting of the tax rates. This is the basic evil in the income tax. The present rates are those that were imposed during the peak of war and have been modified only slightly by the 1945 Revenue Act and subject to the further deduction of 5% across the board in the tax as computed. The war tax rates were built upon a foundation rate structure that was developed during the 1930's as part of the program to, then so popular, of equalizing wealth and incomes through an abuse of the taxing process. The tax rates of the 1930 Act were as high as the highest rates imposed during the First World War.

Even after allowing for the changes and modifications made by the 1945 Act the current-income tax rates make a better case against themselves than can be made in any other way. The combined effective rate of tax begins to exceed 50%, after the 5% deduction, of the taxable income level of $18,000, which means that as any additional income, the recipient is working more than half of the time for the government. It is an effective rate of tax, which means the relation of the tax to total net income can be $50,000. In the case of a married person with two dependents, and under the same level, such a person is actually working in the tax bracket, in more than half, of his entire income.

The impossibility of any fair-minded person to contend seriously that such tax rates are not bad for the whole economy. Granted that the tax load is too heavy upon the small and moderate incomes, it is too often overlooked that it is now too heavy, also, upon the middle and large incomes.

The reason for this conclusion, particularly with respect to the higher incomes, is not that those persons receive more incomes which are tax rates have not enough, for taxes, for their own support. Too often the tax reduction argument has been staged on the low plane of what is left to the various taxpayers for living expenses. The real reason is quite different, and it must be admitted that if the maintenance of living standards were the only problem, we would take little case for reducing taxes, now or at any time.

Reasons For Rate Reductions Needed

The real reason for tax reduction throughout the income scale, and by any means.

First, we must preserve the economic incentives to work, to save and invest, to assume the responsibilities of management, and the risks of enterprise. Second, we must make available, through tax reduction, the top of the individual income which can be saved and then used to expand the nation's capital. The effect of taxation upon the willingness to work, and upon the ability to save, is experienced by all, even by those with large incomes. The married person with two dependents who has a net income of $3,000 must work more than three weeks in each year just to pay the small tax imposed upon his income level below the tax rates. It is obvious that the restrictive effect of the tax load increases proportionately with the growth of income, since the tax rates themselves rise in sharp progression. The present writer has recently commented upon this point elsewhere at all.

"Moreover, income tax reduction through the middle and upper income ranges becomes an important safeguard for the smaller incomes. The great bulk of the workers and other income recipients cannot create their own job opportunities, They are dependent upon decisions made and actions taken by others. In so far as the tax burden impairs the incentives to make these decisions and take the necessary steps to provide jobs, the brunt will be borne by thousands, even millions of persons with small incomes. Taxes are too high, everywhere, but it would be a very short-sighted policy, affording only a very short-lived advantage, to restring the benefits of any tax reduction to the low-income groups."

Fallacy of Computing Tax Reductions Needed

Yet, the principal reason which the President gave for regarding the 1947 bill as the wrong kind was that it gave too much tax reduction at the top of the income scale and too little at the bottom. The bill gave much more relatively at the bottom than at the top, for reductions of 30% tax under that due at 1945 rates for the smallest incomes, and only a 5% reduction for the largest incomes. In the first veto message occurs the following: I-H.R. 1, "The Importance of the "L.H. Tax, is to give relief where it is needed most.Under H.R. 1, tax savings to the average worker with an income of $1,000 would be less than $30, while taxes on an income of $3,000 would be reduced by nearly $5,000, and on an income of $500,000 by nearly $60,000."

"In so far as 'take-home' pay is concerned under H.R. 1, the family earning $2,500 would receive an increase of only 1.2%, the family with an income of $50,000 would receive an increase of 16.9%, and the family with an income of $500,000 would receive an increase of 22.8%.

These extracts reveal the severe distortion that was necessary in the effort to make a case. At 1945 rates the family with a net income of $5,000 would pay 9% tax, while under H.R. 1 it would have paid 16.7, which is a 50% reduction. The family with a net income of $50,000 would pay 9% tax, while under H.R. 1 it would have paid 16.7, which is a 50% reduction. The family with a net income of $500,000 would pay 9% tax, while under H.R. 1 it would have paid 16.7, which is a 50% reduction. The family with a net income of $500,000 would pay 9% tax, while under H.R. 1 it would have paid 16.7, which is a 50% reduction.

In the second paragraph of the above extract, use is made of a statistical device which, though mathematically correct, distorts the result. The percentage incomes of net income after present tax which would result from the opposite, I-H.R. 1. Since the present tax reduces so substantially the net income remaining, the tax, any increase in this income present will represent a large percentage of the base. For example, assuming that a taxpayer would pay $950 in the prior tax, and a tax reduction left him with $2,500, his new tax burden would have increased 100% by the tax reduction.

The President has made it clear that his complaint is not with the tax reduction bill which he could have accepted, but would be for a concentration of the entire advantage in the lower income groups. The portion of the first veto message quoted above says that this is the case where the relief is needed most. Actually, the portion would give tax relief throughout the income range, for whose persons at their entire income are dependent upon such a course.

The second line of opposition indicated in the veto messages is (Continued on page 67)
A Call for Balanced Economic Thinking

BY HAROLD B. DORSEY
President, Argus Research Corporation

Investment analyst, holding there are both favorable and unfavorable factors in present economic situation, lists as favorable: (1) urgent and unsatisfied demand for both producers’ and consumers’ goods; (2) no indication that producing facilities are over-expanded; (3) high earning power of corporations; and (4) low stock prices in relation to price-earnings ratios. As unfavorable factors cites: (1) uncertainties of international situation; (2) distortion of price-wage structure; (3) prospects of reduced exports; and (4) lower rate of new capital expenditure. Urges avoiding optimistic or pessimistic extremes.

Harold B. Dorsey

our entire practical labor supply is occupied, and we still have shortages of steel sheets, automobiles, homes, etc. The recognition of this condition is important (1) because the excess of demand over supply represents a cushion against a decline in any one or two of the demand components, (2) because the points where demand is in greatest excess are the points which may subsequently realize the greatest adjustment, and (3) because a major economic cycle practically never matures until the productive capacity has been expanded beyond the point of peak demands. It is against this background that we should examine some of the various important components of our domestic business structure.

Few people will argue with the premise that the outlook for the railway and railroad industries calls for a high level of activity for at least the next six months to come and probably longer. Significantly enough, it could operate at higher than recent rates if it could get the materials. There is to be observed in this industry some of the various potential demand that could offset declines in demand that may materialize from reduced exports or from some other industry that might have been produced. These observations, of course, also cover many of these concerns that supply the automobile manufacturers, as well as the manufacturers themselves.

Practically the same thing could be said about the electrical equipment industry. It is well established that this industry is in excess of its productive capacity. That the condition exists is indicated by the fact that some of the companies that have maintained high prices have not been able to sell their product.

It is unfortunate that the thinking of some in the security business, must tend to resist this change. It can be argued that the situation was always anticipatory of a bust, or a bull market, or a bear market. Possibly it reflects unconscious desire to be spectacular. As a matter of fact, opinions on economic and financial conditions are seldom unanimously favorable or unanimously unfavorable and a part of the time they are not far out of balance.

The same tendency toward extremes is probably responsible for over-emphasis on one individual phase of the broad problem without giving sufficient consideration to the many other components. At the moment, if a person thinks he should be bearish, he is exaggerating his position. It is a point that bears upon one aspect of our whole economic structure; if he thinks he should be bullish, he is emphasizing the inflation potentialities. Both of these are factors, but there are many others that are of equal importance, viz., the position of our domestic business structure as a whole and in some of its important details, the commodity price structure, money and credit, profit margins, the international situation, and the level of security prices. All of these should be considered before formulating investment policies.

Domestic Business Position

Any consideration of the domestic business position must recognize as a background the presence of a very unusual condition—as a matter of fact, so unusual that it is seldom set into its proper place. We are in one of those very rare periods (with the exception of war periods) when domestic demand plus export demand is in excess of productive capacity. That the condition exists is indicated by the fact that

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Thursday, August 22, 1935

Wednesday, August 21, 1935
Financing Public Sanitation Projects

BY REID W. DIGGES
General Manager, Hampton Roads Sanitary District Commission
President, Virginia Industrial Waste and Sewage Commission

Sanitation expert describes pressing need for prevention of water pollution and points out health menace and destruction of property values resulting from it.

Cities creation of Hampton Roads Sanitary District Commission as instance of providing sound sewage and water system through issue of revenue bonds.

Gives plan of Federal aid in sanitary projects and concludes sound revenue

boards into the nearest flowing water.

Hampton Roads Sanitation Commission

This you may say is the background history for the formation of Hampton Roads Sanitation Commission. Agitation started some 20 years ago but the preliminary work on the Commission actually started as a war measure. It was like many other programs, particularly in the South, that started as a war job and is being completed as a peace-time necessity. We Southerners who used to have just a good idea now have the money to back it up.

As I outlined above, the populations of cities have overflowed into the adjacent counties. Unless there is a cooperative effort between the counties and cities and the new communities that have sprung up, no new public improvements are possible. Too many times this cooperative effort has failed because of ancient rivalries existing between them. Each in turn is so jealous of its prerogatives that cooperation is difficult if not impossible unless the State takes a hand. A district, therefore, may be the only answer. Then there can be one or at least a few administrative bodies with members chosen from both city and county to do a specific job. It will not be loaded with municipal responsibilities such as police duty, maintenance of streets, the supplying of water, etc. (Continued on page 48)
What's Ahead for Utilities?

By A. M. SAKOLSKI

Dr. Sakolski reviews problems of rates, new construction costs, and dividend position of utilities in years immediately ahead. Sees need of a definite policy regarding Federal power projects and investment situation favorable for expansion of utilities services under reasonable rates.

It is undeniable that public utilities have come out of the war period with fewer problems of conversion and adjustment than any other lines of business, but this does not mean that all is smooth sailing with them and there are no serious problems ahead.

Though, unlike the situation after World War I, the utilities as a whole are not confronted both with high interest rates for capital and a heavy need for additional cash funds, they must contend with rising costs of labor and materials and rigid systems of rates and charges. To this may be added threats of increased competition of government-owned or subsidized utilities projects. As yet, there has been no general demand for increased utility rates in the case of the railroads. As in

quite evident from the discussions at the recent conventions of the Edison Electric Institute, higher rates on a widespread scale are not expected in view of the maintained scale of earnings capital brought about during the war by expanding output, better load factor, and other operating economies that have offset higher wages and materials costs. Yet, higher wage payments have affected adversely net earnings of some utilities, particularly the telephone and telegraph industry and transportation lines, and it is to be expected that the effects of wage increases as well as higher fuel and construction costs will be more seriously felt in the years to come when technical improvements slow down or there should be any serious business recession come about. Moreover, higher construction costs and heavily increased charges for new equipment will be a serious handicap should modernization and expansion of output be required. In effect, this situation will go far to offset the advantages reaped from lower interest rates which have prevailed generally in the last few years.

Where Rate Increases Are Required

During the coming months one may look for requests for increases by gas companies, communication, and transportation concerns. An example of this is the announcement made a month ago by Ralph H. Tapscott, President of the Consolidated Edison Company of New York, that on top of an application pending before the New York Public Service Commission for an increase in electric rates, the company will apply for higher gas rates to offset rising costs of labor, fuel and materials. In the meantime, the Brooklyn Union Gas Co. has been granted increased rates by the N. Y. Public Service Commission. The telephone and telegraph companies have either received authority to increase rates or, in many cases generally and even with the workers' acceptance of lower wage increases than demanded, the wage boosts are sufficient to cut heavily into net earnings, unless offset by higher charges. And, it should be borne in mind that if, as contemplated, are bound to bring about reduced operating efficiency.

It is quite probable that the general trend toward lower utilities rates which has marked the last decade, has come to a halt. While the construction record of the Edison Electric Institute, it was manifest that future technological improvements and a expanding costs of materials and wages Electric utilities, alone, last year had 13.6% increase in their labor bill. The increased bill for coal and oil was greater. It rose from $374,851,000 to $416,340,000, an advance of 11%. Higher costs for fuel were made what by further improvement in efficiency proved more than offsetting for fuel consumption for the industry reaching a new low of 1.39 pounds of coal for each kilowatt-hour of energy generated.

