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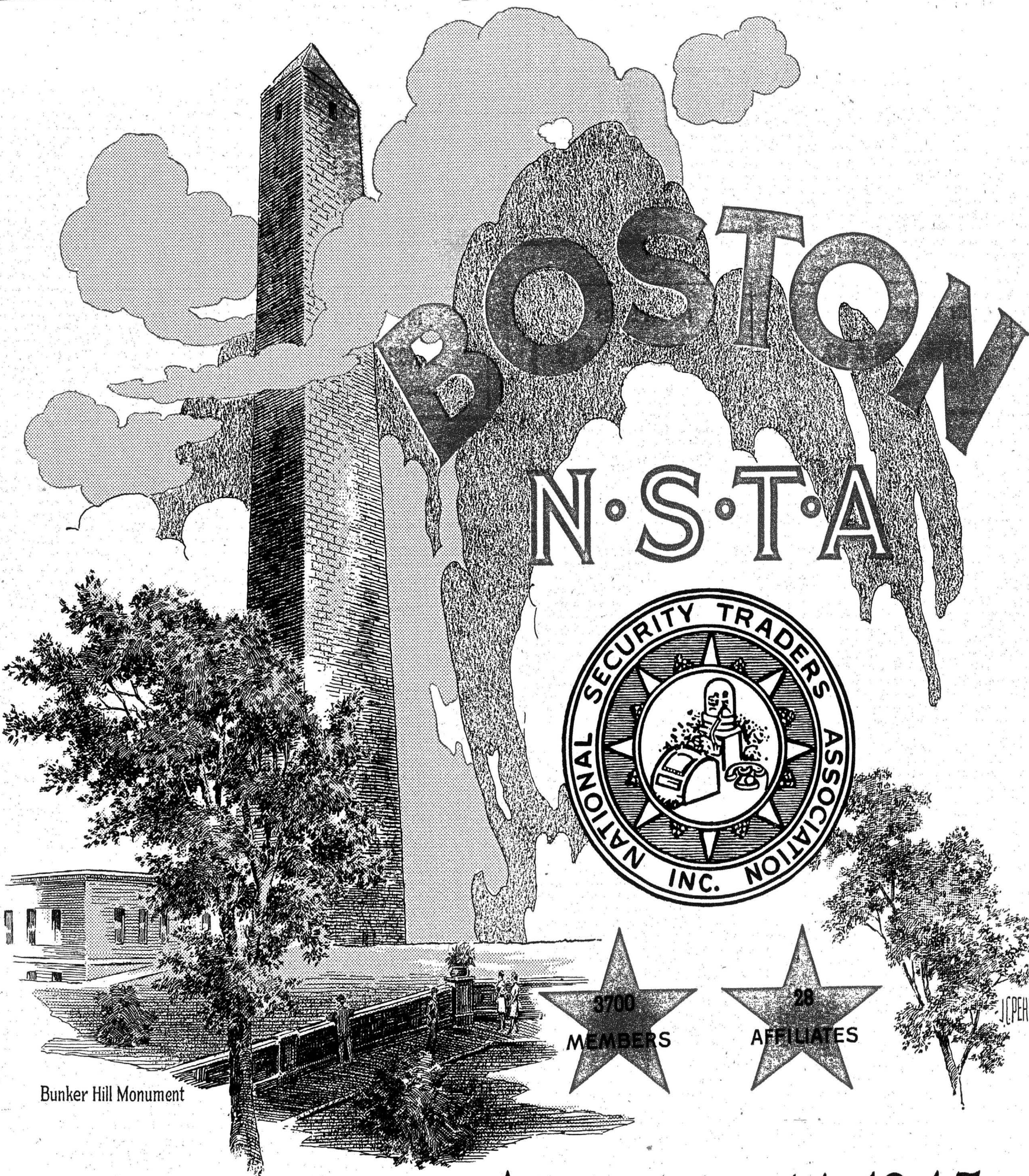

Bunker Hill Monument

Convention · August 10-14, 1947

N. S. T. A. Officers and Executive Council

1948

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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.

R. Victor Mosley

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 it's President again
Of NSTA!

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Deceased

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W. W. Cruttenden
Cruttenden & Co., Chicago

Thanks for the Cooperation!

We have often heard it said that our industry is either "a feast or famine"— and with this in mind your Advertising Committee planned with Herbert Seibert, the Editor and Publisher of the "Commercial & Financial Chronicle," a Post-Convention issue which we herewith present to you. Last year's results could not be used as a yardstick as conditions this year resulted in smaller profits for many of us; but in spite of such obstacles the members of the NSTA participated in this undertaking to a surprising degree and our NSTA treasury will receive more than its expenditures for the year. The success attained by your Committee this year was due in a large degree to the fact that our membership is taking a much greater interest in our work and such support is naturally accepted by us with much encouragement.

Harold B. Smith

We are pleased to extend our appreciation to Donald E. Summerell, Vice-Chairman, Wagenseller & Durst, Inc., Los Angeles; Thomas Euper, Cohu & Torrey, Los Angeles, and Larry Pulliam, Weeden & Company, Los Angeles, for their efforts in producing the largest percentage of renewals. Recognition with thanks must be given to our Boston Affiliate with Harry A. Madary, Vice-Chairman, Geyer & Company, and Sumner R. Wolley, Coffin & Burr, Inc., demonstrating the second largest producers of ads, when considering Boston was the host of the Convention and the entire financial fraternity of this great city was called upon in many ways to insure a successful convention. We hail our Boston affiliate for the most marvelous hospitality and for presenting one of the most successful conventions of all times. We, the advertising committee, further recognize their most unselfish cooperation and support by using our Post-Convention issue as their only advertising medium. We are indeed very proud of the Boston Security Traders Association!

Vice-Chairmen Clair S. Hall, of Clair S. Hall & Co., Cincinnati; Jack A. Hawley, Equitable Securities Corp., New Orleans, La., and Bert Horning of Stifel Nicolaus, St. Louis, Mo., together with Frank Loveland of Field, Richards & Co., Cincinnati, Ohio; Harold R. Chapel, McDonald, Moore & Co., Detroit; Lawrence N. Marr, of E. H. Rollins & Co., Chicago; Kermit B. Sorum of Allison, Williams & Co., Minneapolis, extended much assistance in securing contracts through their local affiliates. W. O. Alden of O'Neal, Alden & Co., Louisville, Ky. informed us he would do everything possible to arouse interest in our work and we are pleased to state results were obtained. Leslie Barbier of G. A. Saxton & Co., Inc., N. Y., who has received much praise for the many tasks he has accomplished in our own affiliate here—the New York Security Traders Association—was at all times eager to assist your Chairman. My personal thanks to you, Les!

We do not want to overlook the balance of our local affiliate chairmen who were most helpful by informing our members of the program of the National Advertising Committee. Much business resulted through their work and we salute them as Presidents of their local affiliates.

Our sincere thanks and grateful appreciation is extended to Messrs. Beck, Murphy, Riley and Strickland of the Commercial & Financial Chronicle for their work in securing contracts and it is our wish that our entire membership recognize these men in the final analysis as our real productive co-workers.

To the staff members of the Commercial & Financial Chronicle, we extend our greetings; and to the outstanding personality, who for the past several years has been responsible for the greatest source of income to our NSTA treasury, Herbert D. Seibert, Editor and Publisher of the "Commercial & Financial Chronicle" and a fellow member, we extend our most sincere and grateful thanks for his cooperation.

To our advertisers who made possible this effort, we feel greatly indebted and your cooperation is uppermost in the minds of 3,700 members of the NSTA.

We, the NSTA advertising committee, strongly recommend and urge the newly appointed committee to make every effort to obtain commercial advertising for such future undertakings. This is recommended in view of the increasing interest the entire membership are demonstrating and through financial contacts many lines of industry should be displayed in yearbook issues. And now may we sign off with "Hats off to Boston!"

HAROLD B. SMITH, Chairman
NSTA Advertising Committee
Collin, Norton & Co., New York 5, New York.

Vice-Chairmen: Leslie Barbier (G. A. Saxton & Co., Inc., New York 5, N. Y.); Jack A. Hawley (Equitable Securities Corp., New Orleans, La.); Harry A. Madary (Geyer & Co., Boston, Mass.); Clair S. Hall (Clair S. Hall & Co., Cincinnati, Ohio); Bert Horning (Stifel, Nicolaus & Co., Inc., St. Louis, Mo.), and Donald E. Summerell (Wagonseller & Durst, Inc., Los Angeles, Calif.).

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Boston Is Glad You Came!

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

It was indeed a privilege and a pleasure to welcome so many of our guests in Boston at the Convention. I sincerely hope all enjoyed themselves to the utmost.

Sumner R. Wolley

I hope you noticed that the drab gray which covered our State House dome during the war years has been replaced with the traditional coat of 18 carat gold leaf, an indication that come what may elsewhere in the land, "The Hub of the Nation" still sticks to the Gold Standard.

It certainly was hot, but as all Chambers of Commerce would say, "You should have been here that week!"

SUMNER R. WOLLEY, *President*
Boston Securities Traders Association

What They Did at the Convention

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 Association's history.

John L. Shea, Jr.

The delegates started to arrive at the Hotel Statler, which was Convention headquarters, on Sunday afternoon. Special trains pulled in a little late and about 7:30 p.m. the unofficial festivities began with a reception and cocktail party. The feature of this party was the showing of motion pictures of past conventions and a scenic film on the beauties of New England. This was ably managed by Burt Whitcomb, of Blyth & Co., our photographer extraordinary.

Monday morning the Past Officers' Breakfast was held and the National Committee Meeting. The Official Welcoming Luncheon was at 1 p.m. A very interesting welcoming talk was given by Sinclair Weeks, Director of more companies than most people can remember, who recently returned 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 Reid Biggs of Hampton Roads Sanitary District Commission. Both of these addresses appear in subsequent pages of this supplement to the "Chronicle."

Monday evening there was a very pleasant cocktail party and then the Boston Association provided 250 tickets to the ball game (which Boston won) and about half the crowd went to the ball game.

On Monday, the ladies took a trip to Hingham and viewed assorted scenery. From all reports, they had a splendid time.

Tuesday was rather an active day with scheduled visits to various plants, golf tournaments and a sightseeing trip to historical spots to the north of Boston. One Harvard graduate was seen to faint when one of the out-of-towners asked him, "Is the Harvard campus worth seeing?" When revived he said, "You don't mean campus, old fellow, you mean Yard."

J. Arthur Warner & Co. threw a novel cocktail party at the Paddock Club on top of the clubhouse at nearby Suffolk Downs Race Track.

Wednesday there was a special discusion on newspaper quotations which was very much enlivened by the candid remarks of Vic Mosley, our President. There seems to be quite a difference of opinion about quotations throughout the country.

Wednesday afternoon and evening constituted the big day of the Convention for our visitors. Hubert N. Bernard of the Entertainment Committee, his official aide T. Edmund Williams and Mr. Williams' unofficial aide, Mrs. Sally Murphy absolutely outdid themselves with a cruise and clam bake. Believe it or not, they even had a fire-boat and put on an exhibition for the National Traders. There was a historian aboard with a loud speaker who told stories about spots of local interest as we cruised around Boston Harbor for about two hours. This boat trip was a life saver because the climate in Boston, which has been known to vary, changed from the cooler weather of the first two days of the convention to one of the hottest days on record in this vicinity. The boat landed at Pemberton where all disembarked. Tents had been set up. There was an Inn there large enough to accommodate all of those who wished to buy what Traders generally wish to buy. At the Inn, incidentally, there were two bars. Those Traders who shopped around for the best price found they could save 20 cents a drink by going to the smaller bar off the ballroom. The difference was that drinks at the main bar were subject to 20% amusement tax.

About 6:30 a genuine old-fashioned New England clam bake

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Presidential Greetings

The National Security Traders Association, through its President, extends 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."

R. V. Mosley

The Boston Securities Traders Association planned and carried through every detail 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 ingenuity. I present to our hosts for 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 3,600 individuals devoted, I believe, to capacity production of our 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 our current financial condition, 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 a continuation of the wholehearted support of our membership, I am sure the National Security Traders Association has a good year in store for 1948.

R. V. Mosley, President
National Security Traders Association

Investor Confidence in the Securities Market

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

Asserting "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 have attained a professional standard. Acknowledges function of dealers in maintaining orderly markets, and cautions against excessive mark-ups, churning and misrepresentation. Says Commission may be driven by public clamor to adopt market disclosure rule.

The hospitality which you have extended to me fully justifies the great New England traditions. Not only am I gratified personally but I see it as a sign of the time that you and I can get together in a spirit of friendship and understanding to discuss our common problems. There is every indication that the old ringside atmosphere that clouded our relations is disappearing and that the spirit of the conference table is taking its place. On our part I think we have made it clear that we don't regard every securities salesman as guilty of violations of our Acts until he is proved innocent. And on your part, it is becoming increasingly more evident that you no longer believe the Commission to be an officially constituted star-chamber or heartless board of inquisitors, enforcing and administering its Acts unmindful of your particular business problems.

E. M. Hanrahan

Hand-in-Hand Cooperation

We have done away with some of those old notions because over the past 14 years we have come to know a great deal about each other. You have learned that the Commission has earnestly tried to administer and enforce the laws within its jurisdiction with an understanding of the practical problems which have to be faced in your industry and with an eye toward the practical effect of its actions upon your business. We have learned that we can more efficiently accomplish the objectives outlined for us by the Congress by making every effort to understand your problems.

*An address by Commissioner Hanrahan prepared for delivery at the Annual Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 14, 1947.

Associations such as this one have gone a long way toward making the Commission's position understood among members of the industry and making the industry's position known and understood by the Commission. In this spirit of hand-in-hand cooperation, I feel that we will finally achieve what is desired by us all, namely, a fair market in which customers have complete confidence, a market in which the public interest and the interest of investors rather than immediate profits is the primary aim of those concerned.

Your association has recognized for a long time, I am sure, that people in general will not invest in a dishonest market. They will not enter the securities field unless the rules of the game are fair and above board. They want to know what they are buying and they want no part of tailor-made markets. They want a security whose price is fixed by the untampered influence of the law of supply and demand. Above all, they want fair play in the securities field. They are entitled to it. No one can deny that and, of course, it is our job as referee to see that they get it.

Like any referee we recognize that it is extremely unpopular and unnecessary to blow the whistle too frequently for minor inadvertent violations of rules. We don't like to do it. You know how sparingly we call a "foul" and impose a penalty. It's true that this is accounted for chiefly by the general improvement in the game since 1933. The violations are not nearly so flagrant as formerly. The rough and tumble era appears to have passed. The players are now more sophisticated—more cognizant of their fellow players' rights and of the interests of the bystanders. Violations of the rules still occur to be sure but they have the air of refinement about them. They are a bit more difficult for us to uncover. And it is much less seldom than of old that the referee's whistle is heard. Let no one be deluded into believing that this results from any lack of proper supervision on our part. We have been on the job, I can assure you, and we propose to stay there to see to it that those few of you who cannot play fair and square are removed from the game.

I think it is a common belief among members of the Commission that the years have brought about a steady rise in the internal standards and morale of the securities business. The thief, the deliberate sharper, are now by far the exception. They come, of course, with every new generation and, like taxes, we know they will always be with us, but as time goes on they find life harder and their professional environment less congenial. I believe that associations like your own have assisted and will continue to assist in large measure in their removal from the field.

Diligence Not Be Relaxed

We can never afford to relax our diligence in investigating violations and enjoining them or bringing them to prosecution. That function is important to us in our sworn duty to administer the law. It is an important bulwark of public confidence in the securities profession that the public be assured that any wilful violation will be punished.

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 customer service within 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 them in bills for injunctions or in 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 as yet unable to abide by the rules of the game and are incapable of exercising a directing, restraining, and governing influence over their own personnel.

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 consistent with the public interest to judge them by any other standard. They must not take advantage of the customer's lack of knowledge and thereby obtain profits for themselves in the market. They are, of course, entitled to a profit by being fairly compensated for their services. But that compensation should not come from excessive charges made possible by concealment of material facts and 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 principles become part of their business alphabet. Yours is but one such association among several in a great business, a business which I believe to be essential to the existence of our present economy. Your business has played an extremely vital part in the growth and development of this nation. It affords a ready medium whereby investor capital can be placed behind production in growing industrial and other types of corporation and business enterprises. It has also afforded an ever present mart where security holders may dispose of their securities as needs be.

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 public bewilderment in the field of finance, a bewilderment which was born of a recognition that the choice of proper investments from the thousands of securities now outstanding is one which can best be made by experts in the securities markets. Since your business has throughout the years successfully sought to foster this dependence of public customers upon the professionals with whom they deal, you must give recognition to the responsibilities which spring from that dependence. This can best be done by keeping the securities market orderly and clean and by maintaining high standards of professional conduct in your customer relations. Give the customers the information they need to have when buying and selling securities. Buy from or sell to them, and purchase or sell for them at the fairest price possible. Put yourself in the customer's shoes. Deal with him as you would have others deal with you under

(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.

L. F. Whittemore

There is probably no other business group in this country that has a greater interest in the subject which I have chosen for my remarks this afternoon than the National Security Traders Association. Your business is essentially the marketing of capital, and a private market for capital — for the securities of business and government in which you deal — is not only your bread and butter; it is the very core of a private enterprise system. It is also a manifestation of the democratic process, for investors, by voting their dollars, determine both the volume and kind of industrial expansion we shall have.