Offsetting the rise in fuel and labor costs was the reduction of 7% in the companies' tax bill, due mainly to elimination of the excess profits tax. There was also a 5% reduction in fixed charges because of lower interest rates. As a result of relief from these fixed burdens, most of the $117,000,000 in increased revenues went into available earnings for stockholders as net income. But, these savings cannot be counted on to increase dividends in future.

Indeed the dividend position of utilities will become a matter of serious importance since, a large part will be taken out of stock issues. In view of market conditions offerings of public utility shares this year, according to brokerage firms has been on a small scale. The investment public which suffered losses on purchases made during the large-scale stock flotations of last year has been so importants to make new commitments and although many of the new offerings have increased substantially and prices, based on earnings, are considerably lower.

As pointed out by the Edison Electric Institute, while gross revenues (of electric power companies) have risen to new high levels, and the companies, as represented by common dividends and surplus, has improved his income largely at the expense of the preferred stockholder. In the case of the Edison Electric Institute the investor as a whole is better off than he was before the war. In spite of record-breaking revenues, the rate of operating income to investment in plant has only risen from 5.6% in 1937 to 5.9% in 1946. The earnings of the bondholders have decreased by one quarter; the ultimate beneficiaries of the "cheap money" policy of government during this period.

Maintaining Demand for Service

It is becoming increasingly manifest that public utility industries, as a whole, will demand an increase in the output of certain public companies for their services. The whole philosophy of economic utility charges is based on economies and complete disposal of capacity production. It will involve not only ordinary advertising and solicitation, but in many cases it will mean fostering industrial and residential localization of a variety of industrial plants, which serve as markets for services. Indeed, it may be predicted that in large and small factor influencing the location of many large-scale manufacturing companies will be the intensive advertising programs of the power companies. This has been one of the results of railroad development in America, and as power resources become a larger factor in economic industrial production, there will undoubtedly be a growth of utility influence on local power concerns for locating plants in the area.

According to a recent survey, one of the largest such programs is that of the Cleveland Electric Illuminating Company. In that company's area alone, more than 170 industrial concerns have announced that they will spend $200,000 or more each year to promote projects in excess of $210,000,000 in the area. This section is engaged in the automobile and plastic industry. It is estimated that the Cleveland Electric Illuminating Company's influence on $200,000,000 in industrial jobs. The utility has a contract budget of $57,000,000 for the 17 years ending 1949. The new company facilities, which comprise 2,000,000 horsepower, are being installed to meet anticipated increase in demand for industrial electric power. In the vicinity of Chicago, the Commonwealth Edison Co. and in the West, the Pacific Gas & Electric Co., have made other utilities in the South are pursuing a policy of accelerated development program costing more than $50,000,000 in the next few years.

Whether other factors of industrial location, the utility is making vigorous efforts in terms of dollars and manpower to attract industry by offer of economical power facilities. "Cleveland prosperity," as (Continued on page 60)
Growing Responsibilities in Distribution

BY DON FRANCISCO
Vice-President, J. Walter Thompson Co.

Pointing out coming years will require race to sell things, advertising executive
denies relative cost of distribution is increasing. Stresses growing impor-
tance of selling and advertising because of high production levels, increasing
sales resistance and severe competition. Urges minimizing wastes, increasing
marketing efficiency and giving lower prices to consumer.

What is generally meant is that
the percentage of the consumer's
dollar that goes for distribution
expense appears to be high in re-
tention to the percentage that goes
for the cost of production. In 1700
distribution costs amounted to
only 5% of the consumer's dollar,
production 75%. By 1930 distri-
bution expenses had increased to
25%. In 1930 the
Fund brought out an exhaustive
study of distribution. It found
that 59% of the consumer's dollar
went for distribution, and 41% went
for the cost of production.

Does the fact that an increas-
ingly large proportion of the con-
sumer's dollar goes into distribu-
tion costs warrant the conclusion
that they are too high, or that our
system of distribution is ineffi-
cient?

Why Have Percentage Costs Gone Up?

Let us review the reasons why the share for distribution has in-
creased.

Distribution costs amounted to little or nothing when each family
produced practically everything it needed.

When production became
centralized and division of labor
was introduced, costs were reduced,
or the quality of the product was
improved, or both. But to make
this possible the volume of pro-
ducts of each article must have
been much greater than could be
consumed by those who produced it.

So the producer set out to find
care customers. He began to add
distribution expenses in order to
get sales over a larger area.

Gradually people produced at
home a smaller share of the goods
they consumed. They bought a
larger share in the market places.

Producers had to bridge two
new gaps, one between the place
of production and the place of con-
sumption, and the other be-
tween the time of production and
the time of consumption. This
meant added expenses for financ-
ing, transporting, warehousing,
selling and advertising.

As new and better products
were devised they needed to be
introduced. People had to be told
in some way that new things, or
improved things, that filled long-
feld needs were available. That
called for advertising.

In a further effort to attract
customers, new services were of-
ferred, such as credit, delivery, the
return-goods privilege, conveni-
ence and wide selection.

For example, the cobbler who
made shoes for those who called
at his shop had almost no distri-
bution expenses. But if he could
sell 100 times as many shoes he
would be able to sell them for much
less. To do this he had to be prepared to
shoulder additional expense for
freight, dealer margins, sales pro-
motion and advertising.

The change from hand labor
to machine production resulted in
a revolutionary reduction in pro-
duction costs. At the same time
there was necessarily a corre-
sponding increase in distribution
costs in order to achieve the nec-
essary volume. Part of the sav-
ings of machine production was
shifted to marketing expense. The
size and importance of the distri-
cuting task had increased enor-
mosly.

The fact that the cobbler has
passed out of the picture as a manu-
facturer of shoes is evidence in him-
self that, in spite of the increased
costs, the total cost to the con-
sumer is less for comparable quality.

It should be emphasized that
machine production resulted in
a wide market, had to do at
the same time, produce shoes for
less than the cobbler. He had to man-
ufacture shoes for enough less to
pay his added distribution costs for
financing, transporting, ware-
housing and selling. If he couldn't
get his expenses back then the cobbler
would keep the business. If he did do
it then the fact that he had incurred
additional expenses for distribu-
tion was unimportant either to
him or to the public.

Thus it is apparent that the 59%
which goes for distribution is
partly responsible for the econo-
ic functions of mass production
and therefore for keeping production
down to 25%. While this great effort to increase
the volume of sales our standard of
living would be much lower, for

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By DON FRANCISCO*
Vice-President, J. Walter Thompson Co.

Pointing out coming years will require race to sell things, advertising executive
denies relative cost of distribution is increasing. Stresses growing impor-
tance of selling and advertising because of high production levels, increasing
sales resistance and severe competition. Urges minimizing wastes, increasing
marketing efficiency and giving lower prices to consumer.

What is generally meant is that
distribution costs should be con-
sidered as an integral part of total
costs, and not dealt with sep-
ately.

The important figure is not the
ratio between production and dis-
tribution costs, but the total which
the consumer must pay. If the
over-all cost is reduced by adding
distribution expenses, then the net
result is a gain for the community.

Percentage Figures Are
Sometimes Misleading

Percentage figures do not re-
veal actual costs but only the ratio
between the expenses of produc-
tion and the expenses of distri-
bution. The percentage cost of
distribution may be rising while
the actual unit cost of distribu-
tion and the total cost to the
consumer may be declining.

(Continued on page 54)
NSTA Educational Committee Urges More Avenues of Public Relations

Morton A. Cayne, Chairman of the NSTA Educational Committee, submitted to the Convention on Aug. 11 the report of his committee in which in addition to suggesting additional means of creating interest in the securities business, recommended that the name of the committee be changed to "the Public Relations Committee." The text of the report follows:

During the past year inquiries were made with institutions of higher education. It was found that colleges are very interested in having the security business present its story. Lectures, illustrating the operations of the industry, the purpose of securities, the importance of our many Stock Exchanges and all other features of finance that contribute to the "American Way of Life" have been both cordially and warmly invited.

An identical reception was gained in our limited checking with business groups. Kiwanis Clubs, Rotary Clubs and the various Chambers of Commerce all manifest an interest in having the security business visit their meetings and present their industry.

The Committee believes that our Industry has not taken full advantage of the several avenues of Public Relations. Throughout the nation there are hundreds of corporations, in whose securities we trade, who have spent millions of dollars in the preparation of sound films, slides and printed matter. These have been designed to sell the company and/or its product to either the trade or the public. The cooperation and willingness on the part of many of these corporations is fully astounding.

We have all seen statements of corporations that clearly indicated that a great deal of time, effort and dollars went into the preparation of the statement. This, beyond any question, reveals that corporations are anxious to have their stockholders know their company and its products. Certainly, the company employees are not always exposed to the opportunity of presenting in the security of his employer.

A few corporations make it a definite point to see that their employees are at least exposed to the opportunity of presenting in the security of his employer. Countless corporations have either overlooked this vital relationship or are waiting for a program to be set up for them. While it is not a rule and it does not always hold true, it nevertheless seems strange to note the excellent "management-labor" relations that do exist in many corporations that have welcomed the employee as a stockholder.

The Committee recommends that employers' securities are available to them and that a broker or a person interested in securities, or a believer in the company, offer to serve them. Strangely, many of these people are sold good bonds by buyers during the war—admitting that prospective advertising program played no small part.

The value of a stronger relationship with both the corporations and the public has been demonstrated during the last few years in Cleveland. Recently the local Stock Exchange conducted a few "trial balloon" meetings where some films were shown. The meetings were reasonably well attended by security men and businessmen. Officers of the corporation were heard to answer questions following the showing of the film.

A growing popularity is evident when meetings are again resumed in the fall of this year. It is possible that the future meetings will be a joint sponsorship of the Exchange and the Cleveland Traders' Association, and that this program will be held at least once a month presenting a corporation whose securities are available to the public.

Last Spring, the Cleveland Security Traders Association held a dinner meeting, departing from the usual program. Instead of an outstanding, nationally known speaker we had an audience of officers of the N. S. T. A. who were invited together with a large part of financial and industrial Cleveland. The attendance was flattering. Subsequent press notices praised the innovation and the value of allowing the public to hear our business discussed.

The Committee strongly urges and recommends that the N. S. T. A. and its affiliates seek a better understanding and help from the many Stock Exchanges and other security groups in the intelligent promotion of our business with the public. The success of our program is very largely dependent upon the entire industry. We might borrow a page from the book of the largest merchant banking institution which treats the new boy opening an account with the identical courtesies that are extended to the potential trust account.

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What They Did at The Convention

(Continued from page 5)

put clams outside yellow looks of circular flower bed with the bright red lobsters in the center, guillemot, yellow-cow circling just outside of the lobsters, gray clams and the brown clams, the latter consisted of clams juice, steamed clams with drawn butter, a half a spring chicken, deep dish apple pie with ice cream, coffee and beer. It was noticed after the meal a certain sleepiness crept over the Convention.

About 9:00 o'clock all hands showed off in the boat for Boston. Thursday morning the annual National Committee meeting and election of officers. In the afternoon a Corporate Forum was held. The speakers were Commissioner Haring of the SEC and Laurence F. Whittemore, President of the Federal Reserve Bank of Boston. As Commissioner Haring's speech is printed elsewhere in this Supplement, this indicates the content on it is hardly necessary except that most of the listeners thought it was a fair and cooperative speech. Mr. Whittemore's story of "What Is New England's Thrift," is probably being retold throughout the United States this week. It, too, appears elsewhere here.

The ladies on Thursday afternoon had luncheon on the Sear- ra's, followed the menu launch sightseeing trip around the beautiful Charles River Basin. Thursday evening was, to be frank about it, a very hot night but all the brave ladies went ahead and had a cocktail party, a hearty steak dinner and a Diner Dance. At the party golf prizes, motion picture prizes, etc., were awarded to the new winners. Special train left around 130 a.m.

The convention next year is to be held in November in Dallas, Texas. President Johnson of Dallas promises the boys a wonderful time.