I have had considerable interest in the industrial side of security issues and have known for years many of your members. I know, therefore, that no words of mine are needed to sell you the private enterprise system. I have often thought that the day-to-day conduct of you business tends to concentrate your interest upon the paper in which you deal at the expense of your interest in the real assets which the securities represent, the government policies which may aid or hinder you, and the future welfare of the American way of life in which we all have firm faith and a material stake. I am going to talk to you, therefore, about some of the fundamental issues which challenge the continued strength and growth of our free private enterprise system.

A Challenge to Free Enterprise

The present situation is a challenge to all who believe in the American system of free enterprise as 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 confusion 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 into byways of disagreement, selfishness and shortsightedness stimulated by the clamor of organized minorities. If our economic system is worth saving, and most of us think it is, we must bring back completely the checks and balances of competition and the forces of supply and demand. The nearer we come to a free economy the more nearly we will be able to get along 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 was circumscribed by the pressure of organized minorities properly or improperly seeking special favors for special groups. The present seems to be a good time to bring about 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 assumed by 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 to imply that public sentiment has turned to the right might 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 we 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 business occupied the position of a cooperative but—at least in the years before the war—critical opposition. Now business and industry once again have the responsibility of which they were relieved when the central government took the initiative.

The change in public sentiment in this country in favor of the continuance of a free private enterprise system is in direct contrast to the changes which occurred in almost every other major industrial nation in the world. Go down the list of the major industrial countries—England, France, Russia, Germany, Italy, Japan, even Australia and the growing nations of South America— all have adopted either a completely socialistic economic system or are well along the road toward central government direction of all economic affairs. This nation and Canada stand almost alone in their faith in the revival of the private enterprise system.

Merely to catalog the countries that have turned toward government control of their economic affairs, however, fails to tell the whole story of the importance of those parts of the world which still rely on private enterprise. We should not forget that this nation alone accounts for almost half of the world's production and of its income. Our economic weight, if used properly, is sufficient to counterbalance most of the rest of the world. What we do here will probably determine the future of the private enterprise system and to a large extent the future of the democratic system of government.

Winston Churchill in his speech before the House of Commons on Aug. 16, 1945, giving his final review of the war and his first major speech as leader of the Opposition, described thus our opportunities and responsibilities. He said: "The United States stand at this moment at the summit of the world. I rejoice that this should be so. Let them act up to the level of their power and their responsibility, not for themselves but for others, for all men in all lands, and then a brighter day may dawn upon human history. * * * Our pilgrimage has brought us to a sublime moment in the history of the world. From the least to the greatest, all must strive to be worthy of these supreme opportunities. There is not an hour to be wasted; there is not a day to be lost."

I need not remind you of the glorious past and the magnificent promise of the private enterprise system. That it has produced for this country the highest standard of living known to the world is a matter of common knowledge. It is too little understood, however, that it has also made possible a degree of freedom for the individual which may be lost or at least endangered under almost any system of centralized control of economic life.

The system is not perfect. It was formerly accompanied by poverty for many, by insecurity, by exploitation, and, as I need not remind this audience, by a good many shady deals in securities. You need not look far back in our history to find out why we have these gentlemen from the SEC here.

Failings of Free Enterprise Overemphasized

In spite of the fact that our system has achieved so much for the majority, its failings have often been overemphasized. Such overemphasis has resulted in the most ambitious system of aid from both governmental and private sources for children, the old and infirm, for the unemployed and for the indigent that the world has ever known. The major failings of the system, to the extent that they can be corrected by legislation, have been corrected. Many believe that we have tried to do too much by legislation, and with this view I have some sympathy.

The attraction to the rest of the world of the American way of life despite its failings can be measured by the competitive test with which all businessmen are familiar. That is the test of the market. When there were no bars to immigration there was a constant flow of people from all parts of the world to these shores. No matter how dissatisfied we were and are, to those people America

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*An address by Mr. Whittemore prepared for delivery at the Annual Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 14, 1947.

Security Prices and Inflation

By IVAN WRIGHT and MARGOT HENN

Dr. Ivan Wright 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 in acquiring common stocks is emphasized and authors conclude established companies with reserves of working capital and plants in sound physical condition are best able to withstand severe depreciation and a post-inflationary slump. Hold fire insurance stocks in post-inflationary crises constitute a good inflation hedge.

I.

The Effect of Inflation on Security Prices

During any economic crisis, whether large or small, the securities market acts as a sensitive barometer, recording 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 commodity, and retail commodity markets come to bear upon the securities markets. 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 fear of inconvertible paper money. As minor inflationary tactics gain momentum, all of these four factors are brought into play simultaneously each one aggravating the effects of the other. 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, irons itself out by way of higher prices. The scramble into tangibles also precipitates a more rapid circulation of the monetary medium, which has an effect identical to that of a further increase in 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 six times the 1913 level; while in Germany wholesale prices had, by December, 1922, reached the 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 1.5 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 money—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, likewise 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, 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 particularly necessary to distinguish between securities representing debt and those representing equity. For the most part, stock prices rose while bond prices fell.

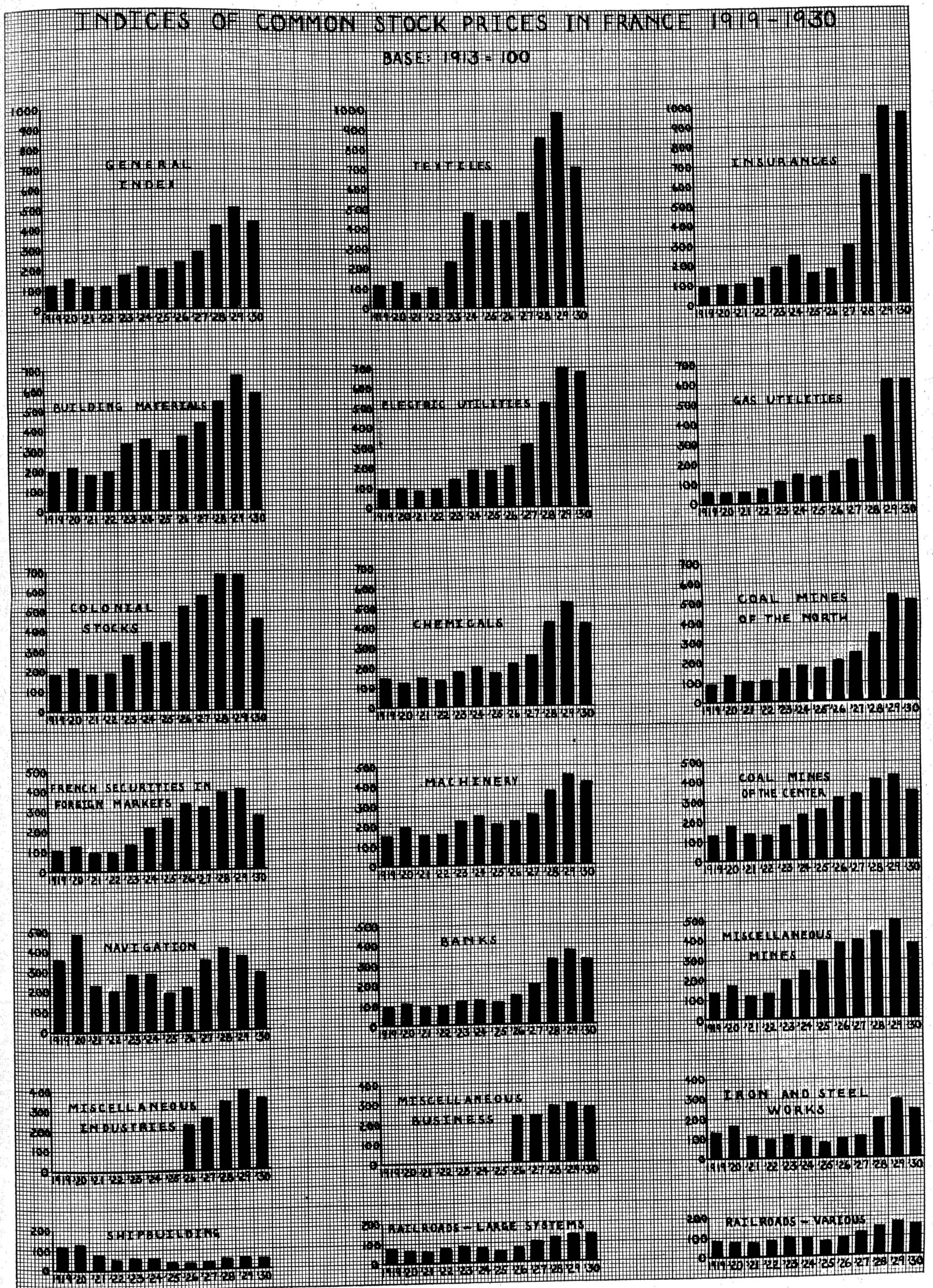
Bonds were at a disadvantage because of the sharp rise in interest rates accompanying continued government borrowing. Interest rates rose to as much as 10% in France and 40% in Germany. As a result, prewar bonds, carrying the low rates then prevalent, were sold at considerable discounts to make up for the discrepancy in the interest rates. Bonds suffered, too, from the likelihood of their being paid off in cheap money, thus sharply reducing the purchasing power of the principal when repaid to the creditor.

Stocks, on the other hand, presented none of these difficulties. Being shares of ownership, there was no danger of their being paid off in cheap money. Carrying no fixed interest rates based upon past conditions, there was no need for them to be sold at a discount. Indeed quite the opposite was true. As inflation progressed in the various countries, stock yields increased in terms of paper currency. Prices of finished products rose, and in many instances higher profits were realized on paper, so that increased dividends were paid out.

Nevertheless, stock prices did not rise as rapidly as the currencies depreciated, nor as rapidly as wholesale prices responded to the monetary inflation. They persistently lagged behind, and, upon the revaluation of the various currencies, never did reach their full proportionate measure of price increases. At the time of currency stabilization French stock prices had, on an average, increased to only 250% (1926) of the 1913 prewar level as compared with 800% for wholesale prices; German stocks (1923) on an average fared even worse, inasmuch as they only reached approximately one-fifth as high percentagewise, in terms of the 1913 level, as did wholesale commodity prices. To put it differently, in terms of the cost of living at stabilization, stock prices in France dropped to about 45% (1926) and in Germany to about 35% (1923), 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 jaunt. The experience of the inflation did not deter the country from riding the crest of a wave of increased production and speculative fever.

(Continued on page 43)


INDICES OF COMMON STOCK PRICES IN FRANCE 1919-1930
BASE: 1913 = 100
GENERAL INDEX
TEXTILES
INSURANCES
BUILDING MATERIALS
ELECTRIC UTILITIES
GAS UTILITIES
COLONIAL STOCKS
CHEMICALS
COAL MINES OF THE NORTH
FRENCH SECURITIES IN FOREIGN MARKETS
MACHINERY
COAL MINES OF THE CENTER
NAVIGATION
BANKS
MISCELLANEOUS MINES
MISCELLANEOUS INDUSTRIES
MISCELLANEOUS BUSINESS
IRON AND STEEL WORKS
SHIPBUILDING
RAILROADS - LARGE SYSTEMS
RAILROADS - VARIOUS

How Things Look to a Yankee Banker

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

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 Soviet officials. Favors spending large sums in telling Russian people "real facts of democratic life" and holds domestic problems ahead are: (1) decay of family life; (2) loss of America's urge to produce more, and (3) legal reduction in working hours. Warns we may have hard times to take up the slack.

Robert Cutler

I am supposed to talk on how things look to a Yankee banker. Well, I am a Yankee all right. There was a man called Robert Cutler who came over from England in 1636 and landed in Hingham. It killed him. He died that year. He couldn't take it! I don't know whether I am a banker or not. If trying to look after a billion and a quarter of funds in these difficult times qualifies you for a banker, I guess during the last 19 months I have been one. But, I am willing that you should suspend your judgment until I have finished these few remarks. . . .

About being a prophet, I am frankly filled with the gravest possible concern. I think the American people are mature enough after what we have been through—two wars and 12 years of New Deal—to have everything out in the open, have all of the facts disclosed, and to stop talking about new economic patterns and "there will never be any more economic depressions," and let us face the facts.

After all, when a boy gets to be 14 they begin telling him the facts. I think the American people ought to be told them. In his remarkable address at Harvard Commencement, that was the thought behind General Marshall's remarks. To me, he is the greatest man I ever had anything to do with. It was my privilege to work closely with him in the last six months I was in the Pentagon. I think he has expressed the facts. The hard things, the difficult things, they should be drummed constantly into the minds of the American people. By nature they are optimistic and they always see the good in things.

Now, you will be inquiring how long I have been a Jeremiah. Is this just because of this sling I am wearing? No, I have been feeling this way for some time. As a matter of fact, a year ago this July I went out and visited some friends in Des Moines, and if you have never been in Des Moines, I can recommend a highway to you strongly.

I have discovered among other things the famous yellow corn for which Iowa is noted, and can tell you that it does not come entirely from field-bearing grain. I suppose they use water for some purposes in Iowa, but I didn't see it! Well, on the third day of this trip, my friend, who runs the Des Moines "Register and Tribune" and with whom I was staying, insisted on my being interviewed. They had never seen a man from Harvard and the Old Colony out there before. So, I was interviewed at 10:30 in the morning, which, as you know, is a very disadvantageous time.

Well, I told the reporter that I thought the whole world had been on a hell of a drunk for six years, and that we were bound to have an awful hangover, and if somebody knew how you could indulge in such a process for six years and not feel bad, I would be very glad to meet them in the back room and pay them handsomely for their recipe.

The Des Moines "Register and Tribune" came out with the interview that afternoon with this revealing headline: "Banker sees slump following spree."

Well, it hasn't come yet, has it? 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 from 12% to 27%, depending on exemptions and dependents, higher than in 1939, 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 of our beneficiaries in the trust companies getting these fancy ideas of what we ought to be able to do for them. I just dread to think of the future.

In the first half year, our corporate profits, after taxes, were running at an annual rate of $17½ billions, an increase since 1946 of almost $7 billions. And the stockholders are getting a lot more money. Well, that makes everybody feel pretty good. If you have more money, you can go out and spend it and trade in securities, not on a margin, but you can trade.

And, of course, President Truman has signed a bill permitting the GI's to cash their bonds, and my experts tell me that that is a good sign. I had personally thought it was one of the most foolish things that could be done, but they say it is going to make the wheels 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? How about that slump 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 Sandra.

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 Shaftsbury, 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 natural to be thinking of England these days. The Rock of Gibraltar; the stabilizer of the world; through all of our concious lives, certainly. How different it is from the rich and profuse collection of wealth and resources which we have here in the United States.

* * *

I am not going to dwell about all of the things that disturb an old man with neuritis now. I am going to mention only four of them to you 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.

Great Britain No Longer a Stabilizer

Naturally, the first worry is the disappearance of Great Britain as the stabilizer of the world; the Rock of Gibraltar. I don't think there can be any real doubt in thoughtful minds that the leadership which England has exerted through some centuries is about to pass. There will be remembered incalculable things England has done for the world and for civilization. She is the mother of democracy as we know it. But, we remember things about Rome 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 rapidity than anticipated. We see Viscount Montgomery coming back to preside over the reduction of British arms. The loss of India is an accomplished fact. The Marquess of Linlithgow, who used to be Viceroy, came to lunch at the Trust Company a couple of months ago. He is now Chairman of one of the big banks in England, Midlands, and being a bright young man I asked him a lot of questions. Questions you are not supposed to ask a Marquess at lunch, I suppose. He can see nothing but bloody civil war in India when the British are finally withdrawn from there.

The status of British Consuls, which hitherto have been considered by trust companies as good as "G-bonds," certainly gives us pause. I don't know what they are selling at today, but I assume they are around 82. And the Attlee statement seems to be taking England in peacetime down the road to serfdom and away from the road of freedom.

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

Russia's Attitude

My second concern is the attitude of the Russian Government, and I would particularly like to

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*Stenographic report of an address by Mr. Cutler at the Annual Convention of the National Security Traders Association, Boston, Mass., Aug. 11, 1947.

The Tax Battle on the Potomac

By HARLEY L. LUTZ

Professor of Public Finance Emeritus, Princeton University

Dr. Lutz deplores veto of Congressional tax bill, though admitting measure did not remedy defects of tax system. Says complete recasting of income tax rates is needed, so as 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.

Dr. Harley L. Lutz

Now that the fighting is over and the generals have departed, it may be worth while to review some aspects of a recent battle of the Potomac, namely, the fight for tax reduction. Twice enacted by substantial majorities, twice vetoed, and twice failing in Congress by narrow margins in votes to override the veto, the ill-fated tax reduction bill of 1947 has become a symbol of the thwarting of strong popular demand by the executive prerogative of the veto.

Let us dismiss at once all 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 month later, is an entirely different matter.

Presidential opposition to the tax bill was summed up in the sentence—"The wrong kind of tax reduction at the wrong time." The veto messages give some indication of the thought processes which led to this conclusion. They therefore afford a measure of the President's grasp of fiscal matters, and for this reason warrant some exploration.