Among those noted in the approximately 500 who attended the convention, were the following Past Presidents: Herb Blazich, who has never missed a convention during the war years; Mr. Haring, 3rd; John Devey Johnson; Joseph C. Brown, President, J. Wm. Summer, Henry J. Arnold, and, of course, our present President, Vic Mosley. The "Chronicle" had two very able and energetic representatives, Hal E. Murphy must have covered more territory than this amateur and his photographer, Mr. Harding, took a picture of everything but the inside of his own camera.

In all, the Bostoners were very happy to have you and from reports we have heard, all of you who came enjoyed yourselves, which is just as it should be. The entire affair was a tremendous credit to Joseph Gannon and his Committee, Betty, and to all of the members of the committee, who really worked hard to make this convention a success.

Woodland Golf Club

Aug. 12, 1947

Prizes Awarded at the N. S. T. A. Golf Tournament

2nd Gross: Clarence Maenster, St. Louis, Ice Bucket.
3rd Gross: C. J. Cornell, Dallas, one dozen golf balls.
5th Gross: Fred Wright, Boston, Bottle of Scotch.
1st Net: Sam Junger, New York, Traveling Bag.
2nd Net: Carl Stolle, New York, Golf Bag.
3rd Net: Roy Trevor, Pennsylvania, one dozen golf balls.
4th Net: E. F. Hornel, Boston, one dozen golf balls.
5th Net: Norman Weller, Boston, Bottle of Wine.
6th Net: Bill Burke, Boston, one half dozen golf balls.


Highest Eighteen—Tom O'Bourke, Pennsylvania, Pint Liquor.

Highest Score on Any Hole—M. E. Mooney, Pennsylvania, Pint Liquor.

Most Fights: F. J. Laird, Pennsylvania, one-half dozen golf balls.

City Prize—Won by New York City: Gus Levy, R. A. Morton, Sam Junger, P. S. Russell, total, 317; Boston, 335; Philadelphia, 340; Chicago, 402.


Guest Prize: Jim Lynch, Boston, one dozen golf balls.

(Continued on page 18)

NSTA Municipal Group Hits Tabling of Hinshaw Bill

In his report to the Convention of the NSTA at Boston on Aug. 11, Lodge, A. R., Chairman of the Municipal Committee, stressed the importance of having Con- gress pass the Hinshaw Bill, which would definitely free munic ipal bonds from the Securities and Exchange Commission. The text of the commit t ee's report follows:

Ludwik A. Steyer

The past year with your Committee has been rather a tempestuous one: one filled with hopes and disappointments. Our main objective for the year was the passage of the Hinshaw Bill. This bill, as you know, was the outgrowth of the Boren Bill which had such a wonderful support from our last Committee and only went to death by virtue of adjournment of the 79th Congress. Your Committee was everpresent with government officials, Con- gressmen and others with the idea of immediate passage of this all important bill. If, it is 1941. Unfortunately the bill was introduced at a very late time, and with world affairs being in the forefront, this domestic is- sue was by-passed by the speakers and by the House Interstate & Foreign Commerce Committee. Efforts to revive the bill during the session were made by members of the Committee with little avail as the Chairman of the Interstate & Foreign Commerce Committee tersely stated by letter to your Chairman that the Minute of the SEC did away with the necessity of further legislation on the sub- ject. The Committee did not ac- cept the ultimatum that the SEC Minute in all probability, in fact much as we considered this was only a temporary stay. The options of Committees have been known to change from time to time and we could not accept this as being the final answer to our problem. The importance of this bill to the investment banking in- dustry, states and municipalities, has never been questioned and its further processing is most cer- tainly advocated. It is strongly suggested that continued effort be applied at the outset of the new Congress and all members of the Committee continue to fol- low and work towards ultimate passage.

We appreciate the guidance given by the Committee by Mr. David M. Whittaker, Jr., President of the New York. It is the hope that the future Committee will continue with this gentleman, who repre- "sents many states and political subdivisions which are interested in the passage of this legislation.

Your Committee has been checking the question of uniformity of bank examinations with re- lation to municipal and revenue bonds. Many instances have come to our attention where one agency will approve an issue of bonds for bank quality and imme- diately after another examining body will disapprove. This dis- parity of ideas and rulings has caused many dealers considerable trouble and is not too good for customer relationships. Our plan is to attempt to get some form of uniform, practice in examination and we are on record with the authorities at this time.

Our thanks go to the President of NSTA, Mr. Mosley, for his co- operation with the municipal branch of the National, to the Blue List, the "Dealers Digest," "Financial Chronicle," and to the Municipal Committee of the Bos- ton Security Traders' Association. Your Chairman, who enjoyed working with the Municipal Com- mittee and representatives and their cooperation during the past year has been greatly appreciated.

Respectfully submitted,

MUNICIPAL COMMITTEE.

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(Continued from page 17)
Scores at the Golf

| E. F. Havens, St. Louis | 13 | 71 |
| Larry Matt, Chicago       | 19 | 73 |
| G. O. McClean, Jr., Peters | 20 | 73 |
| J. F. Lewis, Boston       | 17 | 73 |
| P. E. Morgan, Pittsburgh  | 23 | 73 |
| R. M. Phillips, Jr., Chicago | 14 | 73 |
| Jim Kelly, Bridgeport     | 20 | 73 |
| Larry Kyne, New York      | 20 | 73 |
| R. W. Morris, Detroit     | 13 | 73 |
| E. D. Hunsabish, St. Louis | 14 | 77 |

Handicap:
Great cap Rupe.
S. Jurek, New York...... 70 14
Chas. Massey, St. Louis... 73 15
Clyde McCulley, New York... 72 15
Jim Lynch, Boston....... 77 10
Carl Mullin, New York...... 67 27
Boy Trevis, Boston........ 67 27
E. W. Hurlet, Boston...... 87 23
Bill Burns, Boston........ 85 26
Harold King, St. Louis..... 70 15
John Sullivan, Boston..... 92 21
R. S. Morrell, New York.... 76 9

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Investor Confidence in the Securities Market

(Continued from page 6)

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You, securities traders, perform an important function, at least so
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ket is concerned. You are the men
who know the market from day to
day, yes, from minute to minute in
many cases. Your bids can main-
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others you should also bear in
mind your responsibility to your
firm and the fact that your author-
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Investor Confidence in the Securities Market

(Continued from page 29)

future Commission may be driven by the same forces that have driven it in the past, or it may adopt new rules to accommodate the changing market conditions. In any case, the Commission must be prepared to adapt its rules as necessary to ensure continued investor confidence.

Information on Over-the-Counter Securities

On the other hand, the Commission has a responsibility to the public as a whole to ensure that the securities market is fair and transparent. It must be careful not to over-regulate in ways that could stifle the market or create unnecessary costs for issuers and investors.

There is a need for balance between the interests of issuers and investors, and the Commission must strive to find that balance in its regulatory efforts. By doing so, it can help to maintain investor confidence in the securities market and ensure its continued growth and development.
bound not only to lessen public confidence in the issuer but also in the firm which encourages its customers to invest their funds blindly. When you push an investment you have not and cannot fully investigate, the customer buying without full information will certainly remember that fact when the market drops. In times of stress the investor will lay the acts of the issuer at the door of the firm which sponsored an interest in such securities.

You will recall that in June, 1946 the Commission proposed to the Congress the adoption of legislation to apply to unlisted securities of large issuers some of the protections surrounding listed and registered securities, including the filing of corporate information. The Commission has not pressed the proposal recently—not because it has been abandoned by any means—but because we undertook a broad program of statutory revision based on cooperative review of the legislative problem with representatives of the securities industry. To carry out the spirit of that cooperative program we have determined to have the 1946 proposal jointly considered along with other recommendations.

We have gone forward in our consideration of that proposal and have talked it over with many people in the industry. I am glad to say that much of the opposition to it tends to disappear when the problems are talked out rationally and calmly.

The important fact to remember is that we all work toward the same general objectives toward removal of sharpers and swindlers from the securities business, and toward a market which is honest and orderly, a market in which investors may be encouraged to place their savings with greater safety—a market in which they may have confidence.

You will remember that because of sharp practices customer confidence in the market was once lost. Let's not lose it again.

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BOSTON
How Things Look to a Yankee Banker

(Continued from page 10) stress the word government, for I have a very clear theory myself about Russia. It isn’t the Russian people. It is those bloody, ruthless, cruel tyrants that control the destiny of Russia. The small uppercrust of office holders, it is a dangerous thing to be on top in Russia when November, 1948 comes. If Joe Stalin isn’t re-elected, he can’t go back to Independence and settle down and write articles for “Colliers” and get $75,000 a year. He would have his damned block knocked off. Don’t think he doesn’t know it. All this talk about ideological warfare; it is no more ideological than Al Capone’s struggle with the Chicago police was ideological. Stalin is proud to have a job. They have got a death-grip on the Russian people, and as long as they hang on they are going to be on top and they are going to be the boss. And, they are going to have what they want. And moment they lose the grip they are going to be killed.

Well, presented with those alternatives, one doesn’t even have to be as smart as they are to say: “I am going to hang on.” And of course it serves Russia’s ends to delay and to use the veto and to cause the most enormous peripheral ferment possible. You have got to make the Russian people feel they are being attacked or you wouldn’t hold your job. It is a very dangerous thing. I had a letter from a great friend of mine in Denmark yesterday, the widow of a former Secretary of State in Denmark. She says that the condition of Russia is really deplorable, and that it will take them years to become the aggressor which many of us fear they are about to be. On the other hand, she says, “Don’t for a moment relax your vigilance in the United States or your attempts to bring to the Russian people, over the heads of their masters, what the facts of democratic life are.”

If I were President of the United States I would devote all the talents of the best minds in America to a war of ideas. We have all seen in two wars that war wins nothing for anyone. Over a million American boys killed and wounded and missing in the last war. This frightful debt has been piled up upon us which we don’t realize isn’t a good thing—but it is as good as we were told at one time. The awful dislocations that war brings into every walk of life. No-war doesn’t win a thing. All honor and be glad you have won it. But, it is ideas that win. Ideas with which the Soviets are infiltrating all the countries around their borders and spreading the word of how wonderful their plan is.

Why, that plan they have is Russia! When the Russian soldiery

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How Things Look

(Continued from page 32)

The Senate has reduced its little pitance, what General Marshall asked for, $20,000,000, to continue broadcasting the "Voice of America," to a point, where it will be insignificant. Why, if I were President, I would spend a billion dollars a year in spreading the American idea all over Russia—a billion dollars or more.

How would you do it? Don't ask me, but don't tell me that the American people, with the ingenuity that has made 180,000,000 people the envy of the world, think they have body odor, bad breath, oily hair, and pink toothbrush can't. Why, you get a couple of thousand of those boys together and they have the Russian people just standing on their heads over the American way of life.

I would tell them about the lymphs in the South. I would tell them about our city government in Boston. And I would tell them everything. And out of the residuum of it all, they would get the picture that we all see of our great country with all of its faults and shortcomings. But, it is entirely free and it has more things to offer and more things for its citizens to do and to have, and to enjoy than any other country in the world. That is the way to win.

The way to retire Uncle Joe, and not to Indepen
dependence, Mo., either.

Decay of Family Life

My third concern—the first two I am sure you will share in worrying about—are more fundamental to our people in America. It is the decay of the family as the center of life. Now, I was brought up in a large family, and I believe it in a family life. I believe you derive more, for strength, for guidance, more ability to stand the shocks that come as you grow older, from a strong family.

It isn't the only way of life, but (Continued on page 94)
How Things Look to a Yankee Banker

(Continued from page 33) it the way that the Christian democracies have succeeded, is the best way, and I think it has worked marvelously in America. But it is deceiving—I shouldn't be saying this, not being married—but it is deceiving.

Divorce has increased enormously. Two out of every five marriages now end in divorce. What kind of business could any gentleman conduct if two out of every five contracts you made had to go to court and be litigated? But it isn't that. That is only the form. It is the scars that divorce leaves. The embitterment and Lie emotions that comes as a result of this. Seriously, that is a very important thing. It is fun-
damental to our Christian democracy, and you don't have to tell me that and they had to revolt against it. And they had to make us realize how swiftly we are sweeping down the hill and losing our strength. It is our responsibility to defend it, it is not the responsibility of Eng-
land or the responsibility of Russia.

Loss of Urge to Produce

And my fourth and last point—

aging a domestic and basic con-

iser—is the loss of the incessant urge to produce in the United States. What made America the greatest and the most powerful and the best country in the world? It was because they were produ-
cing. And the people have contributed so much through individual hard work to making this great land what it is. And he said, "I am glad the eight-hour day was not invented when I was a young man. If my life had been made up of eight-hour days I do not believe I would have accomplished so much."

This country would not have amounted to as much as it does if the young men of 20 years ago had been afraid they might work more than they were being paid for.

But, they didn't think this way. It is all on the other side. And what I say—whether it is a political leaders, the labor leaders, or whatever it is—there isn't any such thing as the East India rope trick, and you cannot get up there on top and stay there on top of a rope in this country unless you work like hell to do it.

So, I say that the thing for us

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to do is to look around and know the facts. Look them in the face and tell them, the American people, the truth and not feed them these platitudes. Some of you, as I have, probably have that wonderful little book "Oh, Yeah!" in your files which was published after the last crash in 1929 and 1930. And every once in a while I like to bring out that little red book and read what some of those great men said in 1928 and 1929. You wouldn't believe it. But some of the people today talk just about the same.

We have got a new pattern of democracy or a new economic area, or some such thing, and nobody knows what it means. But it sounds awfully good. Well, I think we ought to get out "Oh, Yeah!" and read it once a week and keep our feet on the ground.

Now, you will think that the Old Colony is selling stocks from what I have said, and we are going to buy nothing but municipal bonds. You remember in August, 1929, when the then Secretary of the Treasury, Mr. Andrew Mellon sailed to Europe—do you remember how things looked in August, 1928? Electric Bond and Share going up 10 points every day? Someone said to Mr. Mellon, "How do you think the market looks?" Mr. Mellon in his quiet, sly little voice said, "I think it is a good time to buy bonds."

Well, of course, they practically murdered him. Buy bonds? Why this man is destroying this dream of America—this great thing we have got here. Telephone is going to be split, four for one, and "I know a man whose brother-in-law is married to the President of Bond and Share. It's a cinch, buy it and put it away and forget it."

Well, I think if we had a few more boys like Andrew Mellon around to talk to the American people today it would be a mighty good thing.

Now, I don't want you to go away from here thinking that I am discouraged about America, I am not. It is because I believe in America that I want to have the facts all told to the American people, and not to have them fed a lot of things that I will not mention in front of this charming young woman (telegapher taking down speech). Lincoln was right when he said that this was the last best hope on earth.

When I was a member of the President's Committee (Community Chest) I went all over the United States, as many of you do, and as many of the American people at their best. They are perfectly wonderful people, and there is nothing that can stop them. But, you have got to tell them the facts. Of course, they will make mistakes if they don't know all the facts, but when they know them they will act, and as free people they will act right. And the world has learned twice in these last 20 years that when America acts nothing stands in her way!
A Call for Balanced Economic Thinking

(Continued from page 13) could be sustained for several years could be materially higher than present normal. Population growth, the long-term trend of improved standard of living, the huge credit base and the commercialization of the new processes and products developed since 1940 would all seem to lend great assurance to this probability.

Exports have also been a prop. Recently accounting for 11% of our gross national product, they are as much as 50% higher than we have any right to expect on a normal basis. Although the time factor will hinge strongly on international political developments, yet to come, somewhere in the world structure will feel the effects of reduced exports.

Then, too, we are all conscious of the juxtapositions within the price and wage structure. Primarily due to prices, the Department of Commerce calculates that the American people are spending 15% more in eating and drinking places 35% more in food stores and 33% more for women's apparel than they did in 1939. This recent level of disposable income, however, is much less than normal expectancy for today's dollars. Ninety-five filling stations, 11% less for lumber and building materials and 9% for farm products, are indicative of the prices along the line these wide maladjustments will have to be adjusted and probably the major adjustment will ultimately be found in food prices.

And within the wage structure there are some pretty bad distortions. The Department of Labor recently released some interesting figures and unfortunately the publicity and radio comment missed the most important point. The publicity glossed over the fact that the real purchasing power of factory workers (with two dependents) in May was 27% below what it was in May, 1929, after adjustment for higher cost of living and higher taxes. Not was any mention made of the fact that several million more workers have been added to the payroll list since 1939. Therefore, then, there has been an exceedingly sharp increase in the total of real purchasing power of factory workers as a group is most unfortunate that these facts have not received the publicity that should have been accorded them, the lack of it produces a very bad situation in economic and social thinking.

In this connection the real main adjustment is to be found in the fact that real purchasing power of fixed incomes and of savings and borrowings has suffered a sharp decline as a result of the higher prices that have been caused by the higher manufacturing and labor costs. Somewhere along the line there will probably have to be some correction of this main adjustment. As we survey these fundamental distortions, it would appear that we have once a period of price (and possibly) wage adjustment as well as some decline in the level of business activity to a more normal postwar rate.

If this adjustment period that has been paramoun in the minds of economists, investors and businessmen and the presumption almost invariably has been that the adjustment would be rough and difficult. Posibly so. current export demand for food would be much larger. The crops could bring a sharp setback in farm and food prices and it would be temporarily discomfortable if this correction process took place simultaneously with over-produced conditions in some of the industrial lines. But not necessarily so; there is no credit stringency and deferred demands are still present in enough lines to permit adjustments in one factor without affecting the balance of the economy. Already the problem of disposing of poor quality wartime materials and government surplus materials has been solved without serious difficulty, whereas it had been feared that the fact that this problem would create trouble. Just as rough and difficult a correction period may well depend very largely on the extent of the maladjustments that exist at the time when some factor starts a downward trend in either commodity prices or business activity. At this particular moment, it is unlikely that anything would materialize for the simple reason that the tradesmen for so many of our key industries is still very strong.

Foreign Situation

So much public discussion is being given to the economic crisis in Europe and the shortage of dollars available to foreign countries that it is quite unnecessary to go into this subject in detail. Rather, it might be quite useful to remember that it was broadly recognized several months ago that England’s position was going to be difficult when the exchange convertibility restrictions were lifted on July 15.

All of the recent seemingly unimportant foreign developments suggest strongly a conformance to a broad pattern wherein the world is dividing into two ideological segments, one headed by Russia and the other headed by the United States. An integral part of this pattern must necessarily be a realization that world leadership is carrying with it some very serious responsibilities. At any rate, the trend seems to be in the direction of the lending very sizable sums of money to foreign nations for some time to come.

There may be temporary inter-

(Continued on page 36)

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A Call for Balanced Economic Thinking

(Continued from page 36) rupitions in our high level of exports but the basic fact remains that this country continues to be the only source of supply for a foreign demand that may take years to fulfill.

Much has been said about the increase in breakeven points that has taken place in many industries since before the war. The point is well taken and should not be minimized—nor should it be exaggerated. For the past 12 months our whole economy has been strained by operating at a rate which is really in excess of efficient productive capacity. The raw materials flow has been erratic due to the tight demand situation; it is a costly proposition to shut down an automobile plant when steel sheets become unavailable. The fact that the labor supply is really inefficient and the demand has rather naturally created an independent attitude on the part of the worker which is not conducive to efficient production. The strong seller's market has unduly widened the profit margins of contractors, wholesalers and jobbers all along the line. It is probably safe to say that the economy would operate more efficiently at some 10% or 15% below current levels and this fact should be given consideration in calculating breakeven points.

Then, again, we usually think of breakeven points in relation to some prewar level of business activity. The long-term trends of population growth and standards of living are steadily increasing the basic requirements of the nation on a volume basis. Prewar highs in activity may well be postwar lows. Naturally this factor should be given consideration in appraising the hazards of higher breakeven points.

We will also find that the breakeven points will not stay put. There should be a steady trend toward improved efficiency and in many industries higher prices have tended to offset higher costs. But let us not minimize the importance of breakeven points either. There is warranted concern about the breakeven point of the railroads, for example, and there should be concern about any industry wherein the revenue side is rendered ineffective by government control or is rendered vulnerable because of unusually competitive conditions.

Money and Credit

This factor is one that is always deserving of consideration because of its effect on business conditions and price levels. At the present time there seems to be no need to go into the matter in detail. There is almost a general evidence that the credit base has been eroded to a point where it is much more than ample to take care of business volume and prices at a very high level. Any argument of all of the pros and cons must still end up with the observation that interest rates are low and, as with any other commodity, the price is a pretty good club as to the balance of supply and demand factors.

Stock Prices

One of the most astounding aspects of current discussions about (Continued on page 39)
A Call for Balanced Economic Thinking

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the economic situation and investment policies in the tendency to ignore the level of stock prices. Very little is heard these days about the amount of inflation that has been frozen into our economic structure or about the understate-
ment of book values when con-
sideration is given to replacement costs. Nor do we hear much about the presently unusually low rela-
tionship between stock prices to earn-
ings prospects, nor the attractive spread between stock yields and bond yields. These points have always been worthy of consideration in any well-balanced judg-
ment of investment values and there is no reason why the present should be any exception. Many issues are selling in the low end of an historical price-earnings ratio pattern, even when the cur-
rent ratio was figured out on the basis of recession earnings.

Conclusion
After this brief review of the factors that normally influence economic, earnings and stock prices, let us step back again and look at the broad perspective. It is not all unfavorable and it is not all favorable; neither side is noticeably preponderant.
Among the favorable forces are the indications that we have not yet exhausted the urgent demand for automobiles, homes and sev-
eral other important lines of con-
sumer’s durable goods. Nor do we have any evidence that the pro-
duction facilities of the country have been over-expanded. The whole structure is supported by a credit base that is ample for even a higher level of activity. It has been demonstrated that cor-
porations have very high earning power when the volume is rolling. Stock prices are around the low-
est price-earnings ratio on record and are in the lower part of an historical price-earnings ratio pattern. Even the recent volume of estimated recession earnings. The stock yield-bond yield relationship is reasonable.
On the unfavorable side we ob-
serve the uncertainties of the in-
ternational political sphere from which we get recurrent shocks to confidence. We also have malad-
justments within our economic struc-
ture in the form of dispro-
portionate price and wage in-
creases; a high proportion of dis-
posable income is going into food and clothing, leaving a dis-
proportionately small balance for the purchase of other things. We cannot expect that the contribu-
tion of capital expenditures and ex-
ports to the income stream can sustain at such high levels for-
ever, even though the demands both here and abroad are very substantial.
It seems to this writer there is

enough knowledge available in a of these factors than for others, but broadly speaking, it seems advisable to stay away from the extremes of optimistic or pesi-
mistic thinking—at least, for the time being.
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Financing Public Sanitation Projects

(Continued from page 13)

of water, and the general welfare services. Commissions thus formed become independent enterprises. Naturally it will cooperate with other departments of the local governments but primarily will

stand on its own feet, particularly pertaining to financing its program. It is in a position to float its own bonds on a revenue basis, which is a comparatively new method of financing but is an

sound as the so-called "general obligation" bond. A revenue bond does not have the drawback of being added to a community's outstanding bonded indebtedness inasmuch as it gives no lien on property, is not the direct responsibility of any community or the Commission, but in soundness is based on the Commission's ability to serve an area, charge and collect fees from the residents and industries for services performed.

The Hampton Roads Sanitation Commission issued $61 1/2 million in such bonds, purely on a revenue basis. The bond issue was guaranteed by no one, the Commission does not have the right to levy taxes and no mortgage was given to the bondholders on the Commission's facilities. In spite of the lack of these liens, the bonds sold at a rate comparable with the best municipal bonds.

The only real security behind the bonds is the Commissioner's right by law to deny a delinquent the use of water if he refuses to pay his sewage bill.

Federal Aid

This brings me to the subject which you gentlemen are probably more interested in than the technical aspects of any anti-pollution program. Recently I appeared before the Committee on Public Works both of the Senate and the House of Representatives of the Congress of the United States. The purpose of my appearance was to endorse in full a program for anti-pollution for the entire United States as embodied in the respective bills of these two Houses.

Most of the bills carried a similar provision calling upon the government to spend some $100 million in grants per year for a period of 10 years in order to get these programs started locally.