If the condemnation of the bill as providing the wrong kind of tax reduction meant that it was not a perfect and final answer to the question of individual income tax relief, we can agree at once that it was the wrong kind. But it was never offered as the final and perfect solution of this problem. Quite possibly, it was not the best method that could have been devised, even as a first step toward the final solution. The weakness of the percentage reduction method is that it leaves intact the existing scale of rates by which individual income taxes are to be computed. It tends, therefore, to create a presumption 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 rate scale. This is the basic evil in the income tax. The present rates are those that were imposed during the peak of the war effort, 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, then so popular, of equalizing wealth and incomes through an abuse of the taxing power. The tax rates of the 1936 Act were as high as the highest rates imposed during the first World War.

Even after allowing for the minor adjustments 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 normal and surtax rates begin to exceed 50%, after the 5% deduction, at the taxable income level of $18,000, which means that as to any additional income, the recipient is working more than half of the time for the government. The effective rate of tax, which means the relation of the tax to total net income, is 48.22% at a net income of $50,000, in the case of a married person with two dependents. Shortly beyond that income level, such a person is actually giving up in taxes half, or more than half, of his entire income.

It is impossible for 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 who receive such incomes do not have enough, after 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 reasons are quite different, and it must be admitted that if the maintenance of living standards were the only ground, there would be little case for reducing taxes, now or at any time.

Reasons For Rate Reductions

The real reasons for tax reduction throughout the income scale are these:

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, a larger volume of individual income which can be saved and invested in order to expand the nation's capital. The effect of taxation upon the willingness to work, and upon the ability to save, is experienced by persons with small as well as 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 by the 1945 tax rates. It is obvious that the restrictive effect of the tax load increases progressively with the growth of income, since the tax rates themselves rise in sharp progression. The present writer has recently commented upon this point elsewhere as follows:[1]

"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 restrict the benefits of any tax reduction to the low income groups."

Fallacy of Computing Tax Reductions in Dollars

Yet, the principal reason which the President gave for regarding the 1947 tax 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 it provided a 30% reduction of tax under that due at 1945 rates for the smallest incomes, and only a 10½% reduction for the largest incomes. In the first veto message occurs the following:

"H.R. 1 fails to give relief where it is needed most. Under H.R. 1, tax savings to the average family with an income of $2,500 would be less than $30, while taxes on an income of $50,000 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 18.6%; and the family with an income of $500,000 would receive an increase of 62.3%."

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 $2,500 would pay $95 tax, while under H.R. 1 it would have paid $67, which is a 30% reduction. The family with a net income of $50,000 would pay $24,111 at 1945 rates, and the decrease of $4,822 represents a 20% reduction, and so on, the fact that a larger number of dollars of reduction would be taken from the tax on the larger income than from the tax on the smaller income has nothing whatever to do with the case.

In the second paragraph of the above extract, use is made of a statistical device which, though mathematically correct, distorts the result. The percentage increases quoted are the increases in net income after present tax which would result from the operation of H.R. 1. Since the present tax reduces so substantially the net income remaining after the tax, any increase in this income after tax becomes a large percentage of the base. For example, assuming that a taxpayer had only one dollar left after present tax, and a tax revision left him with two dollars, his take-home pay would have been increased 100% by the tax reduction.

The President has made it clear that his preference, in a tax reduction bill which he would consider good and acceptable, would be for a concentration of the entire advantage in the low income groups. The portion of the first veto message quoted above says in effect, that this is where the relief is needed most. Actually, such persons really need tax relief throughout the income range, for their jobs and their entire income are dependent upon such a course.

The second line of opposition indicated in the veto messages is

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1 H. L. Lutz, "The High Cost of Living," *The Yale Review*, Summer, 1947, pp. 582, 583.

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.

It is unfortunate that the thinking in this country, and especially in the security business, must tend so persistently toward the extremes. We are always anticipating a boom or a bust, or a bull market or a bear market. Possibly it reflects a subconscious desire to be spectacular. As a matter of fact, opinions on economic and financial conditions are seldom unanimously favorable or unanimously unfavorable and a great part of the time they are not far out of balance.

Harold B. Dorsey

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 the importance of exports to 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 our productive capacity. That the condition exists is indicated by the fact that 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 automobile industry calls for a high level of activity for at least 12 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, and in others, a potential demand that could offset declines in demand that may materialize from reduced exports or from some other industry that might have over-produced. These observations would, of course, also cover many of those concerns that supply the automobile manufacturers, as well as the manufacturers themselves.

Practically the same thing could be said about the railroad equipment industry. It is well established that the railroads are in such dire need of equipment that the economy is hurt by the irregular flow of materials and supplies. Capital equipment requirements of the oil industry have probably never been as large or as urgent, and manufacturers of crude oil producing, refining, transportation and marketing equipment should operate in a seller's market for quite some time to come.

The farm equipment industry still has a long way to go before it has satisfied the domestic demand that has been built up to huge proportions by high farm income, high farm savings and high farm labor costs coming on top of a curtailed normal supply of equipment during the war years. Labor-cost pressure, deferred demand and new models with improved efficiency, combine to assure to the manufacturers of office equipment a seller's market for quite some months ahead.

It is a little difficult to generalize on the electrical equipment industry, but one must start the subject by observing the huge capital equipment requirements of the electric power and communication industries. In view of the fact that well over one-half of the business of the two largest electrical equipment manufacturers is in heavy apparatus, we must not let our perspectives be distorted by conversations about an over-supply of table model radios. Furthermore, observations that some of the lighter appliances are beginning to pass from a seller's to a buyer's market does not necessarily suggest that the demand for these items is going to collapse. As a matter of fact, a well-balanced inventory (which would provide the buyer with a greater selection) and the merchandising effort that is a natural accompaniment of buyers' markets should stimulate sales.

The demand outlook for miscellaneous industrial machinery is very difficult to diagnose. Since VJ-Day a great deal of capital has been spent for this type of equipment and it is almost impossible to measure the time when the deferred demands built up during the war will have been satisfied. In the first place, the problem is not that simple. The machine tool exhibit opening in Chicago soon is expected to introduce many new technological developments that should have great appeal for the manufacturer who is harassed with constantly rising labor costs. However, just what will be forthcoming in the way of new orders cannot be forecast. Furthermore, due consideration must be given to the fact that this type of machinery has been one of the important export items recently. Studies of this particular segment of the whole economy come to an indecisive conclusion but the fact that industry as a whole is still expanding productive capacity suggests that industrial machinery products should hold at a fair level at least.

Contract awards in the important construction industry have been in a generally declining trend (adjusted for seasonal) for the past six to nine months, and in so far as this trend is probably a reflection of resistance to high costs, it cannot be looked upon as favorable. The present level of construction activity is well over 1941, but in view of the reaction to date against the high costs of construction, some allowance should be made for a decline in the current rate of activity over the next 6 to 12 months. However, nothing like a collapse is indicated and activity in the group should still be sustained well above anything witnessed in the '30s, again reflecting the fact that industrial expansion has not been completed and the supply of homes is still insufficient.

We have been talking about the industries that are really basic in our economy, the industries that create a demand for raw materials and which translate sterile savings and new borrowings into active purchasing power. In so far as it is difficult to see a serious decline in the total of this broad segment of the economy, there should tend to be a fairly well sustained demand for industrial raw materials such as steel, nonferrous metals, heavy chemicals, etc.

A fairly well sustained level of activity in these lines that create basic purchasing power may combine with individual savings, soldiers' bonus payments and the elimination of credit restrictions in November, to hold retail and service industries at a pretty good level.

One does not have to be a skilled economist to make the above observations on our important key industries; there is nothing very mysterious about the matter in spite of the fact that academic discussions of broad generalities often overlook these important details. Consideration should be given to some of those broad fundamental conditions but only as one part of the whole picture.

Practically every one is conscious of the fact that our economy at its present high level of activity is receiving the benefits of certain nonrecurring factors. It is to be doubted that capital expenditures can continue indefinitely to contribute so extensively to the economic stream as has been the case in the past 12 months. It is perfectly obvious that this important item is reflecting the demands that piled up during the war and some time these unusual demands will be satisfied. But even after they drop down to a lower level, it seems most probable that the level that

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Financing Public Sanitation Projects

By REID W. DIGGES*
General Manager, Hampton Roads Sanitary District Commission
President, Virginia Industrial Wastes 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. Cites 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 bonds are as good as general obligations with right of taxation.


Reid W. Digges

I would like to say that it is a great pleasure for me to be here and I appreciate your invitation. I have spoken before many gatherings of different professions but mostly on technical subjects, and I want to first ease your mind and assure you that I am not so technical-minded today.

The profession that I am in is rather peculiar, but a very necessary adjunct to our high - pressured cities and towns.

There are some professions that are a lot of fun, like professional baseball and football players. There are others that are extremely grave.

However, those of us in our line of work are charged specifically with the duty of purifying the waters of the country. The condition of all our natural waters is bad. Every year *five billion tons* of our soil flow into the streams and rivers and is lost forever. The major portion of this comes from erosion as a result of unscientific farming and the cutting away of timber reserves without adequate replanting. Some is the result of hydraulic placer mining for metals and coal. However, a goodly portion of our stream pollution and consequent destruction of fisheries and wild life is the result of the dumping of raw sewage from cities, and industrial wastes from paper, pulp, textiles, and chemical industries. It has been stated that more soil has been lost and more natural resources destroyed in the last two generations than in all the period prior to that time from the beginning of civilization. If this practice is allowed to continue for another generation, we will then become in fact a "have-not" nation.

More than 3,000 American cities and towns inhabited by approximately 30,000,000 people discharge a daily volume of 2½ billion gallons of raw sewage into waterways. Another 3,000 communities with approximately 22,000,000 inhabitants dump their sewage into the nearest flowing stream with only a slight attempt at treatment that leaves the sewage about 65% disease-laden. This pollution is wiping out water-front property values, corroding dams and bridges, obliterating bathing and resort areas, and progressively destroying the shell-fish industries.

Recently I was requested to look in on several cities in the deep South, to wit: Palm Beach, West Palm Beach, Lake Worth, Miami and Tampa — playground spots of our great Eastern wealth —and the condition of the adjacent waters was almost in a state of complete deterioration from the effects of pollution. These areas are still relying solely on the antiquated methods of dumping raw sewage overboard into the nearest creek or river. There has been agitation raised by the local and state health authorities, but in most cases politics and jealousy, between the adjacent communities have forestalled any progressive or comprehensive program for the elimination of pollution.

Elimination of Pollution

Pollution is a dirty subject, and only half of the job has been attended to. Most of you live in homes that have the very latest and best bathroom fixtures. But I venture that few of you realize that after you flush your toilet, the body wastes are allowed to flow untreated, or half treated, into flowing streams or harbors. Sewage-polluted waters are the same as garbage-littered backyards. In sparsely settled areas and on farms there is no problem, but this country is no longer a rural nation and has become industrialized to a degree undreamed of as a result of mechanization and mass production. The business of farming has become industrialized to an extent that hard labor is unknown except in backwood areas. One man today with farm machinery can do the work that 20 men did yesterday. The other 19 men and their families have moved to the cities and towns. This not only creates housing problems but it calls for tremendous public undertakings for new water supplies, new roads, new bridges, and in most cases a sewage disposal system heretofore lacking. Most of the cities in the United States whose industries were used in the great war effort for the production of ships, tanks, and guns, had their normal populations almost doubled and many of these cities are retaining these people. They are not going back to the farms and the saw mills because machinery has taken their places. Instead, they are finding gainful employment at much higher wage rates in new surroundings. This creates problems for the directors of public works—and they're big problems —big business—big leagues. The cities themselves overrun their former boundaries. During the war emergency cities expanded so that it is now impossible to tell which was once a city street and which was once a country road.

Also because of the lack of strategic materials, such as cast iron, motors and pumps, communities were unable to secure materials with which to hook up these new developments with existing sewage systems. As a result, methods were employed for sewage disposal that would never have gained the approval of the health authorities even in the most dire circumstances. Septic tanks were used with or without drain fields, and where the ground water level was so high that it was impossible for the effluent to drain through the ground. In other instances, emergency outfalls were built through which raw sewage was dumped overboard into the nearest flowing water.

Hampton Roads Sanitation Commission

This you may say is the background history for the formation of the Hampton Roads Sanitation Commission. Agitation started some 20 years ago but the program for 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 peacetime 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 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 administrative body with members chosen from both city and county to do a specific job. It will not be loaded with other governmental responsibilities such as police duty, the maintenance of streets, the supplying

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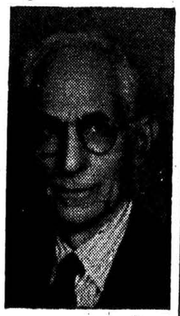
*An address by Mr. Digges at the Convention of the National Security Traders Association, Inc., Boston, Mass., Aug. 11, 1947.

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 reconversion 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.



A. M. Sakolski

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 as in the case of the railroads. As is quite evident from the discussions at the recent convention of the Edison Electric Institute, higher rates on a widespread scale are not expected in view of the maintained scale of earnings on 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 should a serious business recession come about. Moreover, high 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 decade.

Where Rate Increases Are Required

During the coming months one may look for requests for rate 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, are preparing to make such applications. The recent nationwide telephone strike was, in a way, a victory for the Bell System, but it was a costly affair, as all strikes generally are, 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, higher charges, if continued, are bound to bring about reduced demand for services.*

It is quite probable that the general trend toward lower utilities rates, which has marked the last decade, has come to a halt. At the recent convention of the Edison Electrical Institute, it was manifest that future technological improvements and expanding service will not fully offset higher costs of materials and wages. Electric utilities, alone, last year had 15.6% 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 counterbalanced somewhat by further improvement in operating efficiency; fuel consumption for the industry reaching a new low of 1.29 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 25% reduction in fixed charges because of lower interest rates. As a result of relief from these fixed burdens, most of the $117,000,000 increase in 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 increasing importance, since a large part of new capital investment must come from stock issues. In view of market conditions, offerings of public utility shares recently by underwriting firms has been on a small scale. The investing public which suffered losses on purchases made during the large-scale stock flotations of last year has been reluctant to make new commitments although yields available on 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 records, and the common stockholder, as represented by common dividends and surplus, has improved his income largely at the expense of the bondholder and to some extent at the expense of the preferred stockholder) the investor as a whole is little better off than he was before the war. In spite of record-breaking revenues, the ratio of operating income to investment in plant has only risen from 5.6% in 1937 to 5.9% in 1946. The earnings of the bond holder have decreased by one quarter; the ultimate result of the 'cheap money' policy of government during recent years."

Maintaining Demand for Services

It is becoming increasingly manifest that public utility industries, as a whole, will have to take more aggressive action to increase or maintain public demands for their services. The whole philosophy of economical utility charges is based on continuous and complete disposal of capacity production. This will involve not only ordinary advertising and solicitation, but, in many cases it will mean fostering industrial localization of a variety of industrial plants, which serve as markets for services. Indeed, it may be predicted that an important factor influencing the relocation 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 economical industrial production, there will undoubtedly be the same rivalry among power concerns for locating plants as among the railroads.

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 $50,000 or more each, or an aggregate in excess of $210,000,000 in locating there. This section is engaged in automobile production, automobile and airplane parts manufacturing and metal and plastic production. It is estimated these companies will create 32,000 industrial jobs. The utility has a construction budget of $57,000,000 for the three years ending 1949. The new company facilities, which comprise two 90,000 kilowatt generators, are being installed to meet anticipated increased demand for industrial power. In the vicinity of Chicago, the Commonwealth Edison Co. and in the West, the Pacific Gas & Electric Co., together with other utilities in the South are pursuing a postwar industrial development program costing more than $50,000,000.

Regardless of other factors of industrial location, the utility companies are exerting vigorous efforts in terms of dollars and manpower to attract industry by offer of economical power facilities. "Customer prosperity," as

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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 importance 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.

We are now beginning to feel the weight of the load which has been placed on distribution by the wartime expansion of our productive capacity. This raises many questions.

Don Francisco

Can the machinery of distribution match the great accomplishments of the machinery of production? Are we doing enough about it now? Does distribution cost too much? Will it cost more? What are the long-range trends? Where do we stand today? What should be our objectives?

Last year, like the war years, was a race to make things. Next year, and the years that follow, will be a race to sell things. In many lines the race for sales is already on. The spotlight is on distribution.

This shift in emphasis represents no new trend. Through the years distribution has played an increasingly important role in our expanding economy. More and more of the consumer's dollar has been devoted to the expenses of distribution.

Before we review the facts, let's be sure we agree on what is included in the cost of distribution. Contrary to popular conception, distribution is something more than wholesaling and retailing. It is much more than selling.

The fact that it must absorb such inescapable costs as taxes and transportation is frequently overlooked.

Not long ago the Chamber of Commerce of the United States adopted this definition: "Distribution" is the term used in American business to embrace all the activities employed in finding customers for goods and services and in moving goods, both geographically and through the channels of trade. In other words, it includes warehousing, transportation, wholesale and retail marketing, advertising and a substantial part of research, engineering, accounting and financing.

Are Distribution Costs Too High?

But how do we judge whether or not distribution costs are too high? Too high in relation to what? What standards of measurement shall we use?

*An address by Mr. Francisco before the American Marketing Association.