While endorsing the idea, my contribution to the program was to advise that in lieu of the granting of $100 millions, the government lend its credit to local Commissions and compact for approximately one-third of the cost of the planning and construction. My position was that a formula could be worked out with Federal aid not calling for great expenditures of Federal money, which in this economy-minded period would never pass. But in so far as the bill provided for Federal aid, I was specific in advocating loans rather than grants as a basis of financing the programs.

In so far as the present language provides for aid, in the form of grants-in-aid, loans, or both, the bills are good, as there is considerable merit for such a basis of financing. The elimination of pollution is unique among major municipal improvements and will require such stimulation in the

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Financing Public Sanitation Projects

(Continued from page 40) form of Federal aid. This is due to the fact that pollution abatement is affected by two conditions. First, treatment works normally do not benefit the persons who contribute the waste but who are expected to bear the costs of treating it. The downstream users of water are the ones benefited, and the upstream users are the ones dumping. Second, the benefits of treatment are intangible and tax payers are reluctant to undertake costly treatment works when the effects are not as tangible and evident as those of other public works.

Revenue Bonds

I anticipate, however, that by and large, the cost of the treatment works will be financed through the issuance of revenue bonds. Therefore, with respect to projects that are to be financed through revenue bonds, I recommend that serious consideration be given to revising the present language of the bills so as to provide that the Federal Government may in connection with each approved project, make a loan of not to exceed one-third of the estimated cost thereof, the loan to bear interest at a rate not to exceed two per centum (2%) per annum, and to be secured by a second lien on the revenues to be derived from the operation of the approved project. The bonds representing the balance of the cost of the project to be secured by a first lien on the revenues of such project and be sold to private investors. Such a method of financing should be beneficial to the public bodies and would be more economical to the Federal Government than an outright grant method. By having the government accept second lien revenue bonds for one-third of the costs of a project, the financing of the project would be facilitated.

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Financing Public Sanitation Projects

(Continued from page 41) Main cost of the project would be facilitated, and would be accomplished on more advantageous terms than otherwise. Savings in interest will be effected and in many instances the public bodies would possibly receive higher bids for their bonds by reason of the fact that the Federal Government was agreeable to purchasing second lien bonds on the same project. In my Senate testimony I cited examples in the lowering of interest rates and demonstrated where local bodies could expect a reduction in interest costs from 25% to 33 1/3%, and that through these savings in the lowering of interest rates these local bodies would have sufficient funds with which to retire a government loan.

If, however, due to local laws or other reasons, revenue bonds could not be issued by a municipality, or district, to finance the costs of treatment facilities, and tax bonds or public assessment bonds must be issued, a government loan in an amount not exceeding one-third of the estimated cost of the project might be made. The security for such a loan might or might not be subordinated to the security of the bonds issued to cover the other two-thirds of the cost, depending upon whether such subordination would be possible under the local laws. I understand, however, that only a few States do not have so-called "Revenue Laws" on their books, but such laws could be easily passed as revenue bond financing has become a very popular form for financing of water and sewage facilities.

Most of you investment bankers look upon a revenue bond as almost as sound as a general tax bond. In fact, you classify them under the general term of "municipal." The reason for their strength is that the record of collections for water and sewage is better than tax collections. In my area the percentage of delinquents for the payment of water bills is less than one-fourth of 1% for the area we serve.

The Hampton Roads Sanitation Commission was made possible by this method of financing. Instead of borrowing from the government on one-third of the cost of the program, the Commission entered into a purchase contract in which the Commission agreed to pay for all of the sewage facilities built by the government in the Hampton Roads area for the disposal of sewage from approximately 300,000 military personnel. Payments are to be made over a period of approximately 25 years, which is the length of the primary financing through the revenue bonds. In this agreement the government agreed to take a secondary position behind the primary bonds.

I have been called into consultation by several local areas who wish to get a sewage program started. Some of these areas are in very poor financial condition, but in no case would they need a grant and in all cases could finance privately with a loan by the government on the terms outlined above.

In conclusion, revenue financing opens one of the greatest fields in municipal financing yet offered you people, especially for water and sewer systems, and I believe that you will agree with me that the security is just as good as the general obligation bond carrying with it the right of taxation.
Security Prices and Inflation

(Continued from page 8)

In February, 1929, stock prices as a whole established their peak at 546% of pre-war prices, but this was not as high as the wholesale commodity price index, which, while it was rapidly falling, still stood above stock prices. Germany, on the other hand, was in no shape to participate in this speculative boom of the late '20s, and her stock prices fluctuated closely around the 100 level from the inflationary phase of 1922 until 1926, the very year in which stabilization took place. Meanwhile costs were being swept along with the tide of inflation, and had to be met out of capital, thus diluting stockholders' equities. In cognizance of these handicaps, French bank stocks in 1926 had reached an average price level of only 42% above 1913.

Public utilities and railroads, too, suffered severely during inflation, the difficulty in both instances being the regulatory aspect of keeping rates fixed over long periods of time. In Germany the utilities were mostly owned by municipalities and, under the circumstances, leave little room for analysis alongside of stock issues of private concerns. Nevertheless, the identical problem of tardy rate revisions brought increasing hardship to the remaining private utilities in Germany as well as to the more sizable proportion of them in France. Though Germany did not long delay the use of a sliding scale device of automatically adjusting utility rates upward with other prices, rate revisions were still slow and cumbersome. This, in the face of increased costs being borne by the utilities, placed them in a decidedly disadvantageous position. Conditions in France were very similar to those in Germany, except for two facts. First, the use of the sliding scale method was delayed until 1922, utility stock prices during all that time having hovered consistently below the 1913 level. Secondly, after a sliding scale based upon wage rates and coal prices had been devised, it was regularly applied (quarterly till 1928, and semi-annually thereafter), so that rate revisions from then on were not so much delayed as to adversely affect the business. As a result, the industry began to flourish and expand.
Security Prices and Inflation

(Continued from page 49)

pansion set in, with a clearcut milestone being recorded in utility stocks by way of an immediate jump above the 1913 level. From 1922 to 1923 the average price of gas utility stocks recovered almost over night from 72% to 109%, and electric utility stocks from 96 to 143%, and this was only a meager start of a long trend upward in utility stock prices.

Due to similar causes, railroad stocks had an even worse inflation record. In France, for instance, agreements had been drawn up before the War between the railroads and the government, whereby the latter guaranteed a fixed return on the outstanding rail securities. Meanwhile, rates were kept down, and deficits were paid out of the National Treasury. Until 1927 no rate increases other than those necessary to meet minimum interest and dividend requirements were authorized, with the result that until that time rail stocks sold steadily below the 1913 price level, ending up at an average of 72% in 1926. Thereafter freight rates began to rise, but never caught up with other prices. This was reflected in the stock prices which at the height of the speculative period, reached an average of over 130% of the 1913 prices. While banks, public utilities, and railroad stocks were seriously influenced by government policies, general industrial enterprises of a less "public" nature were more free to shift for themselves in an effort to overcome the inflationary hazards as best they could.

Unhampered by restrictive legislation, mines were in a good position to forge ahead. Though some lags behind somewhat due to war damages suffered, as in northern France near the Belgian border, nevertheless, stocks of good, active mining companies did exceptionally well. Not only did French coal and iron mine stocks leave a good record, but so did German mining stocks, including those of potash mines. Austrian mining stocks did so well, in fact, that not only could investment values be maintained, but the opportunity presented itself for a


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doubling of value, or for a profit of better than 100%. Credit for this remarkable showing, however, is not solely due to government non-interference. On the contrary, the mining business itself presents inherent characteristics operating entirely in its favor during an inflationary period. Most important of these is the lack of plant investment, with a mining company's capital sunk mostly in minerals still harbored in the ground. Capital expenditures, therefore, prove no stumbling block during an inflation.

It is this very point, so strong in mining companies, that is the weakest link in the metallurgical business. The firms in the latter industry were highly dependent upon periodic financing to increase their capitalization from time to time. Yet increases in production were not nearly commensurate with capital additions, while the ever rising interest rates on new funded debt became more and more burdensome. Capital was raised, too, by means of new stock issues, but companies found it difficult to pay sufficient dividends in keeping with the times, so that even by 1929, three years after stabilization in France, stock dividends were still far from gold parity with 1913. As a consequence, stabilization saw French iron and steel works stocks selling at an average price of only 95% (1913=100) for the year 1929.

Much of this demand for new capital came as a result of the war, with the subsequent need for rebuilding ruined plants. However, the heavy iron and steel works of France were not merely handicapped by the situation in the capital market. They suffered, too, from competition at the hands of Germany and Belgium. Conditions were somewhat improved for the French steel works when a European steel cartel was formed in 1926. Competition was then not nearly so damaging, as France was allocated a fair share of the business available. In response to this development, the industry's stock prices rose, but capital considerations kept the securities from reaching a really good investment status throughout the inflation.

In line with iron and steel, other heavy goods industries did quite as poorly. Shipyards, in particular, fared badly. French shipyards offered the worst possible investment during the inflation in that country, with the average stock price in 1926 being only 34% of the 1913 level.

The need for new financing proved a dreadful blow to not only the steel industry, but also the up-and-coming automobile industry in France.

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Security Prices and Inflation
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was surely in need of new capital, and this, being available only at a high price, reacted most unfavorably on automotive stocks. With the inflation having taken its full course, the stock of a single large automotive company sold, on the last day of 1926, at only 98% of the 1913 price, while the dividend on this stock had advanced to no more than 156% of that paid in 1913.

In France the chemical industry, too, was new at the time, and therefore had the same heavy capital requirements. Nevertheless, it was a promising industry, and people were willing to pay more for chemical stocks than earnings would warrant. Though chemical stocks, in France were a fair protection against capital depreciation, they still suffered from low yields due to the need of borrowing at high interest rates. German chemical and dyestuff companies, on the other hand, were more mature and thus less hampered by capital requirements. Some had already built up a good foreign market for themselves, and this paid off particularly well during the wild inflationary excesses taking place in Germany. Export sales were made in foreign currency, the latter generally being more stable than the domestic paper money. As a result, some chemical stocks more than maintained their gold investment value by the end of the inflation, and their yields, too, proved satisfactory. Meanwhile, those chemical companies depending solely on the home market fared considerably worse than those with an export market to draw upon.

No more complete contrast could be found than between the French automobile and chemical industries on the one hand and the French textile industry on the other. The latter was already well-established, mature, and no longer in need of continuous capital additions at high interest rates. The industry further served an excellent market, both domestic and foreign. The domestic market was especially enhanced during the inflationary years, due to the fact that people of smaller means, looking for tangibles to hoard, turned in great measure to textiles. These proved ideal for this purpose, inasmuch as they are a compact and durable commodity suitable for storage, and they are necessities of life, thus giving value to the owner for his own use, as well as offering value in barter exchange common during inflation. With these factors in their favor, textile stocks by 1926 had risen to an aver-
age of 442% of prewar prices, and continued to climb to 988% as an average for 1929 — the very best showing on record in the French inflation for an industry as a group.

Profiting also from the
ttractive market for tangibles were the fire insurance companies. While home owners began to save this expense as the cost of living rose, commercial enterprises went in for more and more protection against fire losses. To meet the new demand for goods, industry expanded, and insurance policies were written to cover new plants. Furthermore, fire insurance contracts run for short terms, and, as these were rewritten, property values were continually raised as replacement values increased while currency depreciated. This meant, too, that premiums increased, since these are based entirely on the replacement values stated in the contracts. Meanwhile, fire losses did not increase — correspondingly, as the public was seized during inflation by a desire to guard the highly valued tangibles.