What is generally meant is that the percentage of the consumer's dollar that goes for distribution expense appears to be high in relation to the percentage that goes for the cost of production. In 1870 distribution costs amounted to only 25% of the consumer's dollar, production 75%. By 1930 distribution expenses had increased to 50%. In 1939 the 20th Century 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 increasingly large proportion of the consumer's dollar goes into distribution costs warrant the conclusion that they are too high, or that our system of distribution is inefficient?

Why Have Percentage Costs Gone Up?

Let us review the reasons why the share for distribution has increased.

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 merchandise was improved, or both. But to make this possible the volume of production of each article had to be much greater than could be consumed by those who produced it.

So the producer set out to find more 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 and 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 consumption, and the other between the time of production and the time of consumption. This meant added expenses for financing, 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 longfelt needs were available. That called for advertising.

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

For example, the cobbler who made shoes for those who called at his shop had almost no distribution expenses. But if he could sell 100 times as many shoes he could introduce machinery and make them for much less. But to do this he had to be prepared to shoulder additional expense for freight, dealer margins, sales promotion and advertising.

The change from hand labor to machine production resulted in a revolutionary reduction in production costs. At the same time there was necessarily a corresponding increase in distribution costs in order to achieve the necessary volume. Part of the savings of machine production was shifted to marketing expense. The size and importance of the distributing task had increased enormously.

The fact that the cobbler has passed out of the picture as a maker of shoes is evidence in itself that, in spite of the increased distribution costs of manufactured shoes, the total cost to the consumer is less for comparable quality.

It should be emphasized that the large shoes manufacturer selling in a wide market, had to do more than produce shoes for less than the cobbler. He had to manufacture shoes for enough less to pay his added distribution costs for financing, transporting, warehousing and selling. If he couldn't do that then the cobblers would keep the business. If he did do it then the fact that he had incurred additional expenses for distribution 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 economies of mass production and therefore for keeping production expenses down to 41%. Without this great effort to increase the volume of sales our standard of living would be much lower, for many of the things we take for granted would not be available or would be priced beyond the reach of a large share of our citizens.

The all-important fact is that distribution costs should be considered as an integral part of total costs, and not dealt with separately.

The important figure is not the ratio between production and distribution 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 reveal actual costs but only the ratio between the expenses of production and the expenses of distribution. The percentage cost of distribution may be rising while the actual unit cost of distribution and the total cost to the consumer may be declining.

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NSTA Educational Committee Urges More Avenues of Public Relations

Report recommends change of name to Public Relations Committee. Recommends corporations be contacted to interest employees in opportunities of becoming stockholders. Cites experience of Cleveland Securities Traders Association, and asks help of local stock exchanges.

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:

Morton A. Cayne

During the past year the Educational Committee has conducted a few inquiries and has made a few studies having as an objective either a program or a formula for a program that could be presented to the membership of the National Security Traders Association.

While a definite schedule has not been prepared, the Committee respectfully offers the following thoughts and recommendations:

It is recommended that the name of this Committee be changed from the Educational Committee to the Public Relations Committee. The efforts of the Group warrant the change of the Committee title.

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 employee is not forbidden to traffic 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 being a stockholder. 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 is interesting to note the excellent "management-labor" relations that do exist in the many corporations that have welcomed the employee as a stockholder.

Probably countless thousands of workers are not aware that their employers' securities are available to them and that a broker or a dealer would be happy to serve them. Strangely, many of these people were good bond buyers during the war—admitting that the government advertising program played no small part.

The value of a stronger relationship with both the corporation and the public has been demonstrated in Cleveland. Recently the local Stock Exchange conducted a few "trial balloon" meetings where sound films were shown. The meetings were reasonably well attended by security men and businessmen. Officers of the corporation were on hand 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 affiliate, and that meetings 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, an outstanding, nationally known speaker was retained and officers of the N. S. T. A. 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 Commitee 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 dependent upon the entire industry. We might borrow a page from the book of the large metropolitan banking institution which treats the newsboy opening a savings account with the identical courtesies that are extended to the potential trust account.

For more than 14 years we have been deluged with laws and rules, volumes of mail describing every conceivable "do or don't" — a horrible sense of fear that we might unknowingly be in technical violation and yet — not one single step has been taken during this entire period to obtain an intelligent suggestion or idea as to "how to get an order."

With 28 affiliates located in virtually every important financial center in the nation, it should be the obligation and the duty of the N. S. T. A. to foster a program designed to secure the assistance of the entire industry in the thoughtful presentation of our business.

On behalf of the members of this Committee, whose wholehearted cooperation is deeply appreciated, it has been our pleasure to have served on this Committee and trust, that our activities will arouse profound thinking among our members and those who follow us as members of this Committee.

Respectfully submitted,
EDUCATIONAL COMMITTEE,
Morton A. Cayne, Chairman
Roy W. Jordan
Charles E. Livingstone
Charles Lob
Charles J. Rieger

Members of National Convention Comm. of The Boston Securities Traders Association

General Chairman: Joseph Gannon, May & Gannon, Inc.
Corporate Forum: Dayton P. Haigney, Dayton Haigney & Co., Inc.
Entertainment: Hubert N. Bernard, Jr., Schirmer, Atherton & Co.
Finance: John E. Sullivan, Jr., F. L. Putnam & Co., Inc.; Lloyd B. Waring, Kidder, Peabody & Co.
Golf: Fred J. Wright, F. J. Wright & Co.
Hotel: Anton E. Homsey, du Pont, Homsey Co.
Ladies: James B. Maguire, E. H. Rollins & Sons.
Municipal Forum: F. Brittain Kennedy, F. Brittain Kennedy & Co.
Printing: Herbert C. Smith, Blyth & Co., Inc.
Prizes: Alexander W. Moore, J. Arthur Warner & Co., Inc.
Publicity: John L. Shea, Jr., Shea & Co.
Reception: Ralph F. Carr, Ralph F. Carr & Co., Inc.
Registration: Robert H. Warren, Geyer & Co., Inc.
Transportation: Paul B. Monroe, Hunnewell & Co.

Sumner R. Wolley, Coffin & Burr, is President of the Boston Securities Traders Association.

What They Did at The Convention

(Continued from page 5)

was put on. This is a show indeed when done properly and the final unveiling looks something like a circular flower bed with the bright red lobsters in the center, golden, yellow corn circling just outside of the lobsters, gray clams and the brown stones. The menu consisted of clam juice, steamed clams with drawn butter, a broiled live lobster, plus 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 crowd.

About 9:00 o'clock all hands shoved off in the boat for Boston.

Thursday morning there was a National Committee meeting and election of officers. In the afternoon a Corporate Forum was held. The speakers were Commissioner Hanrahan of the SEC and Laurence F. Whittemore, President of the Federal Reserve Bank of Boston. As Commissioner Hanrahan's speech is printed elsewhere in this Supplement to the "Chronicle" comment 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 herein.

The ladies on Thursday afternoon had luncheon on the Sheraton roof followed by a motor 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 Traders went ahead and had a cocktail party, a hearty steak dinner and a Dinner Dance. At the party golf prizes, motion picture prizes, etc., were awarded to the lucky winners. Special train left around 1:30 a.m.

The convention next year is to be held in November in Dallas, Texas. Jesse A. Sanders, Jr. 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 Blizzard, who has never missed a convention except during the war years when he was on military duty; J. Gentry Daggy, Arthur E. Farrell, Thomas Graham, Edward D. Jones, E. E. Parsons, Jr., Wm. Perry Brown, Joseph W. Sener, Willis M. Summers, 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 the convention much better than this amateur and his photographer, Mr. Harding, took a picture of everything but the inside of his own camera.

All in all, the Bostons 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 charming wife, Betty, and to all of the members of the committees, 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

1st Gross: Gus Levy, New York, Traveling Bag.

2nd Gross: Clarence Maender, St. Louis, Ice Bucket.

3rd Gross: J. B. Cornell, Dallas, one dozen Golf Balls.

4th Gross: R. A. Morton, New York, Wallet and Key Case.

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 Trevine, Pennsylvania, one dozen Golf Balls.

4th Net: E. F. Hormel, Boston, one dozen Golf Balls.

5th Net: Sumner Wolley, Boston, Bottle of Rye.

6th Net: Bill Burke, Boston, one-half dozen Golf Balls.

Highest Nine: Chas. Scheuer, Chicago, Leather Hoods.

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

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

Most Eights: F. J. Laird, Pennsylvania, one-half doz. 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.

Blue List Municipal Prize: P. S. Russell, New York.

Guest Prize: Jim Lynch, Boston, one dozen Golf Balls.

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NSTA Municipal Group Hits Tabling of Hinshaw Bill

In his report to the Convention of the NSTA at Boston on Aug. 11, Ludwell A. Strader, Chairman of the Municipal Committee, stressed the importance of having Congress pass the Hinshaw Bill, which would definitely free municipal bond trading from interference by the Securities and Exchange Commission. The text of the committee's report follows:—

Ludwell A. Strader

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 wonderful support from our last Committee and only went to death by virtue of adjournment of the 79th Congress. Your Committee's efforts were expended with government officials, Congressmen and other organizations with the idea of immediate passage of this all important bill, H. R. 1881. Unfortunately this bill was introduced at a very bad time, and with world affairs being in the forefront, this domestic issue was by-passed by the sponsor 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 subject. The Committee did not accept the ultimatum that the SEC Minute solved the problem, inasmuch as we considered this was only a temporary stay. The opinions of Commissions 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 industry, states and municipalities, has never been questioned and its further processing is most certainly 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 follow and work towards ultimate passage.

We appreciate the guidance given the Committee by Mr. David M. Wood, Attorney of New York. It is the hope that the future Committees will work closely with this gentleman, who represents 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 relationship 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 immediately after another examining body will disapprove. This disparity 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 cooperation with the municipal branch of the National, to the Blue List, the "Dealers Digest," "Financial Chronicle" and to the Municipal Committee of the Boston Security Traders' Association.

Your Chairman has enjoyed working with the Municipal Committee and representatives and their cooperation during the past year has been greatly appreciated.

Respectfully submitted,

MUNICIPAL COMMITTEE,
L. A. Strader, Chairman
Stanley G. McKie
H. Frank Burkholder
Russell M. Ergood, Jr.
Harold R. Chapel
J. Creighton Riepe

What They Did at the Convention

(Continued from page 17)

Scores at the Golf

	Gross	Handicap	Net
S. Junger, New York	79	14	65
Clarence Maender, St. Louis	78	12	66
Gus Levy, New York	76	10	66
Jim Lynch, Boston	77	10	67
Carl Stolle, New York	94	27	67
Roy Trevine, Penna.	97	30	67
E. F. Hormel, Boston	90	22	68
Sumner Wolley, Boston	82	13	69
Bill Burke, Boston	85	16	69
Gus Schlossor, New York	99	30	69
John Sullivan, Boston	91	21	70
R. A. Morton, New York	79	8	71
E. E. Haverstick, St. Louis	86	15	71
Larry Marr, Chicago	92	19	73
Geo. McCheary, St. Petersburg	93	20	73
J. J. Lynch, Boston	91	17	74
R. V. Mosley, Penna.	87	13	74
F. E. Maguire, Penna.	105	30	75
J. B. Cornell, Dallas	79	4	75
John French, New York	90	15	75
Ted Plumridge, New York	89	14	75
Jim Kelly, Springfield	95	20	75
Jim Maguire, Boston	91	16	75
Milton Isaacs, Chicago	100	25	75
Larry Doyle, New York	89	14	75
Paul Munroe, Boston	93	17	76
E. R. Mulcock, Syracuse	98	22	76
E. J. Philips, Penna.	82	6	76
E. D. Hanrahan, New York	91	14	77
Emmett Byrne, St. Louis	91	14	77
P. S. Russell, New York	83	6	77
Mort Cayne, Cleveland	103	26	77
F. J. Wright, Jr., Boston	81	4	77
Stan Roggenburg, New York	86	8	78
E. T. Mettatal, Boston	93	15	78
Jack Glenn, Atlanta	88	10	78
S. K. Philips, Jr., Penna.	86	8	78
Sam Varnedoe, Georgia	86	8	78
Don Sherwood, Chicago	108	30	78
Larry Wrenn, New York	89	10	79
H. N. Bernard, Boston	100	21	79
R. B. Dixon, Greensboro	102	25	79
R. W. Digges, Norfolk, N. C.	88	8	80
Ralph Carr, Boston	95	15	80
Ray Murray, Boston	87	8	80
Jack Morris, Atlanta	93	12	81
R. M. Ergood, Penna.	85	4	81
Paul Yarrow, Chicago	102	21	81
Frank Lynch, Boston	90	7	83
M. L. Barrysh, New York	108	25	83
Ken Schoen, Nashville	110	25	85
M. E. Mooney, Penna.	113	25	88
Chas. Scheuer, Chicago	119	20	97
Irving Gersten, New York	120	20	100
Tom O'Rourke, Penna.	131	30	101

No Cards: Frank Kennedy, Boston; Star Koener, Chicago; R. W. Thornburg, Cincinnati; C. W. Williams, New York.

Security Traders Association of Connecticut

Leonard O. Ritter — John E. Graham — George F. Eisele — Robert Bligh

President: Leonard O. Ritter, *Paine, Webber, Jackson & Curtis*, Hartford, Conn.

1st Vice-President: John E. Graham, *Brainard-Judd & Co.*, Hartford, Conn.

2nd Vice-President George F. Eisele, *Coburn & Middlebrook*, Hartford, Conn.

Secretary-Treasurer: Robert Bligh, *Fahnestock & Co.*, Torrington, Conn.

Governors: James P. English, *Cooley & Co.*, Hartford; Frank J. Murray, *Day, Stoddard & Williams, Inc.*, New Haven; Andrew L. Tackus, *Putnam & Co.*, Hartford; George A. Dockham, *Hincks Bros. & Co.*, New Haven.

Elected: For 1946-1947; Took Office: November 1946; Term Expires: November 1947.

Florida Security Dealers Association

Thomas S. Pierce — T. Nelson O'Rourke — Arch R. Morrison

President: Thomas S. Pierce, *Clyde C. Pierce Corp.*, St. Petersburg.

Vice-President: T. Nelson O'Rourke, *T. Nelson O'Rourke, Inc.*, Daytona Beach.

Secretary-Treasurer: Arch R. Morrison, *The Ranson-Davidson Co., Inc.*, Miami.

Governors: Don E. Arries, *D. E. Arries & Co.*, Tampa; George M. McCleary, *Florida Securities Co.*, St. Petersburg; C. T. McCready, *John Nuveen & Co.*, Miami; Arch R. Morrison, *The Ranson-Davidson Co., Inc.*, Miami; T. Nelson O'Rourke, *T. Nelson O'Rourke, Inc.*, Daytona Beach; Thomas S. Pierce, *Clyde C. Pierce Corp.*, St. Petersburg; Howard S. Wheeler, *Leedy, Wheeler & Co.*, Orlando.

National Committeemen: George M. McCleary, *Florida Securities Co.*, St. Petersburg; Clyde C. Pierce, *Clyde C. Pierce Corp.*, Jacksonville.

Elected: November 21, 1946; Took Office: November 21, 1946; Term Expires: October 31, 1947.

Georgia Security Dealers Association

J. Fleming Settle — Julian R. Hirshberg — R. C. Mathews, Jr.

President: J. Fleming Settle, *J. H. Hilsman & Co., Inc.*

Vice-Presidents: Julian R. Hirshberg, *Norris & Hirshberg, Inc.*, and Jack F. Glenn, *Courts & Co.*

Secretary-Treasurer: Robert C. Mathews, Jr., *Trust Company of Georgia.*

Executive Committee: The Officers, and Thomas M. Johnson, *Johnson, Lane, Space & Co., Inc.*; Sam L. Varnedoe, *Varnedoe, Chisholm & Co., Inc.*; Walter James, *Clement A. Evans & Co., Inc.*; Wayne Martin, *Milhous, Martin & Co.*

National Committeemen J. R. Neal, *Wyatt, Neal & Waggoner*; Lex Jolley, *Johnson, Lane, Space & Co., Inc.*; J. W. Means, *Trust Company of Georgia.*

Elected: May 30, 1947; Took Office: July 1, 1947; Term Expires: July 1, 1948.

Michael T. Kelleher, President of Boston Chamber of Commerce; Edmond Hanrahan, Securities & Exchange Commission; Vic Mosley, *Stroud & Co., Inc.*, Philadelphia Joseph Gannon, *May & Gannon*, Boston; Sumner Wolley, *Coffin & Burr, Inc.*, Boston

Mrs. Frank Harrington, Boston; Herbert D. Knox, *H. D. Knox & Co.*, Boston; Mrs. Irma Schaefer, New York City; Mrs. Emil Kumin, Boston

In Attendance at NSTA Convention

ABBE, RICHARD F.
Van Tuyl & Abbe, New York

***ADAMS, ROBERT H.**
L. F. Rothschild & Co., Boston, Mass.

***ARNOLD, HARRY L.**
Paine, Webber, Jackson & Curtis, New York

ARNOLD HENRY J.
Clair S. Hall & Co., Cincinnati, Ohio

AYERS, WM. L.
Finance, Chicago, Ill.

BAILEY, BENJAMIN A.
Dayton Haigney & Co., Inc. Boston, Mass.

BAKER, ALBERT W.
F. Brittain Kennedy & Co. Boston, Mass.

***BAMBERGER, E. CLINTON**
Baumgartner & Co., Baltimore, Md.

BARMONDE, PHILIP T.
Seaver & Co., New York

BARTON, D. FREDERICK
Eastman Dillon & Co., New York City

BARYSH, MURRAY L.
Ernst & Co., New York

***BERNARD, H. N., JR.**
Schirmer, Atherton & Co., Boston, Mass.

*Denotes Mr. and Mrs.

BERRY, ALLISON M.
Robert Garrett & Sons, Baltimore, Md.

***BLIZZARD, HERBERT H.**
Hess, Blizzard & Co., Philadelphia, Pa.

***BLOOM, RALPH M.**
Thomas E. King, & Co. Chicago, Ill.

BLUM, ERNEST
Brush Slocumb & Co., San Francisco, Calif.

BOGGS, WILLIAM H.
Kalb, Voorhis & Co., New York

BOLAND, WM. H.
Boland, Saffin Co., New York

BOYNTON, HERBERT
H. F. Boynton & Co., New York

BRADLEY, R. EMMET
Mackubin, Legg & Co., Baltimore, Md.

***BREEN, FRANK A.**
Schirmer, Atherton & Co., Boston, Mass.

BROCKMEYER, EDDIE H.
Goldman, Sachs & Co., St. Louis, Mo.

BROWN, W. PERRY
Newman, Brown & Co., New Orleans, La.

BUNN, JOHN W.
Stifel, Nicolaus & Co., Inc., St. Louis, Mo.

***BURKE, WM. J.**
May & Gannon, Inc., Boston, Mass.

BURKHOLDER, H. F.
Equitable Securities Corp., Nashville, Tenn.

***BUTLER, J. WILMER**
Baker, Watts & Co., Baltimore, Md.

BYRNE, R. EMMET
Dempsey-Tegeler & Co., St. Louis, Mo.

CALVERT, ROBERT
Tifft Bros., Hartford, Conn.

CAMPBELL, MARGUERITE A.
A. C. Wood, Jr. & Co., Philadelphia, Pa.

CANAVAN, JOHN L.
Rauscher, Pierce & Co., Dallas, Texas

CARR, FREDERICK
Tucker, Anthony & Co., Boston, Mass.

***CARR, RALPH F.**
Ralph F. Carr & Co., Inc., Boston, Mass.

CASEY, ELIZABETH M.
Hunnewell & Co., Boston, Mass.

CASWELL, C. WARREN
McGinnis, Bampton & Sellger, New York, N. Y.

CAUGHLIN, EDWARD J.
Edward J. Caughlin & Co., Philadelphia, Pa.

(Continued on page 20)

In Attendance at NSTA Convention

(Continued from page 19)

*CAYNE, MORTON A.
Cayne, Robbins & Co., Cleveland, Ohio.

CHAMBERS, CARLTON
F. Brittain Kennedy & Co., Boston, Mass.

CHANDLER, CARL V.
Goldman, Sachs & Co., Boston, Mass.

CHAPIN, JOHN
Kidder, Peabody & Co., Boston, Mass.

*Denotes Mr. and Mrs.

CLARK, PHIL
Ames C. Sudler & Co., Denver, Colo.

CLEAVER, JAMES P.
Goodbody & Co., New York

COLLINS, GEORGE
Geyer & Co., Inc., New York

*CONARY, WILFRED G.
J. Arthur Warner & Co., Boston, Mass.

CONNELL, LAWRENCE
Wellington Fund, Boston, Mass.

CONNOLLY, MRS., WALTER J.
Walter J. Connolly & Co., Boston, Mass.

CONWAY, JAMES J.
Moors & Cabot, Boston, Mass.

CORNELL, JR., JOHN B.
Dallas Rupe & Son, Dallas, Texas.

*CREAMER, EDWARD
Schirmer, Atherton & Co., Boston, Mass.

CURTIS, F. HARMON
Robert Hawkins & Co., Inc., Boston, Mass.

CUSACK, WILLIAM C.
Keystone Custodian Funds, Boston, Mass.

DAGGY, J. GENTRY
H. M. Byllesby & Co., Philadelphia, Pa.

*DALEY, JOHN L.
E. H. Rollins & Sons, Inc., Boston, Mass.

*D'ARCY, JOHN J.
F. L. Putnam & Co., Inc., Boston, Mass.

*DARLING, RODNEY M.
Dupont, Homsey Co., Boston, Mass.

DAVIES, W. H.
Harriman Ripley & Co., Boston, Mass.

(Continued on page 21)

Bond Traders Club of Chicago

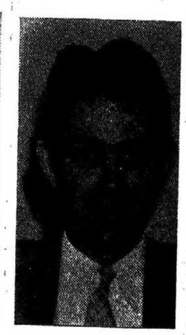



Lawrence Marr John C. Rogers S. E. Dawson-Smith Paul Bax

President: Lawrence Marr, *E. H. Rollins & Sons, Inc.*
Vice-President: John C. Rogers, *Hickey & Co.*
Secretary: Stanley Dawson-Smith, *Straus & Blosser.*
Treasurer: Paul Bax, *Kidder, Peabody & Co.*
Directors Elmer W. Erzberger, *Smith, Burris & Co.;* Howard C. Morton, *McMaster Hutchinson & Co.;* Chris J. Newpart, *Merrill Lynch, Pierce, Fenner & Beane;* Donald B. Stephens, *Paul H. Davis & Co.*
National Delegates: Lawrence Marr, *E. H. Rollins & Sons, Inc.;* Chris J. Newpart, *Merrill Lynch, Pierce, Fenner & Beane;* Elmer W. Hammell, *Caswell & Co.;* Milton J. Isaacs, *Straus & Blosser;* Howard Morton, *McMaster Hutchinson & Co.*
Alternates: Glen L. Darfler, *Kneeland & Co.;* Star C. Koerner, *Mitchell, Hutchins & Co.;* Evar L. Linder, *Paine, Webber, Jackson & Curtis;* Thomas Montgomery, *Glore, Forgan & Co.;* Orville Strong, *The First National Bank of Chicago.*
Elected: December 31, 1946; Took Office: March 1, 1947; Term Expires: February 29, 1948.

Bond Club of Louisville






Charles C. King Urban J. Alexander Russell Ebinger Eugene W. Bright

President: Charles C. King, *The Bankers Bond Co.*
Vice-President: Urban J. Alexander, *Urban J. Alexander & Co.*
Secretary: Russell Ebinger, *Smart & Wagner.*
Treasurer: Eugene W. Bright, *Blyth & Co., Inc.*
National Committeeman: Thomas Graham, *The Bankers Bond Company.*
Alternate: Mrs. Ora M. Ferguson, *Merrill Lynch, Pierce, Fenner & Beane.*
Elected: July 2, 1947; Take Office: September 1, 1947; Term Expires: September 1, 1948.

New Orleans Security Traders Association



Joseph P. Minetree Jackson A. Hawley Macrery B. Wheeler

President Joseph P. Minetree, *Steiner, Rouse & Co.*
Vice-President: Jackson A. Hawley, *Equitable Securities Corp.*
Secretary-Treasurer: Macrery B. Wheeler, *Wheeler & Woolfolk, Inc.*
National Committeemen: Errol E. Buckner, *National Bank of Commerce;* J. W. Kingsbury, *Kingsbury & Alvis.*
Alternates: Wm. Perry Brown, *Newman, Brown & Co.;* R. Jeremy Glas, *Glas & Company.*
Elected: October 10, 1946; Took Office: October 10, 1946; Term Expires: October 1947.

Emil Kumin, *Estabrook & Co.*, Boston; Clinton Hough, *J. Arthur Warner & Co.*, Boston; J. Gentry Daggy, *H. M. Byllesby & Co.*, Philadelphia

Mr. and Mrs. William J. Burke, *May & Gannon*, Boston; Arthur Farrell, *H. M. Byllesby & Co.*, Chicago; John Cornell, *Dallas Rupe & Son*, Dallas, Tex.

In Attendance at NSTA Convention

(Continued from page 20)

DAVIS, JOE H.
First Nat'l Bank, Memphis, Tenn.

***DAY, WILFRED N.**
Chas. A. Day & Co., Inc., Boston, Mass.

DENTON, GEORGE R. S.
Denton & Co., Boston, Mass.

DeYOUNG, NEIL
DeYoung, Larson & Tornga, Grand Rapids, Mich.

***DIEHL, ROBERT D.**
William R. Staats & Co., Los Angeles, Calif.

DIETRICH, HENRY J.
L. F. Rothschild & Co., Boston, Mass.

DIGGES, REID W.
Hampden Roads Sanitary District Commission, Virginia

DIXON, R. B.
McDaniel Lewis & Co., Greensboro, North Carolina

DODSON, PAUL E.
Union Securities Corp., Boston, Mass.

***DOCKHAM, GEORGE A.**
Hincks, Bros. & Co., Inc., New Haven, Conn.

DONOVAN, P. WARREN
Dayton Haigney & Co., Boston, Mass.

DOYLE, LARRY
Hardy & Co., New York, N.Y.

DOYLE, LEO J.
Doyle, O'Connor & Co., Chicago, Illinois

***DRINKARD, OSCAR B.**
Scott, Horner & Mason, Inc., Lynchburg, Va.

***DUFFY, JAMES R.**
Paine, Webber, Jackson & Curtis, Boston, Mass.

DURGIN, CHESTER R.
Lee Higginson Corp., Boston, Mass.

DYKES, ALVIN A.
Whitney & Elwell, Boston, Mass.

EAGAN, WALTER F.
Hunnewell & Co., Boston, Mass.

***EARNEST, GEO. H.**
Fewel & Co., Los Angeles, Calif.

***EBINGER, RUSSELL**
Smart & Wagner, Louisville, Kentucky

***EGAN JOHN F.**
First California Co., San Francisco, Calif.

***EISELE, GEORGE F.**
Coburn & Middlebrook, Hartford, Conn.

***ELDER, GEO. J.**
Mercier, McDowell & Dolphyn, Detroit, Mich.

ENGDAHL, ARTHUR E.
Goldman, Sachs & Co., Boston, Mass.

ERGOOD, JR., RUSSELL M.
Stroud & Co., Inc., Philadelphia, Pa.

FARRELL, ARTHUR E.
H. M. Byllesby & Co., Chicago, Ill.

FERGUSON, MRS., ORA M.
Merrill, Lynch, Pierce, Fenner & Beane, Louisville, Ky.

***FISCHER, FREDERICK**
H. N. Nash & Co., Philadelphia, Pa.

FISHER, CHARLES N.
Singer, Deane & Scribner, Pittsburgh, Pa.

FITZGERALD, JOHN M.
W. C. Pitfield & Co., Inc., New York

FLANDERS, HARRY
Harriman Ripley & Co., Boston, Mass.

FOGG, ROBERT B.
Blyth & Co., Inc., Boston, Mass.

FOSTER, JR., HATHERLY
Vance, Sanders & Co., Boston, Mass.

***FREEAR, LANDON A.**
William N. Edwards & Co., Fort Worth, Texas

(Continued on page 22)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 21)

FRENCH, JOHN S.
A. C. Allyn & Co., Inc., New York

FULLER, W. A.
William A. Fuller & Co., Chicago, Ill.

FULTON, WALLACE
Exec. Sec. Nat'l Assoc. of Security Dealers, Philadelphia, Pa.

FURMAN, III, ALESTER G.
Alester G. Furman Co., Greenville, So. Carolina

GAGE, D. RIPLEY
Estabrook & Co., Boston, Mass.

***GANNON, JOSEPH**
May & Gannon, Inc., Boston, Mass.

GAWNE, HARRY J.
Merrill, Turben & Co., Cleveland 14, Ohio

***GERSTEN, IRVING**
Gersten & Frenkel, New York

GEYER, GEORGE
Geyer & Co., Inc., New York

GHEGAN, A. KINGSTON
Kalb, Voorhis & Co., New York

GIBBS, ARLENE
Laird, Bissell & Meeds, New York

GIBSON, CHARLES E.
Whiting, Weeks & Stubbs, Boston, Mass.

GLENN, JACK F.
Courts & Co., Atlanta, Ga.

GOLDTHWAITE, CLYDE M.
Merchants National Bank, Boston, Mass.

***GOSHIA, OLIVER**
Goshia & Co., Toledo, Ohio

GOTTRON, RICHARD A.
Gottron, Russell & Co., Cleveland, Ohio

***GRAHAM, JOHN E.**
Brainard, Judd & Co., Hartford, Conn.

GRAHAM, THOMAS
The Bankers Bond Co., Inc., Louisville, Kentucky

GREENAWALT, SAMUEL, AND SAMUEL GREENAWALT, JR.
Mac Naughton-Greenawalt & Co., Grand Rapids, Mich.

GREENE, IRVING AND MISS D'VERA GREENE
Greene & Company, New York

***GRIFFIN, OSCAR D.**
Lord, Abbett & Co., New York

GRINDEL, GUSTAV J.
Francis I. du Pont & Co., New York

GUILD, ROBERT
Public Relations Dir., Boston Stock Exchange

GUTBERLET, EDWIN S.
Paine, Webber, Jackson & Curtis, New York

HAGENSIEKER, EARL L.
Reinholdt & Gardner, St. Louis Mo.

HAHN, CHARLES E.
Scherck, Richter Co., St. Louis, Mo.

***HAIGNEY, DAYTON**
Dayton Haigney & Co., Inc., Boston, Mass.

***HALL, CLAIR S.**
Clair S. Hall & Co., Cincinnati, Ohio

***HALL, FRANK L.**
Pflugfelder & Rust, New York

HALLET, LEAMAN
Draper, Sears & Co., Boston, Mass.

***HAMMELL, ELMER W.**
Caswell & Co., Chicago, Ill.

HANRAHAN, EDMOND
Securities Exchange Commission, Philadelphia, Pa.

HANSEL, DOUGLAS R.
Wertheim & Co., New York

HARDONY, MICHAEL
Finley & Co., Cleveland, Ohio

HARKNESS, ROBERT B.
Whiting, Weeks & Stubbs, Boston, Mass.

***HARMET, ALFRED A.**
A. A. Harmet & Co., Chicago, Ill.

(Continued on page 23)

*Denotes Mr. and Mrs.

Security Traders Association of Los Angeles

Lawrence S. Pulliam Thomas J. Euper William Miller Robert Diehl

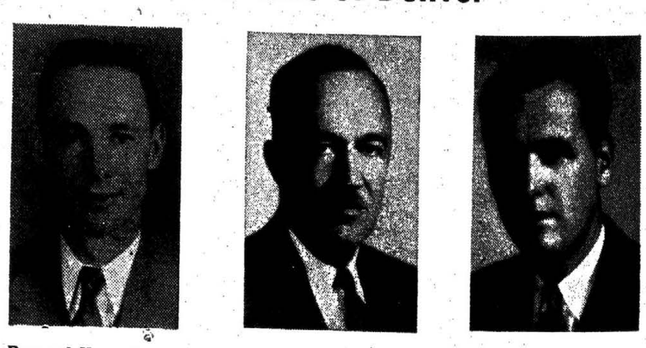
President: Lawrence S. Pulliam, *Weeden & Co.*
Vice-President: Thomas J. Euper, *Cohu & Torrey.*
Secretary: William Miller, *Fairman & Co.*
Treasurer: Robert Diehl, *William R. Staats Co.*
Governors: Oliver B. Scott, *Maxwell, Marshall & Co.;* Joseph L. Ryons, *Pacific Co. of California;* Nicholas P. Kirwan, *Dean Witter & Co.*
National Committeemen: Lawrence S. Pulliam, *Weeden & Co.;* Stephen C. Turner, *Turner, Poindexter & Co.*
Alternate: Clifford Poindexter, *Turner, Poindexter & Co.*
Elected: October 1946; Took Office: November 1946; Term Expires: December 31, 1947.