Fire insurance companies benefited, too, from the basic nature of the business itself. The business consists of writing contracts that guarantee future payments contingent on losses being realized. In order to back up these guarantees, it is necessary for a fire insurance company to build up and maintain capital and surplus in a safe proportion to the value of premiums written. This capital and surplus is invested in securities, and the income from these is generally entirely available to stockholders. With dividends being paid from the earnings on invested capital and surplus, the rise in long-term interest rates during inflation made possible increased yields on fire insurance stocks. Then, too, when conservative policy dictated adding some of these earnings to surplus instead of paying them all out to stockholders, the new surplus

again afforded opportunity for more investments at favorable interest rates, the basis for still more attractive dividends in the future. Thus fire insurance company stockholders found not only their capital safeguarded against depreciation, but their income was also well protected against loss of purchasing power. In Italy, for example, the Adriatic Company did not miss a single dividend throughout the inflation, and payments multiplied 10 times in terms of the paper currency by 1929, while the book value had increased more than six and one-half times. This increase in value was considerably more than the increase in the cost of living in Italy, so that holders of fire insurance stocks even improved their position in spite of the inflation. Fire insurance companies in other countries fared similarly well, though in Germany these stocks were at first slow to

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As wages increased and people bought the new autos, they wanted also the protection against the accidents that follow in the wake of the establishment of this industry. In addition, casualty insurance companies share with fire insurance companies the advantages of writing short-term contracts so that premiums may arise correspondingly as costs increase.

It was the long-term contracts written by life insurance companies that spelled ruin to some of the insurance companies found their income dwindling in the face of highly inflated costs of operation. Those companies which made the most of the hedging possibilities existent within the rules came out best, though life insurance companies as a whole were not a desirable inflationary investment.

III.

Securities That Proved the Best Inflation Hedges

As currencies depreciated, it became necessary not merely to invest for the purpose of maintaining income or increasing capital. Instead, the immediate concern came to be the matter of simply maintaining existing values through wise hedging operations. Stocks on an average proved a highly incomplete hedge, with stock prices increasing only one-fifth as much in Germany as wholesale prices, while similar disparities were apparent in other countries having inflated currencies after World War I. However, even on this average, stocks proved a partial hedge as compared with the complete loss of value of the German currency.

Nevertheless, certain industries offered better hedging possibilities than others, and even within a single industry individual companies presented opportunities of different degrees of security. In arriving at the most suitable industries, various attributes must be considered, perhaps one of foremost being freedom from regulation. As the purpose of regul-
lation is generally to keep costs to the public down despite increased costs to the industry, the earnings of regulated industries are seriously affected so that stock prices are retarded and the owners' equity is diluted.

Highly important, too, is the age of the industry itself. A developing industry is constantly in need of new capital which must be obtained during an inflation despite the high cost, thus not only thwarting a great burden on the earning capacity of the equity shares, but also going to the extent of diluting that equity. To combat inflation, accumulated reserves are a prime requisite, and to achieve a highly liquid position, it is necessary for an industry to be mature and not in need of frittering away needed reserves on development and expansion.

As operating costs rise, reserves can then be drawn upon if need be. During inflation these dwindle to the vanishing point, even in a mature industry and a strong company, so it often becomes necessary to go into debt to meet operating costs. Therefore, a low debt at the outset is a prerequisite for a good inflation hedge, otherwise an increasing debt structure may become topheavy and interest requirements an undue burden.

Nevertheless, exceptions do exist to the general hypothesis that debt is undesirable during inflation. Debt incurred specifically for the purpose of acquiring operating equipment and consequently to be paid off out of operating income stemming from this same equipment, is actually desirable, as it can be repaid currently with the depreciated money.

As reserves are easily dissipated through rising operating costs, it is desirable to avoid companies whose earnings lag appreciably behind cost increases. Wages are among the most rapidly rising cost items during inflation, and it therefore becomes advantageous to invest in companies having a low wage cost. Mounting taxes, too, dig a big hole into cash reserves and reduce liquidity, so that a low tax liability is another advantage contributing toward making a stock a successful inflation hedge.

Not only is the liquid asset position important, but general physical assets are all significant. Companies possessing large mineral resources are in an especially good position, as costs of raw materials have already been incurred at far lower prices, while other types of companies must purchase their raw materials currently at higher and higher prices.

Large investments in plant tools, equipment, and inventories are advantageous; but companies with small manufacturing investments and dependent for income rather upon intangibles such as good will and large advertising and selling campaigns have little to fall back on during inflation, and their securities constitute poor hedges.

Industries needing only a short period for both production and distribution are naturally at an advantage as costs cannot rise appreciably before the product is marketed. If the production and distribution interval is too long, costs rise and when the product is finally sold, it does not realize an amount sufficient to replace the inventory depleted in producing it, insofar as prices are based on actual costs. A similar principle applies also to service companies, which face infinitely better if they operate on short-term contracts, renewable as inflation progresses on terms more in keeping with actual conditions.

When the going gets too difficult, it may very well become necessary for a business to suspend operations until conditions improve.

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Security Prices and Inflation

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Securities and storable goods are generally well off during an inflation, as are those which perform essential services. Production of non-durable necessities continues as these goods require replenishment, and production of durable necessities increases as hoarding sets in. The desire to protect these hoards also favors companies offering services such as insurance against fire losses. While these are the requirements for an industry as a whole, it is necessary also to scrutinize the various companies within a desirable industry in order to arrive at wise inflation hedges. In order for a particular stock issue to qualify, the company must be strong and well-established and preferably an old one, with a well-developed export market an extremely valuable asset besides. A new company seeking to gain a foothold during an inflation starts out with two strikes against it because of high capital costs. A well-established firm does not face this difficulty, and its stocks reflect this fact. It should, in addition, be in operation to prevent non-operating costs from diluting capital.

Yet without a good management, even the soundest company would soon go on the rocks. Conservatism, however, does not constitute the most desirable attribute of good management during an inflation. On the contrary, conservatism may spell ruin in such times when the best investments during normal times become virtually the worst. Management must, above all else, stand ready to accept inflation for what it is, and change its policies accordingly. It must not follow the widespread rush into tangible assets, as unwise expansion of productive capacity will prove a burden during the inflation, and particularly after the war. Industries whose products were formerly hoarded can no longer find a ready market. If a flight from cash is to take place, it should be in the form of plant and equipment improvement and modernization, or in the form of inventory accumulation, but an increase in production facilities should be shunned. Even so, the most important problem facing management during inflation is the matter of keeping the company in a liquid position to meet all emergencies. In the light of these

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Ordinary bondholders, however, had to satisfy themselves with a 2½% parity. Meager though it may seem, it was, nevertheless, a sizable concession, considering that the currency was stabilized at one trillion paper marks to one new mark based on gold bullion.

More important still than the vague possibility of a favorable settlement working to the advantage of bondholders is the serious predicament of a post-inflation business recession and a dumping of stocks. Companies that produce goods in which the wage-earner hedges experience a serious slump in demand as soon as stabilization gets under way. Instead of investing more in these goods, people begin to use up their hoards, so that the inflationary prosperity of these companies disappears, earnings diminish, and stock prices fall. Not only does the demand for these hoarded goods decline, but the same goes for demand in general. An inflation leaves a country generally impoverished, so that those companies which expanded productive facilities during inflation find an excess capacity on their hands. Even where such expansion did not take place, sales decline, profits drop, and stockholders generally begin to suffer.

With stabilization the need for hedging in securities also vanishes, and the temptation to sell securities held through the inflation is very great. Stock prices fall sharply with such a selling wave, and equity values disappear. It is therefore necessary to beat the gun on selling out common stocks before the first overtures on stabilization are made, or else to hold the equities for a year or two until the market settles down to normalcy. But even then, (Continued on page 32)

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Security Prices and Inflation

(Continued from page 51)

decaying earnings in an impoverished country loaded down with excess capacity make the first proposal the wisest choice.

While common stocks provide the best hedge over the inflation years, it is, then, important to sell them at the right time when they are still high-priced, before stabilization turns profits into losses. Thereafter, bonds become more advantageous, with their prior claim on limited earnings and the obligation to be repaid at maturity, repayment after stabilization no longer adversely affecting the bondholder because of the low purchasing power of a depreciated currency.

The post-stabilization speculative boom in France, however, led stock prices even higher than they were during the actual inflation, so that in France stocks remained a profitable investment, but the bull market made the bonds also progressively more attractive. France meanwhile experienced also a period of increased production.

V. Wisest Investment of Money To Keep Capital and Make It Grow

With fixed interest rates dragging down bond prices and with the money markets eased up, it became impossible to maintain more than a small fraction of the value of a fund if this was invested in bonds throughout the inflationary period, regardless of whether the locale was France, Germany, Austria, or Italy. Therefore, capital growth was completely out of the question as far as bonds were concerned. Similar fixedness on the part of preferred stocks also ruled these out as possible satisfactory investments.

For both capital maintenance and growth, reliance had to be placed in common stocks. Prices of selected groups of stocks tended to move with the cost of living and with gold exchange rates. To the extent that the stock prices kept up with the latter, invested capital was maintained; and some capital gains were indeed possible during inflation, as was the case particularly with fire insurance and mining stocks.

While selected textile and chemical stocks also offered growth opportunities during the temporary prosperity experienced while inflation was in progress, this growth ceased upon stabilization, when hoarding ended abruptly and dumping began. Newly erected plants were forced into idleness and abandoned as purchasing power became insufficient to absorb the increased production. Company earnings fell off sharply, as may be witnessed from the fact that virtually no company paid dividends in the year of German stabilization.

Under the circumstances, stock prices experienced a sizable slump (entirely collapsing in Germany), with stockholders being left with only paper profits, unrealizable as paper currency prices collapsed. It is in these post-inflationary crises that fire insurance stocks proved their outstanding merit.

Fire insurance is so well
entrenched that it is looked upon as a necessary business expense, with the result that fire insurance companies quickly recovered as soon as business showed the first signs of activity after the slump. With this recovery came the rapid restoration of dividend payments, with German fire insurance companies practically all resuming dividends in 1924, though these were lower than those paid during the inflation.

In the light of this remarkable capacity for growth during inflation, combined with the happy faculty of rapid revival after an initial post-inflationary slump, it would seem that fire insurance stocks provide the wisest investment for both the purpose of capital maintenance and growth. In the case of Germany, however, these stocks were closely held and generally unavailable to the public. Under such conditions, the next best choice would be an investment in selected common stocks of mining or manufacturing concerns to provide growth during inflation, with a sale of these taking place before stabilization. A purchase of bonds at that time would, of course, end the possibility of capital growth in view of the fixed principal amount and maturity of bonds. Nevertheless, at stabilization capital maintenance remains the primary objective for a few years until business recovers from the shock of stabilization and the train of events set in motion by this phenomenon. The patterns set by security prices in the continental inflations after the first World War may suggest the patterns that security prices will follow in any inflation when allowance is made for the difference in conditions.

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Growing Responsibilities in Distribution

(Continued from page 15)

Suppose, for example, that by hand labor it cost $750 to produce certain goods in 1870, and $250, or 25% of the total cost of $1,000, to distribute these goods. Then assume that, by development of machine methods, the cost of production is cut to $250. If the dollar cost of distribution remains constant at $250, it still has gone up in percentage of the total cost from 25% to 50%. The cost of distribution appears to have doubled but actually the price to the consumer is down to $500, or half of the original total cost. Innumerable articles which carry a seemingly heavy sales and advertising expense show a gradual reduction in the purchase price of the finished article.

In the 25 years preceding the war, the $1,500 automobile became a much finer automobile at $1,000. In 1910, a tire that would run 2,500 miles cost $65—a cost of 2.6 cents per mile. Before the war, a tire costing $16 frequently ran 25,000 or even 30,000 miles—less than 1/15 of a cent a mile. The $50 camera became a superior one at $175.

You pay ¼ as much for a nationally advertised light bulb today as you paid for an inferior one in 1925. Nationally advertised gasoline, without tax, costs 40¢ less than in 1925. Vacuum cleaners cost $70 in 1927, but superior cleaners averaged $54 in 1941. Electric clocks are 50% lower in price than in 1929. The average price of brand-advertised electric irons dropped from $6 to $2.50 in the 15 years before this war. We can all remember when electric refrigerators sold for an average price of $310—and were reduced to $130 14 years later. Electric washing machine prices were reduced from $154 to $69 in 14 years.

In 1929 the average radio set cost $135 and a few thousand people could afford to buy theirs with a voice from the air. Today the average set sells for $24 and 60 million sets are in use. The price of television sets will undoubtedly show the same trend downward as more and more homes are persuaded to buy.

Thus, one might go on mentioning an almost endless list of commodities and services which have borne a relatively high distribution cost, but have sold for less and less to the consumer. Great achievements in mass production would not have been possible without equally great achievements in distribution. Each is dependent on the other.