San Francisco Bond Traders Association

Elmer L. Weir Collins L. Macrae John E. Buick

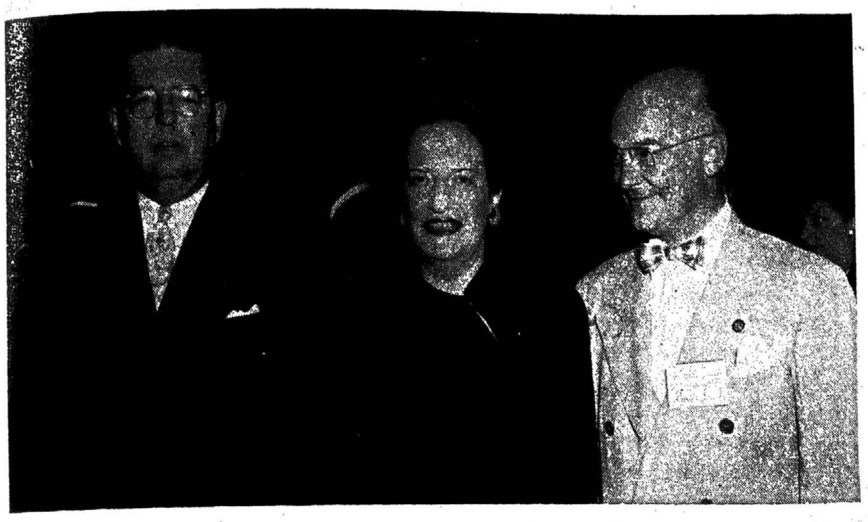
President: Elmer L. Weir, *Brush, Slocumb & Co.*
Vice-President: Collins L. Macrae, *Wulff, Hansen & Co.*
Secretary-Treasurer: John E. Buick, *American Trust Company.*
Directors: James M. Stewart, *Wilson, Johnson & Higgins;* L. J. Spuller, *Elworthy & Co.;* J. D. McMahon, *Merrill Lynch, Pierce, Fenner & Beane;* Frank Bowyer, *Schwabacher & Co.*
National Committeemen: Ernest E. Blum, *Brush, Slocumb & Co.;* Collins L. Macrae, *Wulff, Hansen & Co.*

Bond Club of Denver



Bernard Kennedy Phillip J. Clark Glen B. Clark

President: Bernard Kennedy, *Bosworth, Sullivan & Co.*
Vice-President: Donald F. Brown, *Boettcher & Co.*
Secretary: Glen B. Clark, *Sidlo, Simons, Roberts & Co.*
Treasurer: Phillip J. Clark, *Amos C. Sudler & Co.*
Directors: John Alff, *Amos C. Sudler & Co.;* Robert L. Mitton, *Robert L. Mitton Investments;* Harry Middaugh, *Garrett-Bromfield & Co.*
National Committeemen: Hal Myers, *Harris, Upham & Co.;* Bernard Kennedy, *Bosworth, Sullivan & Co.*
Elected: November 21, 1946; Took Office: December 1, 1946; Term Expires: December 31, 1947.



Mr. and Mrs. Ed. Welch, *Sincere & Co.*, Chicago; T. Geoffrey Horsfield, *Wm. J. Mericka & Co.*, New York City

Mr. and Mrs. Don Homsey, *du Pont, Homsey Co.*, Boston; Robert H. Warren, *Geyer & Co., Inc.*, Boston

In Attendance at NSTA Convention

(Continued from page 22)

*HARRINGTON, FRANK T.
H. D. Knox & Co., Inc., Boston, Mass.

HARRIS, HOWARD S.
Baldwin, White & Co., Boston, Mass.

HATCHER, LLOYD B.
Trust of Georgia, Atlanta, Ga.

HAVERSTICK, JR., E. E.
Smith, Moore & Co., St. Louis, Mo.

HEANEY, MICHAEL J.
Joseph McManus & Co., New York

HECHT, JOHN C.
Butler-Huff & Co., Los Angeles, Calif.

HOWARD, RICHARD W.
Hallowell, Sulzberger & Co., Philadelphia, Pa.

HILL, DRAPER
John Nuveen & Co., Boston, Mass.

HILL, KENNETH B.
Kenneth B. Hill & Co., Boston, Mass.

*HOMSEY, ANTON E.
DuPont, Homsey Co., Boston, Mass.

HOOPER, L.
Hooper-Kimball, Inc., Boston, Mass.

*HORMEL, EDWARD F.
White, Weld & Co., Boston, Mass.

HORN, CLARENCE A.
First of Michigan Corp., Detroit, Mich.

HORSFIELD, T. G.
Wm. J. Mericka & Co., Inc., New York

*HUDSON, JOHN M.
Thayer, Baker & Co., Philadelphia, Pa.

HUGHES, SPEED
J. Arthur Warner & Co., Boston, Mass.

HUNT, E. JANSEN
White, Weld & Co., New York

*HUNTER, WELLINGTON
Aetna Securities Corp., New York

HURLBURT C. GRAHAM
Henry P. Briggs & Co., Boston, Mass.

INGALLS, ROBERT U.
Tucker, Anthony & Co., Boston, Mass.

ISAACS, HENRY G.
Virginia Securities Co., Norfolk, Va.

*ISAACS, MILTON J.
Straus & Blosser, Chicago, Ill.

*JACKSON, PHIL P.
Jackson & Smith, Gastonia, No. Carolina

*JACQUES, J. F.
First Southwest Co., Dallas, Texas

JOLLEY, LEX
Johnson, Lane, Space & Co., Inc., Atlanta, Ga.

JONES, EDWARD D.
Edward D. Jones & Co., St. Louis, Mo.

JONES, JACK E.
Hartley Rogers & Co., Seattle, Wash.

JORDAN, DOROTHY
R. W. Pressprich & Co., Boston, Mass.

JORDAN, JR., CARL G.
R. W. Pressprich & Co., Boston, Mass.

*JUNGER, SAMUEL H.
Junger, Anderson & Co., New York

KELLEHER, MICHAEL T.
Pres. Chamber of Commerce, Boston, Mass.

KELLY, EDWARD J.
Carl M. Loeb, Rhoades & Co., New York

KELLY, JAMES A.
Tifft Brothers, Springfield, Mass.

KENDRICK, PHILLIP
Securities Exchange Comm., Boston, Mass.

KENNEDY, F. BRITTAIN
F. Brittain Kennedy & Co., Boston, Mass.

(Continued on page 24)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 23)

***KENNEY, PHILIP F.**
E. M. Newton & Co., Boston, Mass.

KENT, RODNEY P.
J. Arthur Warner & Co., Inc., Boston, Mass.

***KILNER, GEORGE M.**
Brown, Lisle & Marshall, Providence, R. I.

KING, CHARLES C.
The Bankers Bond Co., Inc., Louisville, Ky.

KING, WILLIAM T.
National Rockland Bank, Boston, Mass.

KIRKPATRICK, EDWARD L.
National Securities Co., Nashville, Tenn.

***KNOX, HERBERT D.**
H. D. Knox & Co., Inc., New York

*Denotes Mr. and Mrs.

***KOERNER, STAR C.**
Mitchell, Hutchins & Co., Chicago, Ill.

KUHLMANN, RICHARD H.
Friedman, Brokow & Lesser, St. Louis, Mo.

***KOSEK, ERNEST**
Ernest Kosek & Co., Cedar Rapids, Iowa

***KUMIN, EMIL**
Estabrook & Co., Boston, Mass.

La BEAU, EARLE
Fitch Publishing Service, Boston, Mass.

LAHTI, MATTHEW
Matthew Lahti & Co., Boston, Mass.

LAIRD, FRANK J.
Stroud & Co., Inc., Philadelphia, Pa.

LAMONT, MRS., JOAN
Minot, Kendall & Co., Inc., Boston, Mass.

LAMONT, NICHOLAS
May & Gannon, Inc., Boston, Mass.

LANE, ROBERT W.
McBride, Miller & Co., Newark, N. J.

***LARSEN, HENRY**
F. B. Cooper, Boston, Mass.

***LATSCHA, FREDERIC F.**
Frederic Latscha & Co., Cincinnati, Ohio

LATSHAW, JOHN
Harris Upham & Co., Kansas City, Mo.

***LEAHY, D. C.**
National Quotation Bureau, Inc., Boston, Mass.

Le BEAU, IRVING
May & Gannon, Inc., Boston, Mass.

***LERNER, LOUIS C.**
Lerner & Co., Boston, Mass.

LEE, MRS., L. H.
Medford, Mass.

LESTRANGE, GEORGE E.
Arthurs, Lestrange & Klima, Pittsburgh, Pa.

LEVINE, CARL A.
F. L. Putnam & Co., Inc., Boston, Mass.

LEVY, GUSTAVE L.
Goldman, Sachs & Co., New York

LIVINGSTON, ROBERT
L. J. Schultz & Co., New York

LOPATO, ALLAN
Allen & Co., New York

***LOTHROP, GILBERT M.**
W. E. Hutton & Co., Boston, Mass.

LOUGHLIN, WILLIAM C.
Bull, Holden & Co., New York

LOVELAND, FRANKLIN O.
Field, Richards & Co., Cincinnati, Ohio

***LYNCH, FRANK E.**
Hunnewell & Co., Boston, Mass.

***LYNCH, JAMES J.**
Shea & Co., Boston, Mass.

(Continued on page 25)

Baltimore Security Traders Association


J. Wilmer Butler


Charles Gross


Bernard E. Eberwein


H. Mitchell Bruck

President: J. Wilmer Butler, *Baker, Watts & Co.*
Vice-President: Charles Gross, *Harry M. Sheely & Co.*
Secretary: Bernard E. Eberwein, *Alex. Brown & Sons.*
Treasurer: H. Mitchell Bruck, *Baumgartner & Co.*
Board of Governors: Edward B. Freeman, *Lockwood, Peck & Co.;* E. Guy Gray, *Mercantile Trust Co.;* E. Elwood McClure, *Stein Bros. & Boyce.*
National Committeemen: J. Wilmer Butler, *Baker, Watts & Co.;* John M. O'Neill, *Stein Bros. & Boyce.*
Elected: December 6, 1946; Took Office: January 1, 1947; Term Expires: January 1, 1948.

Boston Securities Traders Association


Sumner R. Wolley


H. N. Bernard, Jr.


Arthur E. Engdahl


T. Edmund Williams


Harold A. Madary

President: Sumner R. Wolley, *Coffin & Burr, Inc.*
Vice-President: Hubert N. Bernard, Jr., *Schirmer, Atherton & Co.*
Treasurer: Arthur E. Engdahl, *Goldman, Sachs & Co.*
Corresponding Secretary: T. Edmund Williams, *Hooper-Kimball, Inc.*
Recording Secretary: Harold A. Madary, *Geyer & Co.*
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National Committeemen: Dayton P. Haigney, *Dayton Haigney & Co.;* Sumner R. Wolley, *Coffin & Burr, Inc.;* Wilfred N. Day, *Chas. A. Day & Co.;* Joseph Gannon, *May & Gannon, Inc.;* Frank E. Lynch, *Hunnewell & Co.*
Elected: October 1, 1946; Took Office: October 1, 1946; Term Expires: December 31, 1947.

John H. Hudson, *Thayer, Baker & Co.*, Philadelphia; Fred Fischer, *H. N. Nash & Co.*, Philadelphia; Mike Heaney, *Jos. McManus & Co.*, New York City

Tom Graham, *Bankers Bond Co.*, Louisville, Ky.; James J. Lynch, *Shea & Co.*, Boston, Mass.; Harold Smith, *Collin, Norton & Co.*, New York City

In Attendance at NSTA Convention

(Continued from page 24)

LYON, WILLIAM E. B.
R. S. Dickson & Co., Inc., Charlotte, North Carolina

LYONS, KEVIN T.
Lyons & Shafto, Boston, Mass.

MADER, HENRY
Tucker, Anthony & Co., New York

***MAENDER, CLARENCE J.**
G. H. Walker & Co., St. Louis, Mo.

***MALONEY, EDWARD**
Dept. of Public Utilities, Boston, Mass.

***MACK, M. ALFRED**
Westheimer & Co., Cincinnati, Ohio

MACRAE, JR., COLLINS
Wulff, Hansen & Co., San Francisco, Calif.

***MADARY, HAROLD**
Geyer & Co., Inc., Boston, Mass.

***MAGID, SAMUEL E.**
Hill, Thompson & Co., Inc., New York

MAGUIRE, F. E.
Stroud & Co., Inc., Philadelphia, Pa.

***MAGUIRE, JAMES B.**
E. H. Rollins & Sons, Inc., Boston, Mass.

***MAGUIRE, JOHN E.**
May & Gannon, Inc., Boston, Mass.

MARKELL, BETTY-JO
Greene & Co., New York

***MARR, LAWRENCE**
E. H. Rollins & Sons, Inc., Chicago, Ill.

***MARSLAND, ALLISON**
Wood, Gundy & Co., Inc., New York

***MAY, WILLIAM**
May & Gannon, Inc., Boston, Mass.

***MAYER, JOHN M.**
Merrill Lynch, Pierce, Fenner & Beane, New York

***McCLEARY, GEO. M.**
Florida Securities Co., St. Petersburg, Fla.

McCUE, JOHN A.
May & Gannon, Inc., Boston, Mass.

McDOWELL, LEWIS D.
J. Arthur Warner & Co., Boston, Mass.

McLAUGHLIN, JOHN F.
McLaughlin, Reuss & Co., New York

***McOMBER, A. S.**
Revel Miller & Co., Los Angeles, Calif.

***McPOLIN, BEN J.**
McDonald & Co., Cleveland, Ohio

McTAVISH, S. C.
A. E. Ames & Co., Boston, Mass.

***MEANS, J. W.**
Trust Company of Georgia, Atlanta, Ga.

***MERICKA, WM. J.**
Wm. J. Mericka & Co., Cleveland, Ohio

MEYER, MILTON S.
Shufro, Rose & Co., New York

***MILLER, DON W.**
McDonald-Moore & Co., Detroit, Mich.

***MONROE, PAUL**
Hunnewell & Co., Boston, Mass.

MOONEY, MICHAEL J.
Special Counsel Securities and Exchange Commission, Philadelphia, Pa.

***MOORE, ALEXANDER W.**
J. Arthur Warner & Co., Boston, Mass.

MOORE, FREDERICK S.
J. Arthur Warner & Co., Boston, Mass.

***MORELAND, PAUL I.**
Moreland & Co., Detroit, Mich.

MORRIS, JACK C.
Courts & Co., Atlanta, Ga.

***MORRISON, JAMES A.**
Ballou, Adams & Co., Inc., Boston, Mass.

MORTON, RONALD A.
The Blue List Publ. Co., New York

(Continued on page 26)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 25)

***MOSLEY, R. VICTOR**
Stroud & Co., Inc., Philadelphia, Pa.

***MOYNIHAN, JAMES E.**
E. H. Rollins & Sons, Inc., Boston, Mass.

***MULCOCK, E. R.**
E. R. Mulcock & Co., Syracuse, N. Y.

MULLEN, JOHN J.
Garrett-Bromfield & Co., Denver, Colo.

MULLER, GEORGE T.
Janney & Co., Philadelphia, Pa.

***MULLINS, THOMAS J.**
White, Weld & Co., New York

***MURPHY, ARTHUR C.**
Bond & Goodwin, Inc., Boston, Mass.

MURPHY, H. E.
The Financial Chronicle, New York

***MURPHY, TIMOTHY D.**
Chace, Whiteside, Warren & Sears, Boston, Mass.

MURRAY, FRANK J.
Day, Stoddard & Williams, Inc., New Haven, Conn.

MURRAY, RAYMOND M.
Tucker, Anthony & Co., Boston, Mass.

MUSSON, JAMES F.
B. J. Van Ingen & Co., New York

NEAL, J. R.
Wyatt, Neal & Waggoner, Atlanta, Ga.

***NEWMAN, LEO F.**
J. Arthur Warner & Co., Boston, Mass.

NIEMAN, BARNEY
Carl Marks & Co., Inc., New York

O'CONNOR, WILLIAM D.
Fitzgerald & Co., Inc., New York

***ODENWELLER, JR., C. J.**
SEC, Cleveland, Ohio

OETJEN, HENRY
McGinnis, Bampton & Sellger, New York

O'KANE, JR., JOHN J.
John J. O'Kane, Jr. & Co., New York

O'NEILL, JOHN M.
Stein Brothers & Boyce, Baltimore, Md.

O'NEILL, LORRAINE M.
Sincere & Co., Chicago, Ill.

***OPPER, EDWARD J.**
E. H. Rollins & Sons, Inc., Boston, Mass.

OXLEY, A. E. C.
The Dominion Securities Corp. New York

O'ROURKE, THOMAS F.
Stroud & Co., Inc., Philadelphia, Pa.

***PARSONS, EDWARD E.**
Wm. J. Mericka & Co., Cleveland, Ohio

PAYSON, GEORGE S.
H. M. Payson & Co., Portland Maine

***PETERSEN, JOSEPH G.**
Eckhardt-Petersen & Co., Inc. St. Louis, Mo.

PETTEY, HERBERT
Equitable Securities Corp. Nashville, Tenn.

PHELPS, ROGER
Campbell, Phelps & Co., New York

PHILLIPS, EDWARD J.
Samuel K. Phillips & Co. Philadelphia, Pa.

PHILLIPS, JR., SAMUEL K.
Samuel K. Phillips & Co. Philadelphia, Pa.

***PIERCE, RALPH W.**
Moors & Cabot, Boston, Mass

***PIZZINI, B. WINTHROP**
B. W. Pizzini & Co., Inc., New York

PLUMRIDGE, THEODORE E.
J. Arthur Warner & Co., Inc. New York

POTTER, J. LEE
A. W. Wood & Co., Boston Mass.

***POTTER, J. RUSSELL**
Arthur W. Wood & Co., Boston, Mass.

PULLIAM, LAWRENCE S.
Weeden & Co., Los Angeles, Calif.

PURCELL, HOYT
Martin-Holloway-Purcell, Kansas City, Mo.

QUIGLEY, J. L.
Quigley & Co., Cleveland, Ohio

QUINN, JOHN J.
Stone & Youngberg, San Francisco, Calif.

RAYMOND, LAWRENCE J.
Raymond & Co., Boston, Mass.

REHN, MISS, WANDA
John J. O'Kane & Co., New York

RICE, JR., FRED W.
C. F. Childs & Co., Boston, Mass.

RICE, IRVING J.
Irving J. Rice & Co., Inc., St. Paul, Minn.

RICE, J. PRESTON
White, Weld & Co., Boston, Mass.