A higher distribution expense is the small price Industry must pay for the larger economies of mass production. From the viewpoint of our national economy the important point is that the consumer gets better merchandise and better service at a lower cost.

Percentage Costs Will Continue to Increase

What of the future? During the war years distribution costs were relatively low. Both total sales and the size of the average transaction were larger, due principally to wartime government spending. Furthermore, many services were curtailed or eliminated. Now business must resume its forward march to new markets. The war placed an overwhelming importance on production. We are now unquestionably able to produce for an economy of abundance. From now on the success of our whole economy depends...
Growing Responsibilities in Distribution

(Continued from page 54)

upon the success of the distribution factors.

'Little' about the machinery

for distribution? More than half our sales was to one customerthe

government, and by-passed the distributors. Sales organizations

were largely depleted. Salesmen turned from selling to trying to

keep customers satisfied with-

out giving them merchandise. The

machinery for sales promotion be-

came rusty. Advertising was de-

voted largely to the preservation of

reputation. Selling, not only

grew soft—but often it became

non-existent.

The percentage of the con-

sumer's dollar that went into dis-

tribution undoubtedly decreased

during the war. When people

stand in line to buy merchandise, pay cash for it and carry it away,

not as much will be spent for sales

promotion and distribution service

as required.

It might be pointed out, how-

ever, that if any value is placed on the time of the consumer, and we

had some way of totalling the amount of time people spent going

from store to store, standing in line and burning up gasoline in their

search for scarce merchandise, we would undoubtedly find that the

time required had increased more than ever during the years of

wartime.

During the war, department

store operating costs dropped from 18 to 20%. Now that consumer re-

sistance is increasing, especially on plentiful items, services such as
delivery, credit and returned-

good privileges, which were cur-

tailed during the war, must be

reinstated. New styling, more sales

promotion and advertising will be

required to woo the consumer.

After the war sales machinery

had to be rebuilt, order-takers con-

verted to women, men and

women selected, trained and in-

spired to do more than had ever

been done before.

Much of this has been accom-

plished but in most lines selling

and advertising have not yet been

put to a real test.

One out of every five business

firms now operating in the United

States started within the last three

years. Most of these enterprises

have known nothing but easy

selling and good times. Neither

their products nor their names are

yet firmly established. They have

never faced a recession or a

depression, never grown with

falling prices and liquidating in-

ventories. Countless old com-

panies, searching for ways to

maintain wartime volume, have

launched new products and at-

tempted to invade other fields in

which they had had little experi-

ence. Now they must step out

and sell these items among the

first to be squeezed when sell-

ing again becomes competitive.

Wages rates are advancing in

the field of distribution as they

have in the field of production.

But the opportunity to increase

the output of workers in the dis-

tribution field is less than in the

field of production where me-

chanical improvement will be an

important factor.

Simply by working two or three

shifts daily, a factory's output can

be greatly increased with a low-

rowing of unit costs. No compar-

able opportunity exists in the field

of selling which depends upon

persuasion.

Because of these immediate

considerations we shall deduce

ourselves if we do not realize that

as accumulated waste is satis-

fied, it will be necessary, and ad-

visable, to face an increase in per-

centage distribution costs.

And the basic trend that has

been primarily responsible for the

steady increase of percentage dis-

tribution costs in the past will

continue. The wartime expansion

of manufacturing capacity will

bring a further transfer of costs

from production to distribution.

In other words, lower unit pro-

duction costs will be achieved

through the higher marketing ex-

penses necessary to distribute a

larger volume of merchandise.

A smaller share of the people

will be employed in the factories

and on the farms and a larger

share will be employed in the dis-

tribution and service industries.

Since 1920 the proportion of

our workers in agriculture has

declined nearly three-quarters.

The proportion in manufacturing

has increased roughly two and

eighteen to twenty times but reached its

peak about 1920 and varied little

until the war gave it a temporary

impetus. But the proportion in

trade and transportation has in-

creased about ten-fold.

The Present Situation

Where do we stand today? Is it

possible that we have been so

immersed in the problems of re-

conversion, so enchanted by our

contemplation of the unfilled

(Continued on page 56)
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Growing Responsibilities® in Distribution
(Continued from page 55)

and planning that it had before
the war?

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ously responsible—
and oppor¬

tunities—which are the greatest
We have ever known and months
will require a stepping-up
of selling and adver¬
tising.

But if we increase and intensify
our selling and advertising, what
are our chances of success? Is the
potential there?

The market of today is vastly
different from the one we knew
in 1940. Let's make some com¬
parisons.

It is estimated that by July 1,
1947, the sales of new homes
will have grown by over 12 million,
from 13,273,270 to 14,421,000—or
an increase of 9 1/2% in con¬
sumers. The number of family
units will show a net increase of
757,000 homes from 1940 to 1947.

Since 1940 six million people have
moved from rural areas to the
cities where the pattern and
standard of living are quite dif¬
ferent. Ten million old customers
have gone to their reward, 21
million babies have been added
to the market and 12 million couples
have been married. About 13
million more civilians are em¬
ployed in non-agricultural pur¬
poses. With weekly earnings en¬
creased 73%, and 36% more
people employed in non-agricul¬
tural work, there has been a 135%increase in money income to
the aggregate of non-agricultural
workers.

The income of the people of
the United States stands today at
an all-time high of 817 billion—an
increase of 131% over 1940. After
adjusting for higher taxes and
living costs, we still have a sur¬
plus income for discretionary
spending or saving of 80 billion
more than two or half times the
highest prewar level—backed
by the largest volume of savings
in history.

This is a market with a poten¬
tial such as we have never known
before. Retail dollar sales are up
through unit sales and manufactur¬
ers' sales in some lines are down.

The question is this: Will people
continue to buy or must we cur¬
tail our wartime production level
of 2000 billion and provide em¬
ployment for less than 800 million
civilians?

In many lines this is an adver¬
tising problem. We are dealing
with people—their individual
needs, whims, desires and abili¬
ties to buy. If we doubled the size
of our sales organization we
would not necessarily double the
inclusion of people who buy or
consume. We cannot continue to
sell the trade unless the consumer
continues to buy. We must resort
to informing and persuading the
(Continued on page 57)
Responsibilities in Distribution

(Continued from page 56) ultimate buyer. Advertising uses mechanical methods to deliver these messages to the millions. It is the counterpart in distribution of the machine in production. We have the greatest potential market that American business has ever known. But even though people have money, they must also have the desire to buy.

The millions of families that have moved into higher income groups have not automatically taken on the living standards of those groups. In fact, experience shows that such families tend to retain their old living standards until they are influenced to attain something better. But once they have learned to enjoy a higher standard of living, they will work much harder to maintain it. These millions of families offer an enormous new potential market for all kinds of goods and services. But whether they buy your merchandise or your competitor's, or use their new surplus in other ways, will be largely determined by how aggressively you go after business.

How long since your sales organization has really been geared up for hard-hitting selling? What are you doing about those 12 million newly married couples and those 21 million babies? They aren't going to buy your products just because their grandparents did.

Is your advertising plan based on your present production capacity and your present market potential or on what you spent under very different conditions in the years before the war?

In the peace-time years between World Wars I and II advertising expenditures averaged about 3% of national income. Last year's national income was $165 billion.

If the peace-time ratio of advertising to national income had prevailed, last year's advertising volume would have been $4,500,000,000.

Actually, it was only $3,120,000,000.

One reason is undoubtedly that the seller's market continues in many lines. But, month by month industry is satisfying more and more of the pent-up demand.

If these figures may be considered as an index, then they would seem to furnish evidence that our marketing machinery has not yet been stepped up to meet the buyer's market—or to tackle the increased load placed upon it by our wartime increase in production facilities.

I think it is well to consider these things which affect our entire economy. But I also know it is impossible to generalize. Each business is different. Some may (Continued on page 56)
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Growing Responsibilities in Distribution
(Continued from page 57)
find it necessary to curtail production and hold back selling and advertising effort until inventories are reduced. Many others will find it advisable to increase their sales promotion and advertising in order to maintain their present momentum, and help move the inventories.

We have come to a time the question of price again becomes an important one. The public, rightly or wrongly, believes that with the war nearly two years behind us, the recession of prices to more reasonable levels is in order. Most of us are willing to admit that certain things need to come down considerably in price, while other things do not stand to greatly in need of readjustment.

If the public stops buying all but actual necessities prices would have to come down and manufacturer, wholesaler and retailer alike would be forced to sell their goods without regard to costs. The retail trade sensed this several months ago and mark-down sales have become common. It cannot be expected that merchants will replace their goods with merchan-
dize at higher prices. The problem on one side is to find the prices and the type and amount of sales promotion that will keep people buying.

I am not unmindful of the increase in the cost of production. But we cannot lower either costs or prices and still maintain profits by speeches, recriminations or such things as we can only be accomplished by greater output per man-hour. That is the key to the matters in question and a further advance in the standard of living.

No wage that is earned is too high—but it has to be earned. For the long run, prices cannot be reduced in the space of a high level of costs only if the efficiency of both production and distribution is increased.

The sales resistance being felt in some lines is not due simply to the refusal of people to pay the high prices. Some of it is due to the poor quality of much merchandise that was pushed to the market after the war. Merchants want to get rid of it now and replace it with goods that will give satisfaction. Their customers don't want it for they believe that soon the well-known, dependable brands offering sound values will again be available. In fact, they suspect they may already be in the warehouses or sometimes even under the counter.

Most authorities on the economic outlook predict that the corrective adjustment which we are now experiencing will be followed by a long period of prosperity. Their reasons are that the unfilled demand for goods is unprecedented and that 11 million more people are gainfully employed at higher wages.

If these views are correct then they offer added encouragement to sales executives who have their eyes on the future. And they make clear that for the coming year, objective number one should be to maintain and strengthen relations with trade and consumers—sometimes even at the sacrifice of temporary profits.

I am not an economist and I shall make no attempt to predict the future of business. But of this I am sure. We are going to have more competition than we have had in the last seven years. Some of us will have more than we ever knew. We can't go far wrong if we base our plans on that premise.

Eliminating Operating Wastes

Although I believe that the trend of percentage distribution costs will increase, let us make no mistake about what it is going to cost us. We have the opportunity to reduce unit costs in distribution, as in other operations, there are wastes in operating efficiency. The cost factors that influence the movement of

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goods from factory or farm to consumer have usually not been as accurately measured as those in primary production. Scientific controls, which have been so important in reducing production costs, are not yet as widely used in the processes of distribution. Infinitely more time and money have been spent to reduce production costs than the similar attempts to reduce distributing costs. Since the share of the consumer’s dollar going for the costs of distribution has gradually increased to 59%, there should be a corresponding shift in research effort to the marketing field.

More and more sales planners are using the engineering approach—informatory cost-accounting, objective fact-finding, market analysis, experimentation, testing. In this field lies the chief hope of slowing down the percentage increase in distribution costs.

You know the importance of finding your market, determining what it wants, designing your products to meet consumer needs, and pre-testing products, packages, advertising and selling techniques. The elimination of waste calls for continuous advertising to a carefully selected audience—not extravagant, stop-and-start effort or campaigns that are spread too thin to be effective.

It requires making sure in advance that a new product is something that prospective buyers want or can be influenced to want, at the price it is to be offered; that it has one or more unique advantages that will give it a chance in competition with similar products; that its quality will be consistently satisfactory; that it can be delivered to the trade at the time promised and be easily available when the consumer reads the advertising or hears your radio commercial.

These things call for simple common sense, careful planning and coordination, but how often these basic principles have been violated—especially during the last three years, in the effort to rush new products to market. We eliminate waste too often when we refuse to tear down our competitors by negative selling and when we bring about a better understanding of distribution by the critics of our competitive system.

Yes, there are wastes in distribution. But they are the same kinds of wastes due to bad judgment, insufficient study, inadequate planning and inefficient administration that can be found to some degree in all operations.
What's Ahead for Utilities?

(Continued from page 14) one company’s slogan reads, “is our business.”