RICHARDSON, JOSEPH A.
F. S. Moseley & Co., Waban, Mass.

RICHTER, HENRY J.
Scherck, Richter Co., St. Louis, Mo.

ROBERTS, JR., WILLIAM C.
C. T. Williams & Co., Inc., Baltimore, Md.

ROBINSON, E. S.
Phillips, Schmertz & Robinson, Philadelphia, Pa.

***ROGERS, JOHN C.**
Hickey & Co., Chicago, Ill.

ROGGENBURG, STANLEY
Roggenburg & Co., New York

RONEY, JOHN K.
Wm. C. Roney & Co., Detroit, Mich.

(Continued on page 27)

*Denotes Mr. and Mrs.

Security Traders Association of Detroit And Michigan, Inc.

Harold R. Chapel Ralf A. Crookston Clarence A. Horn Reginald MacArthur

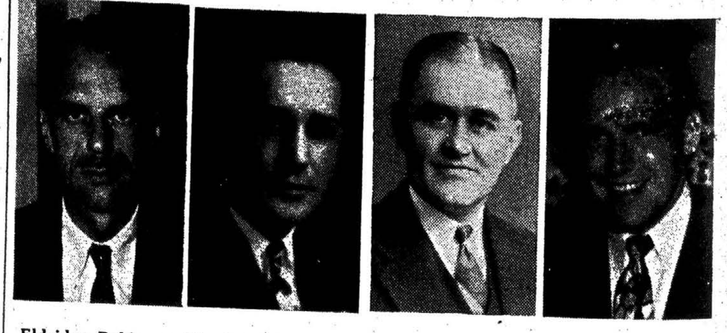
President: Harold R. Chapel, *McDonald-Moore & Co.*
Vice-President: Ralf A. Crookston, *Hornblower & Weeks.*
Treasurer: Clarence A. Horn, *First of Michigan Corp.*
Secretary: Reginald MacArthur, *Miller, Kenower & Co.*
Directors: The Officers, and Charles C. Bechtel, *Watling, Lerchen & Co.;* George J. Elder, *Mercier, McDowell & Dolphyn;* Charles Exley, *Charles A. Parcells & Co.;* Paul I. Moreland, *Moreland & Co.;* Claude G. Porter, *Mercier, McDowell & Dolphyn;* H. Terry Snowday, *E. H. Rollins & Sons, Inc.*
National Committeemen: Frank H. Kemp, *R. C. O'Donnell & Co.;* Bert F. Ludington, *Baker, Simonds & Co.;* Frank P. Meyer, *First of Michigan Corp.;* Don W. Miller, *McDonald-Moore & Co.*
Alternates: Ray P. Bernardi, *Cray, McFawn & Co.;* Neil De Young, *De Young, Larson & Tornga;* George J. Elder, *Mercier, McDowell & Dolphyn;* H. Russell Hastings.
Elected: August 29, 1946; Took Office: October 1, 1946; Term Expires September 30, 1947.

Twin City Bond Traders Association

Kermit B. Sorum Robert S. McNaghten Paul E. Matsche Martin G. Martinson

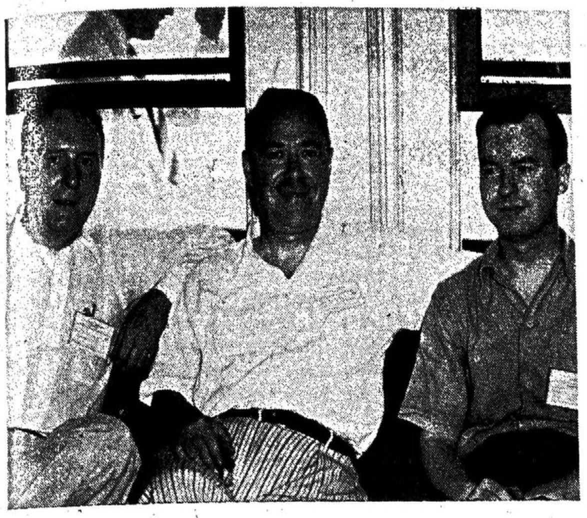
President: Kermit B. Sorum, *Allison-Williams Co.*
Vice-President: Robert S. McNaghten, *Williams McNaghten Co.*
Secretary: Paul E. Matsche, *Paine, Webber, Jackson & Curtis.*
Treasurer: Martin G. Martinson, *First National Bank of St. Paul.*
National Committeeman: William J. Lau, *C. S. Ashmun Co.*
Elected: October 3, 1946; Took Office: October 3, 1946; Term Expires: October 1947.

Bond Traders Club of Kansas City



Eldridge Robinson Claude M. McDonald Kneeland Jones John Latshaw

President: Eldridge Robinson, *Geo. K. Baum & Co.*
Vice-President: Claude M. McDonald, *McDonald & Co.*
Treasurer: Kneeland Jones, *A. E. Weltner & Co.*
Secretary: John Latshaw, *Harris, Upham & Co.*
National Committeemen: Eldridge Robinson, *Geo. K. Baum & Co.;* John Latshaw, *Harris, Upham & Co.*
Elected: January 1947; Took Office: January 1947; Term Expires: January 1948.



Paul B. Hanrahan, *Hanrahan & Co.*, Worcester, Mass.; Carl K. Ross, *Carl K. Boss & Co.*, Portland, Maine; Ben Bailey, *Dayton Haigney & Co.*, Boston

Herman Tornga, *De Young, Larson & Tornga*, Grand Rapids, Mich.; Ed. Caughlin, *Edward J. Caughlin & Co.*, Philadelphia; Neil de Young, *De Young, Larson & Tornga*, Grand Rapids, Mich.

Paul Moreland, *Moreland & Co.*, Detroit; C. J. Odenweller, Jr., Regional Administrator, SEC, Cleveland; Michael J. Mooney, special counsel, SEC, Philadelphia

In Attendance at The Convention

(Continued from page 26)

ROSS, CARL K.
Carl K. Ross & Co., Inc., Portland, Maine

ROWEN, PAUL
Reg. Admin. Securities Exch. Comm., Boston, Mass.

RUSSELL, EDWARD W.
Seligman, Lubetkin & Co., Inc., New York

RUSSELL, GORDON
Goldman, Sachs & Co., Boston, Mass.

RUSSELL, JAMES N.
Gottron, Russell & Co., Cleveland, O.

RUSSELL, P. S.
Glore, Forgan & Co., New York

SALMON, ARTHUR C.
Commerce Union Bank of Nashville, New York

SAMMON, J. F.
J. F. Sammon & Co., New York

SANDERS, JR., JESSE A.
Sanders & Newsom, Dallas, Texas

SATLER, FRANK L.
Moore, Leonard & Lynch, Pittsburgh, Pa.

***SAUNDERS, WALTER F.**
The Dominion Securities Corp., New York

***SCHAEFER, EDWARD W.**
H. D. Knox & Co., Inc., New York

***SCHEUER, CHAS. G.**
Scheuer & Co., Chicago, Ill.

SCHLOSSER, GUSTAVE
Union Securities Corp., New York

SCHOEN, KENNETH B.
J. C. Bradford & Co., Nashville, Tenn.

SCHULTZ, LEO J.
L. J. Schultz & Co., Cleveland, Ohio

***SELIGMAN, BERTRAM**
Ward & Co., New York

SENER, JOSEPH W.
Mackubin, Legg & Co., Baltimore, Md.

SHAW, HERBERT I.
Vance, Sanders & Co., New York

SHEA, JR., JOHN L.
Shea & Co., Boston, Mass.

SHEELINE, PAUL D.
Paul D. Sheeline & Co., Boston, Mass.

SHERWOOD, D. B.
Comstock & Co., Chicago, Ill.

SIMONS, KEATING L.
James Conner & Co., Charleston, South Carolina

SINGER, LOUIS P.
Troster, Currie & Summers, New York

***SKINNER, JR., WM. T.**
Walter J. Connolly Co., Boston, Mass.

(Continued on page 28)

*Denotes Mr. and Mrs.

In Attendance at NSTA Convention

(Continued from page 27)

SLOAN, DONALD C.
Sloan & Wilcox, Portland, Oregon

***SMITH, CHAS. H.**
Moors & Cabot, Boston, Mass.

***SMITH, HAROLD B.**
Collins, Norton & Co., New York

SMITH, HERBERT C.
Blyth & Co., Inc., Boston, Mass.

***SNYDER, EVERETT W.**
E. W. Snyder & Co., Syracuse, New York

***SPELLMAN, VINCENT L.**
Frederick C. Adams & Co., Boston, Mass.

***STAIB, LEE R.**
George Eustis & Co., Cincinnati, Ohio

STALKER, A. J.
Shields & Co., New York

*Denotes Mr. and Mrs.

STANLEY, GEORGE
Schirmer, Atherton & Co., Boston, Mass.

STEELE, HARRY J.
Fauset, Steele & Co., Pittsburgh, Pa.

***STEINDECKER, OTTO H.**
New York Hanseatic Corp., New York

***STOLLE, CARL**
G. A. Saxton & Co., New York

STRADER, LUDWELL A.
Scott, Horner & Mason, Inc., Lynchburg, Va.

***STRAUSS, ABRAHAM**
Strauss Bros., Inc., New York

SULLIVAN, A. A.
Equitable Securities Corp., New York

SULLIVAN, JR., JOHN E.
F. L. Putnam & Co., Inc., Boston, Mass.

SULLIVAN, HELENE N.
F. L. Putnam & Co., Inc., Boston, Mass.

SULLIVAN, ROBERT W.
Donahue & Sullivan, Boston, Mass.

SUMMERS, WILLIS M.
Troster, Currie & Summers, New York

***TABB, JR., HENRY E.**
Townsend, Dabney & Tyson, Boston, Mass.

TEGELER, JEROME
Dempsey-Tegeler & Co., St. Louis, Mo.

THORNBURGH, R. W.
The W. C. Thornburgh Co., Cincinnati, Ohio

TIRRELL, JOHN H.
Star Printing Co., Boston, Mass.

TORNGA, HERMAN
DeYoung, Larson & Tornga, Grand Rapids, Mich.

***TOWNSEND CURTICE N.**
Weeden & Co., Boston, Mass.

TREANOR, JAMES E.
Director, Trading & Exch., Securities Exchange Commission, Philadelphia, Pa.

***THOMPSON, WILLIAM S.**
Ralph F. Carr & Co., Boston, Mass.

***TREVINE, ROY**
Harriman Ripley & Co., Inc. Philadelphia, Pa.

TRIGGER, RAYMOND
Investment Dealers' Digest New York

TURNER, STEPHEN C.
Turner-Poindexter & Co., Los Angeles, Calif.

VANCE, HENRY T.
Vance, Sanders & Co., Boston, Mass.

VARNEDOE, SAMUEL L.
Varnedoe, Chisholm & Co., Inc., Savannah, Ga.

WADE, GAY D.
Detroit, Mich.

***WAKELEY, THOMPSON M.**
A. C. Allyn & Co., Inc., Chicago, Ill.

WALDRON, KING
Grimm & Co., New York

WALDRON, STANLEY M.
Wertheim & Co., New York

WALKER, GRAHAM W.
National Quotation Bureau, Inc., New York

WALKER, LOUIS E.
National Quotation Bureau, Inc., New York

***WALSH, RICHARD, H.**
Newhard, Cook & Co., St. Louis, Mo.

WARING, LLOYD B.
Kidder, Peabody & Co., Boston, Mass.

***WARREN, ROBERT H.**
Geyer & Co., Inc., Boston, Mass.

WECK, ALBERT H.
69 Wall St., New York

***WELCH EDWARD H.**
Sincere & Co., Chicago, Ill.

WEHMANN, GILBERT H.
White, Weld & Co., New York

WELCH, FRANCIS H.
R. S. Dickson & Co., Inc., New York

WEBBER, JR., WILLIAM S.
E. H. Rollins & Co., Boston, Mass.

WEBER, MISS CECILE
A. C. Best & Co., Milwaukee, Wisconsin

WEEDEN, FRANK
Weeden & Co., San Francisco, Calif.

WEEKS, ROBERT S.
Coffin & Burr, Boston, Mass.

***WELLS, CARL**
Paine, Webber, Jackson & Curtis, Boston, Mass.

WELSH, JR., HENRY C.
Lilley & Co., Philadelphia, Pa.

WESTON, WENDELL
Weston & Co., Boston, Mass.

WHITCOMB, BURTON F.
Blyth & Co., Inc., Boston, Mass.

WHITING, RICHARD A.
Bond & Goodwin, Inc., Boston, Mass.

(Continued on page 37)

Security Traders Club of St. Louis


Jerome F. Tegeler


Wm. F. Dowdall


Joseph S. Fischer


Walter J. Creely


Haworth F. Hoch


George Ries

President: Jerome F. Tegeler, *Dempsey-Tegeler & Co.*
1st Vice-President: Wm. F. Dowdall, *Wm. F. Dowdall & Co.*
2nd Vice-President: Joseph S. Fischer, *Peltason-Tenenbaum Co.*
3rd Vice-President: Walter J. Creely, *Goldman, Sachs & Co.*
Secretary: Haworth F. Hoch, *McCourtney, Breckenridge & Co.*
Treasurer: George Ries, *Mississippi Valley Trust Co.*
National Committeemen: Henry J. Richter, *Scherck, Richter Co.;* Joseph G. Petersen, *Eckhardt-Peterson & Co.;* Mel M. Taylor, *Semple, Jacobs & Co.;* Richard H. Walsh, *Newhard, Cook & Co.*

Elected: October 16, 1946; Took Office: November 1, 1946; Term Expires: October 31, 1947.

Security Traders Association of New York


Michael J. Heaney


Louis A. Gibbs


Frank A. Pavis


T. Geoffrey Horsfield


Wellington Hunter

President: Michael J. Heaney, *Jos. McManus & Co.*
1st Vice-President: Louis A. Gibbs, *Laird, Bissell & Meeds.*
2nd Vice-President: Frank A. Pavis, *Chas. E. Quincey & Co.*
Secretary: T. Geoffrey Horsfield, *Wm. J. Mericka & Co.*
Treasurer: Wellington Hunter, *Aetna Securities Co.*
National Committeemen: Charles M. Zingraf, *Laurence M. Marks & Co.;* Carl Stolle, *G. A. Saxton & Co.;* Stanley Roggenburg, *Roggenburg & Co.;* Michael J. Heaney, *Joseph McManus & Co.;* Chester E. de Willers, *C. E. de Willers & Co.*

Alternates: Thomas Greenberg, *C. E. Unterberg & Co.;* James D. Cleland, *James D. Cleland & Co.;* Elmer E. Myers, *B. W. Pizzini & Co., Inc.;* James F. Musson, *B. J. Van Ingen & Co., Inc.;* Stanley C. Eaton, *Bendix, Luitweiler & Co.*

Directors: Abraham Strauss, *Strauss Bros., Inc.;* John M. Mayer, *Merrill Lynch, Pierce, Fenner & Beane;* Lester T. Doyle, *Hardy & Co.;* Chester E. De Willers, *C. E. de Willers & Co.;* John F. McLaughlin, *McLaughlin, Reuss & Co.;* Gustave J. Schlosser, *Union Securities Corp.;* George V. Leone, *Frank C. Masterson & Co.;* Richard F. Abbe, *Van Tuyl & Abbe.*

Elected: December 1946; Took Office: January 1, 1947; Term Expires: December 31, 1947.

Mr. and Mrs. Stanley Roggenburg, *Roggenburg & Co.*, New York City; John French, *A. C. Allyn & Co.*, New York City; Samuel K. Phillips, Jr., *Samuel K. Phillips & Co.*, Philadelphia

Edward Phillips, *Samuel K. Phillips & Co.*, Philadelphia; Henry G. Isaacs, *Virginia Securities Corp.*, Norfolk, Va.; Landon A. Freear, *Wm. N. Edwards & Co.*, Fort Worth, Tex.

Investor Confidence in the Securities Market

(Continued from page 6)

the same circumstances and you won't go far wrong.

You, securities traders, perform an important function, at least so far as maintaining an orderly market 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 maintain an orderly market or make it chaotic. You are the heart of the over-the-counter market. Yours is a great responsibility not only to the investing public but to the economic welfare of the country. In your dealings with others you should also bear in mind your responsibility to your firm and the fact that your authorized acts are the acts of the firm, which will be held responsible by the Commission and the courts for any violations of law of which you are guilty.

On the point of customer confidence, I believe that in addition to advising a customer properly concerning the merits and demerits of a particular security as an investment and, in addition to effecting transactions at a fair price, you should make it a fundamental precept of your business practice that the customer be advised of and made to understand, the basis of his legal relationship with your firm and of the legal rights and duties flowing from that relationship.