According to a joint survey of the SEC and the Commerce Department, the new capital investment of electric and gas companies alone in 1945 was slightly above a billion dollars or almost double the previous year’s expenditure and greater than any previous year. It estimates the 1946 figure will be exceeded in 1947, and should reach a total of more than $1.5 billion. This is a large amount of new capital investment. At least two-thirds of it must be obtained from investors. Whether the expansion program of the individual companies can be carried out will thus depend not only on the condition of the capital market (which has been abnormally sluggish, considering the level of business activity and prosperity) as well as the availability of new equipment and construction materials. Under the present low interest rate pattern, it would appear to be wise policy for companies contemplating expansion to do their financing now, but, having in view the results of recent offerings, such as the New York Telephone bonds, together with the general activity of investors, there is a likely chance, unless conditions change, that absorption of new capital issues, whether stocks or bonds on the scale contemplated will be slow and difficult.

Another factor affecting the problem of acquiring new investment capital is the question of utility company capital structure. The low level of long-term interest rates leads to the temptation to create excessive bonded indebtedness. In this matter, the utilities should certainly endeavor to avoid the past errors made in roadbuilding capitalization, i.e., the constant piling up of bonded indebtedness and fixed charges, thereby weakening a utility’s ability to withstand periods of depression and reduced net earnings. But to expand through capital stock issues means current and earnings sufficient to pay ample dividends all other causes. Stocks cannot be sold to investors looking for income returns rather than appreciation. It means, also, that stock dilution must be avoided, since financing by utilities as by any other business through capital stock alone entails normally a lower rate of return to stockholders, who bear the greater part of the risk.

Moreover, it removes the speculative possibility of gains from “leveraging,” or the increase in net earnings that a sudden inflation has a tendency to restrict earnings below a fixed maximum on capital investment leaving thus little hope for continued equity appreciation to the shareholder.

Government Power Policy

A factor in the future of utilities, particularly the electric power industry, is the trend of Federal power policy. Since the late President Roosevelt initiated the Tennessee Valley Authority, with the objectives of launching the Government into business and, at the same time, fix a "yardstick" for rates, Federal issued power projects have multiplied and have caused private companies serious concern. At present there is no clear Federal policy. Recently, Senator Asa Thomas (D-Okl.) has suggested a halt on all new public power projects until an overall public power policy is decided upon. He characterized the present program as "chaotic."

"The Government is getting into a very large public power development," he said, "and there is too much overlapping and confusion. We need an overall agency and policy." He added that every large reclamation project has a public power system, that all projects are administered separately, and that every one of those agencies has a separate Washington (D.C.) office.

"The efficiency of the country will be served by some one overall agency in charge of all these projects," he added, "and it is a matter of time when I am going to introduce a bill to stop further construction of new projects until we get an overall public power policy." Senator Thomas' suggestion of a single Federal Power agency does not mean that government sponsored projects will cease. But, in view of the Republican Party's economy drives and the present heavy cost of construction of all kinds, it is not likely that the proposed "Missouri Valley Authority" or other similar undertakings are in the offing.

Yet, despite the opposition to President Truman's administration against slashing the Interior
What's Ahead for Utilities?

(continued from page 90)

Department's budget for power projects, the electric power industry is fearful that the Senate will refuse to restore the substantial funds requested by the Administration.

The Interior Department's request for $200,000,000 was cut to $100,000,000 for the fiscal year beginning on July 1, by the House last week. Significantly, it was asserted that the Interior Secretary, Julius A. Krug, had "knowingly given the wrong picture" before Congressional committees early in May when he told a Senate committee considering appropriation requests that power generated at proposed sites could be sold for 2 mills per kilowatt hour." This statement was considered deceptive in view of the fact that contracts have been signed recently providing that the Kaiser interests could buy power at the Bonneville dam at 1 mill. Certainly, this form of subsidized competition against private utilities is uneconomical. Whatever policy Congress may pursue with reference to Federally owned and subsidized power projects, one consideration must be borne in mind. If private ownership and operation of public utilities is to continue to expand in accordance with public needs, their earning power must be protected. Rates cannot be continuously kept down to a minimum by regulatory bodies, or indefinitely increased to meet heavier costs imposed by employees' demands, higher fuel costs and governmental requirements. The squeeze on the utility investor will eventually block the flow of capital into utilities as it has already done in the case of railroads. The only alternative then will be government ownership and operation—the first step toward complete nationalization of industry.

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Free Enterprise—A Challenge to Business

(Continued from page 7)

wished to plan the economic life of their citizens, then free speech and free press and free elections can become and often are a menace to the planned program. It is not by accident that such political freedoms are not allowed in the

Soviet-dominated countries. Whether they can be allowed under a democratic socialist system such as that undertaken by England we will eventually find out. Although the present position of England is by no means a fair test, it is significant that Mr. Attlee, the Prime Minister, in planning for an increase in productivity and the direction of effort into the "most fruitful" channels, said last week that this "will involve some sacrifice of individual liberty—by both employers and employees." It is doubly important today that we make our system work. It is important on the one hand because we wish to preserve within this country the institutions which we cherish, but it is even more important that we meet the test in which we are engaged. A system in conflict politically, economically, and spiritually with an opposing system. We must work to strengthen our foreign policy and give aid and comfort to our friends in other nations lost that the spread of communism is not absolute.

The Supply of Money and Credit

At the moment there seems to be little doubt that the private enterprise system is working. It is producing at the highest peace time rate. It has provided the legendary $60 billion war. But remember that we are still engaged by that sacrificial shot in the arm administered by the war and by the necessity of financing the war. We are experiencing the after-effects of the greatest volume of purchasing power that the world has ever seen. We created during the war an abundance of purchasing power, much of which is still held by business and the public, while at the same time we shot away the production which was responsible for this purchasing power. There should be little wonder that we have had a backlog of needs and of demand which seemed almost insatiable and which even today still exists in a great many lines. This same excess of purchasing power, and the desirability of reducing it, has been responsible for the selective credit control. May I remind you that the supply of money and credit in this country is not and cannot under existing law be determined by natural forces. It is subject to the over-riding control of administrative agencies of the Government. Whether we can maintain continued prosperity and stability depends importantly on the wisdom with which we manage the supply of money and credit.

Competition on Way Back

We shall be faced soon with a test for private enterprise on grounds less favorable than those that we have enjoyed during the last year. Competition is on its way back. What will we require in the future in order to make this private enterprise system work effectively? What will businessmen need in order to do their part to make the system work effectively?

We shall need first of all a revival of the spirit of enterprise and risk-taking which is one of the prime justifications for the private enterprise system. We shall need more men who are willing to invest in new products and new processes. The hand of security has touched not only the worker; too often it has touched the investor. We have, for example, an enormous reserve of capital in institutional hands in New England. In 1930
For ‘competition. 

Advantages of insurance companies, banks, government trust funds, endowed institutions, investment trusts and other investment institutions amounted to more than $100 billion. We must find, and we are now trying some way to tap such funds for the new and growing enterprises. We must have an institutional substitute for the merchant capitalist of the past who backed promising local enterprises.

To strengthen the spirit of risk-taking on the part of the investor we shall have to reexamine, if not the tax laws and especially the laws that govern the retention of earnings by small firms for the purpose of expansion, and the regulations governing allowable depreciation.

We shall need a revival of competition and above all a willingness to accept the dictates of competition. For business this means striving constantly for lower prices, for lower costs, for an improved product. It means the labor, for agriculture, and for many businesses a willingness to give up support from the public purse. It may mean lower tariffs, elimination of subsidies on farm products. It means, especially for labor, elimination of restrictions on may do what work. For instance there are well-known situations in some of the building trades where apprentices are not allowed to learn the trades in sufficient numbers to meet the needs of our economy. That the general public is becoming aware of the necessity of action is evident and it is hoped that we may obtain fairly and sincerely a correction of these abuses without the destruction of individual freedom.

The Test of Results

A major test of the system, however, is not the test of method, but the test of results. The system must provide reasonably full employment with rewards to labor, management, and capital which make it continually attractive. If business can remain reasonably prosperous at all times then we shall find enough discontented people to give dangerous support to alternative arrangements.

A system of free enterprise has been continually attacked because it does not provide enough "built-in" stability. We have got to find means of building into the system enough stability to keep it attractive. This is not an impossible job. We can go a long way by smoothing out the peaks and valleys in public construction projects of all types. Your influence could help a great deal to smooth out the peaks and valleys in capital expenditures because financing often dictates the timing of such expenditures.

Building a Backlog for Leaner Times

Along the same line, this is the appropriate time not only to balance budgets, Federal, state and local, but the time to piling up surprises for the double purpose of retiring debt and building up a backlog of expenditures for leaner times that we may face in the future. The recent controversy over the budget and tax cutting is a part of this test of our system. It is not an appropriate time to make large tax cuts, much as we should all like to have our tax bill reduced. I see no reason, however, why we should not have a thorough overhauling of our tax system to remove inequities and to provide incentives to growing businesses and for modernization and expansion of all businesses.

I know that some of the things that I have said are not likely to be popular. They are, I think, the things which we will have to do to preserve this system of ours. Ours is the responsibility. Ours is the opportunity, and if we miss this opportunity we will have missed our chance.

Some long-time students of Lincoln place among his sublime passages the one that closed this 1862 Message: "Fellow citizens, we cannot escape history. We of this Congress and this Administration will be remembered in spite of ourselves. No personal significance or insignificance can spare one or another of us. The fiery trial through which we pass will light us down, in honor or dishonor, to the latest generation. . . . We shall nobly save or meanly lose the last, best hope of earth."

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The Tax Battle on the Potomac

(Continued from page 11) that double taxation, or tax reduction. Cynics may read into this statement the interpretation that the battle is being fought to put the Federal government into a position of greater power, greater prestige, and greater advantage when other agencies in their resistance to budget reduction have failed. It was, but many people here as elsewhere have not read the allegations about defense which Mr. Baldwin now shows to have been an inheritance from the past.

Tax reduction and debt reduction are alternatives. During the 1920's, the reduction in the Federal debt was achieved. Notwithstanding the zeal with which the Admin¬ istration of Mr. Hoover pushed for debt retirement, it proved possible to reduce the debt throughout the income scale in a series of steps. However, the reduction was not as fast as had been hoped, and the government had to provide for the tax reduction and debt reduction on a new scale. The 1930's brought a return to the budget deficit. There is a broad consensus among the Treasury Department, the Federal Reserve Board, the Bureau of Budget and the Commerce Department that the Federal government should have a budget surplus, and that the tax cuts should be phased out.

Truman's fiscal policy is one of reducing the budget deficit over a period of years. There is a strong argument for reducing the deficit to a lesser extent than is proposed, and for reducing the deficit only when it is clear that the economic situation has improved. However, the proposal is a reasonable one and it is unlikely to have a serious effect on the economy.

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The Inflation Argument

The third basis of opposition to tax reduction now is that it would create an inflationary pressure. This curious, and the writer's opinion, wholly erroneous notion got into the recent economic report, probably due to the pressure of some powerful votary. In that report the following statement appears:

"While the American people look forward to relief from the burden of taxes, which would add to the existing temporal inflationary pressures. With all due respect to the economists and the economic ad¬ visors, this is complete and utter nonsense. It implies that the government raises its own revenues rather than let government expenditures produce greater inflationary pres¬ sures. It is a false argument, and even if the government takes purchasing power away from the people, through tax reduction, it spends it in the form of goods and services. It is a higher total demand, for goods and services than exists when the people are free to spend their own income. The simple fact is that taxation is a process which reduces the spending power in the community, and which, therefore, can have no effect upon prices, or upon the demand for goods and services. The payment of taxes by the people, or the use of the tax revenues, has no effect upon prices. The tax system, in fact, makes no difference to the price level, and the amount paid in taxes, or the amount of goods and services purchased with the tax revenues, can have no effect on prices. When the government spends a part of its tax revenue, it is merely shifting the burden of taxation from one group of people to another, but it does not affect the price level. The price level is determined by the forces of supply and demand, and the government's spending does not change the supply and demand relationship. The statement is incorrect, and it is unnecessary to repeat it.

The conclusion is therefore inescapable: The battle to reduce the budget deficit must be fought in the budgetary sphere, and not in the tax reduction sphere. This is the only rational course, and it is the one that will lead to the solution of the budgetary problem.
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