In our review of records at the Commission involving over-the-counter broker and dealer proceedings, we face with distressing frequency the fact that customers simply do not know the basis of their relationships with many securities firms. Physicians, school-teachers and others, possessing some intelligence and familiarity with the English language, are found not to understand that they have been buying securities **from** the firm rather than **through** the firm, and that they have been paying **profits** rather than **commissions.**

I have heard people in the securities business give the standard explanation for this. First, they say that many customers don't have sufficient intelligence to comprehend even the simplest explanations of technical matters. This is open to some question. There is no misconception in the real estate field, for example, of the functions of an agent. No one who buys a house using the services of a real estate broker has any doubt that he bought the house **through** the broker and not **from** him. It should be no more difficult to make your customers aware of the difference between the securities broker and dealer than it has been for others to train them concerning the real estate agent's functions. A brief oral discussion with the customer in each transaction, explaining to him exactly the relationship in which the firm proposes to act, should impose no impediment to and, in fact, should greatly benefit your business and increase the customer's confidence. On the other hand, a slurring over of the disclosure of the firm's status in over-the-counter transactions has been found to be the first step in many of the serious violations with which we have dealt: such as excessive markups, churning, misrepresentation and others. In doubtful cases, where the Commission is appraising the willfulness of violations and the public interest in fixing a penalty, it is likely to put a good deal of weight on the fact that the customers, in their testimony, have not been informed of and have not understood the nature of the transactions and their relationship with the firm.

So far as prices charged to customers are concerned, it has been and will continue to be Commission policy to interdict transactions effected with customers at prices which bear no reasonable relationship to the current market price. I need not enlarge upon this point. But in this connection

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Investor Confidence in the Securities Market

(Continued from page 29)

let me point out that the Commission has never adopted a rule requiring firms conducting a fair dealer business to disclose the actual market price of the securities which they buy or sell: nor does it have the adoption of any such rule in contemplation at this time. Nothwithstanding this fact, you must never forget, at any time, that you have a duty to perform to deal fairly with your customers. Unless this obligation is complied with, this Commission or some future Commission may be driven by public clamor to adopt a market disclosure rule.

Information on Over-the-Counter Securities

On the general subject of investor confidence, I should like to add one last thought. It is a matter of concern to those of us who represent agencies of the government that the minimum protections afforded by the registration requirements of the Securities Exchange Act of 1934 are not available to all investors. This ought to be of even greater concern to those of you whose responsibility it is to supervise investments of your clients. In my mind public confidence in the securities markets cannot long continue if certain issuers of securities continue to pursue a policy of withholding material facts from their public security holders. It is difficult for me to understand how a broker or dealer can advise his customer to buy the securities of an issuer which does not give recognition to its obligations to its security holders by keeping them fairly informed at reasonable intervals concerning the progress of the enterprise. In my mind an issuer which goes to the public to finance its enterprise has a moral obligation to keep the public informed of the progress of its business. This existing lack of information has a twofold defect, for it is

Bond Club of Syracuse




Ernest R. Mulcock Edward L. Emmons Charles T. Heaton Alvin G. Hageman

President: Ernest R. Mulcock, *E. R. Mulcock & Co.*
Vice-President: Edward L. Emmons, *Reynolds & Co.*
Secretary: Charles T. Heaton, *Wm. N. Pope, Inc.*
Treasurer: Alvin G. Hageman, *Syracuse Savings Bank.*

Security Dealers of the Carolinas



Keating L. Simons Allen C. Ewing

President: Keating L. Simons, *James Conners & Co.*, Charleston, S. C.
Vice-President: E. B. Wulbern, *R. S. Dickson & Co., Inc.*, Charlotte, N. C.
Secretary: Allen C. Ewing, *Allen C. Ewing & Co.*, Wilmington, N. C.
Treasurer: I. M. Read, *Frost, Read & Simons, Inc.*, Charleston, S. C.

Cincinnati Stock and Bond Club

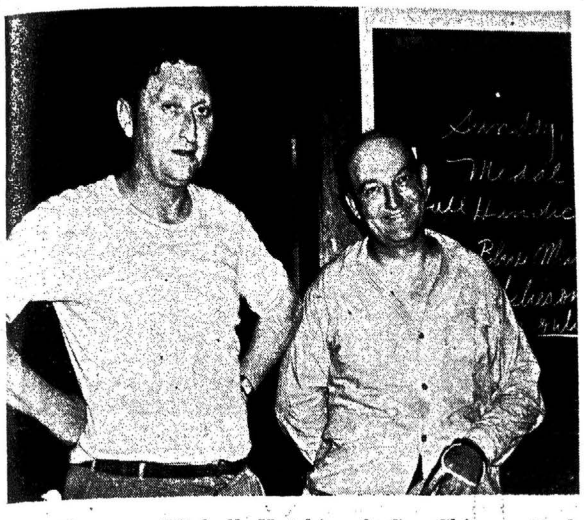


F. O. Loveland, Jr. James E. Madigan Frederic F. Latscha


Paul W. Glenn George T. Grady

President: Franklin O. Loveland, Jr., *Field, Richards & Co.*
1st Vice-President: James E. Madigan, *J. E. Madigan & Co.*
2nd Vice-President: Frederic F. Latscha, *Frederic Latscha & Co.*
Secretary: Paul W. Glenn, *Edward Brockhaus & Co.*
Treasurer: George T. Grady, *John E. Joseph & Co.*
National Committeemen: Robert W. Thornburgh, *W. C. Thornburgh Co.*; Harry C. Vonderhaar, *Westheimer & Co.*; Clair S. Hall, *Clair S. Hall & Co.*

Elected: January 10, 1947; Took Office: January 10, 1947; Term Expires: December 31, 1947.



Star Koerner, *Mitchell, Hutchins & Co.*, Chicago; Paul Monroe, *Hunnewell & Co.*, Boston

Crandon Leahy, *National Quotation Bureau*, Boston; Mrs. and Mr. Burton F. Whitcomb, *Blyth & Co., Inc.*, Boston

E. Clinton Bamberger, *Baumgartner & Co.*, Baltimore; Wilfred Day, *Chas. A. Day & Co.*, Boston

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 suoh 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 in all this 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.

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 the 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 let's me look after her money. It is safer there than 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 of the talents of the best minds in America to a wariare 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 this last war. This frightful debt has been piled up upon us which we now realize isn't a good thing—not 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 the war does is save you from dishonor 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 in Russia! When the Russian sol-

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Cleveland Security Traders Association


Jay L. Quigley


Carl H. Doerge


Alan E. Lafferty


Clemens E. Gunn

President: Jay L. Quigley, *Quigley & Co.*
Vice-President: Carl H. Doerge, *Wm. J. Mericka & Co.*
Secretary: Alan E. Lafferty, *Hornblower & Weeks.*
Treasurer: Clemens E. Gunn, *Gunn, Carey & Co.*
Governors: Dana F. Baxter, *Hayden, Miller & Co.;* Robert L. Erb, *Green, Erb & Co.;* Roderick A. Gillis, *Wood, Gillis & Co.;* John A. Kruse, *Otis & Co.;* Richard A. Gottron, *Gottron, Russell & Co.*
National Committeemen: Morton A. Cayne, *Cayne & Co.;* Corwin L. Liston, *Prescott & Co.*
Alternates: John A. Kruse, *Otis & Co.;* James Russell, *Gottron, Russell & Co.*
Elected: September 25, 1946; Took Office: October 1, 1946; Term Expires: December 31, 1947.

Bond Traders Club of Portland


John G. Gailbraith


Pierre A. Kosterman


Russell McJury

President: John G. Galbraith, *John Galbraith & Co.*
Vice-President: Pierre A. Kosterman, *Conrad, Bruce & Co.*
Secretary-Treasurer: Russell McJury, *First National Bank of Portland.*
National Committeeman: John G. Galbraith, *John Galbraith & Co.*
Alternate: Donald C. Sloan, *Sloan & Wilcox.*
Elected: December 31, 1946; Took Office: December 31, 1946; Term Expires: December 31, 1947.

Mrs. Oscar D. Griffin; Sam Magid, *Hill, Thompson & Co.*, New York City (standing); Oscar D. Griffin, *Lord, Abbett & Co.*, New York City; Mrs. Sam Magid

Jim Duffy, *Paine, Webber, Jackson & Curtis*, Boston; Wanda Rehn, *Mitchell, Hutchins & Co.*, New York City; John J. O'Kane, Jr., *John J. O'Kane, Jr. & Co.*, New York City

How Things Look

(Continued from page 32)

diers went into the broken down, second rate, cheap little capitals of Bulgaria, Belgrade, Bucharest during the war and saw people with wrist watches and silk stockings, and perfume, hot water and soap, things that come in the next five-year plan of the Soviet, things many of them had never seen, it caused a very disrupting force.

You may remember that President Kalinin had to make a special speech to the Russian soldiers to tell them that it was just around the corner. They were going to have it in Russia a few years hence. And they were feeling that way after Bucharest.

Well, think if they could look—modesty forbids my saying Boston—think if they could look at Chicago, New Orleans, or Des Moines, how do you think the Russians would feel?

The Senate has reduced to a little pittance what General Marshall asked for, $25,000,000 to continue broadcasting the "Voice of America." Cut it 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 140,000,000 think they have body odor, bad breath, falling hair and pink toothbrush can't. Why, you get a couple of thousand of those boys together and they would have the Russian people just standing on their heads over the American way of life.

I would tell them about the lynchings 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 wars. That is the way to retire Uncle Joe, and not to Independence, Mo., either.

Decay of Family Life

My third concern—the first two I am sure you will share in worrying about—is even more fundamental to we 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 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

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How Things Look to a Yankee Banker

(Continued from page 33)

it is the way that the Christian democracies have conceived as the best way, and I think it has worked marvelously in America. But it is decaying—I shouldn't be saying this, not being married—but it is decaying.

Divorces have increased enormously. Two out of every five marriages now end in divorce. What kind of business could you gentlemen 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 the emptiness that comes as a result of this. Seriously, this is a very important thing. It is fundamental to our Christian democracy, and you don't have to talk like this in church just to make it so. You ought to talk about it and think about it everywhere because you can't conduct the free democracy that we love if you destroy the family as its center. You will have a new kind of a system to live under if you do.

It takes something so atrocious and so scandalous as the Lippy Durocher and Larraine Day affair to bring this out. Even the American people couldn't swallow that and they had to revolt against it. It takes something like that to make us realize how swiftly we are sweeping down the hill as the family as the center of our strength. It is our responsibility to fix it up here in America. It is not the responsibility of England or the responsibility of Russia.

Loss of Urge to Produce

And my fourth and last point—again a domestic and basic concern—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 county in the world? It was because they were producers. They wanted to work hard and produce things. And it drove them in their covered wagons across the plains and over the mountains.

Only by producing can you be strong and utilize your capabilities and be rich. If it is wealth you want, that is the way. Well, we have lost a great measure of that in the United States. We led the whole world in 1946 in work stoppages—a proud honor. In 1946 4,600,000 workers were involved in work stoppages. And they lost 116,000,000 work hours. That is an awful lot of work and production that might have been accomplished. And they don't seem to care anymore.

Many of you have seen the results of the poll which Elmer Roper conducted last February. He asked factory workers this question: "Do you feel personally, if you work harder on your job than the others around you, that it will pay off in promotion or advancement or will it make no difference?"

Well, 49.3% of the people employed in factories said it wouldn't make any difference at all whether they worked harder. Why work hard? That is one of the by-products of our union system. They don't want people working hard and pushing one above the other. Everybody is a counter. He isn't a man anymore. That is also the way to serfdom. There is no question about that.

Last Sunday I spoke to a rather different audience, the Institute of Social Workers. And I was calling attention to some figures that our little State of Massachusetts had about the number of people who were being supported in whole or in part by public funds.

We have 1,500,000 at work producing income in the Commonwealth of Massachusetts. And in this statement it says that we have 803,000 who are not engaged in producing income. That is quite a burden, isn't it, for 1,500,000 to carry 803,000.

Well, the only difficulty with it was that some of the people I was making reference to were on the payrolls of certain states as social workers and so forth. And the people at that meeting weren't drones. When I got through talking they were hornets.

But, it is a significant thing, is it not, when we are talking of the desire to work and to produce, that in the month of January, 1947, when we were nearing the highest number of people engaged gainfully in the United States in our history, that we should be paying unemployment insurance to 116,755 just in this little bit of an old state—116,755 people getting unemployment insurance!

The thing that was going to take up the slack—at least that is the way I understood it—is hard times. I don't know how many of you come from states where people still work hard. But we have got a law here now. The bankers aren't allowed to work more than five days a week. We are so precious they have to save us for the future so we have a five-day week in the banks now. That is symbolic of something. It sure is. I would like to read what Thomas Edison said about the eight-hour day when the old man was 73 years old. Certainly few people have contributed so much through individual hard work to the American people as he did. And he said, "I am glad the eight-hour day had not been 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 very much. This country would not have amounted to as much as it does if the young men of 50 years ago had been afraid they might earn more than they were being paid."

But, they don't think that way now. It is all on the other side. And what I say—whether it is the political leaders, the labor leaders, or whoever 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

Investment Traders Association Of Philadelphia

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John M. Hudson

Charles J. Brennan

Wallace H. Runyan

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National Committeemen: Herbert H. Blizzard, *Hess, Blizzard & Co.*; Fred S. Fischer, *H. N. Nash & Co.*; George J. Muller, *Janney & Co.*; Thomas O'Rourke, *Stroud & Co., Inc.*; Ellwood S. Robinson, *Phillips, Schmertz & Robinson.*

Elected: September 6, 1946; Took Office: September 6, 1946; Term Expires: September 12, 1947.

Pittsburgh Securities Traders Association

George S. Lestrange

William G. Simpson

Earl E. Sweitzer

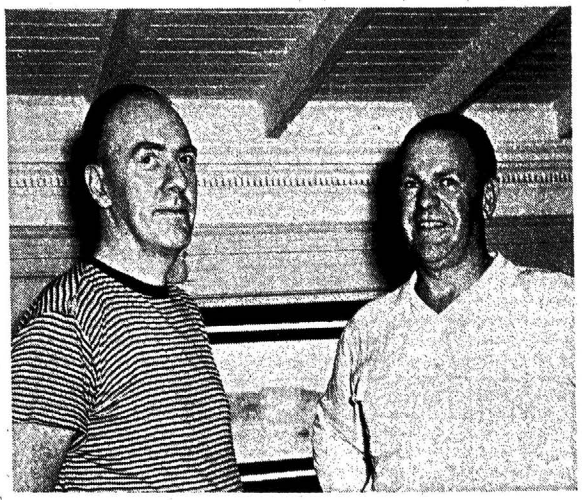
Kenneth Moir

President: George S. Lestrange, *Moore, Leonard & Lynch.*
Vice-President: William G. Simpson, H. M. Byllesby & Co., Inc.
Secretary: Earl E. Sweitzer, *E. E. Sweitzer & Co., Inc.*
Treasurer: Kenneth Moir, *Chaplin & Co.*
Directors: Chas. N. Fisher, *Singer, Deane & Scribner;* Wilbur E. Johnson, *Johnson & Johnson;* Lawrence E. White, *Blair F. Claybaugh & Co.*

National Committeemen: George S. Lestrange, *Moore, Leonard & Lynch;* Charles N. Fisher, *Singer, Deane & Scribner;* Harry J. Steele, *Fauset, Steele & Co.*

Elected: May 2, 1947; Took Office: June 1, 1947; Term Expires: May 30, 1948.

William D. O'Connor, *Fitzgerald & Co.*, New York City; Lee Hallett, *Draper, Sears & Co.*, Boston, Mass.



Jim Duffy, *Paine, Webber, Jackson & Curtis*, Boston; Herb Blizzard, *Hess, Blizzard & Co.*, Philadelphia

Marguerite Campbell, *A. C. Wood & Co.*, Philadelphia; Mr. and Mrs. Lawrence Connell, *Wellington Fund*, Boston

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 pious 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, 1929? 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, shy 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 have them fed a lot of things that I will not mention in front of this charming young woman (stenographer taking down speech). Lincoln was right when he said that this was the last best hope on earth.

When I was Chest President (Community Chest) I went all over the United States, as many of you do, and I saw 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 whole 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 12)

could be sustained for several years could be materially higher than prewar 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 future our structure will feel the effects of reduced exports.

Then, too, we are all conscious of maladjustments within the price and wage structure. Primarily due to prices, the Department of Commerce calculates that the American people are spending 41% more in eating and drinking places, 39% more in food stores and 33% more for women's apparel than would normally be expected with recent levels of disposable income. Meanwhile we are spending 51% less than normal expectancy for motor vehicles, 30% less at the filling stations, 11% less for lumber and building materials and 9% less for house furnishings. Somewhere along the line these wide distortions from normal 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% higher than it was in 1939, after adjustment for higher cost of living and higher taxes.* Nor was any mention made of the fact that *several million more workers have been added to the payroll list since 1939.* Therefore, there has been an exceedingly sharp increase in the total of *real* purchasing power of factory workers as a class. It is most unfortunate that these facts have not received the publicity that should have been accorded to them; the lack of it promotes a very bad distortion in economic and social thinking.

In this connection the real maladjustment 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 maladjustment.

As we survey these fundamental distortions, it would appear that we will have to face 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.

It is this adjustment period that has been paramount in the minds of economists, investors and businessmen ever since VJ-Day and the presumption almost invariably has been that the adjustment would be rough and difficult. Possibly so; curtailed export demand for food together with very large crops could bring a sharp setback in farm and food prices and it would be temporarily uncomfortable if this correction 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 nine months ago that this problem would cause trouble. Just how rough and difficult a correction period might be will 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 very severe would materialize for the simple reason that the outlook for so many of our key industries is still very strong.

Foreign Situation

So much publicity is being given to the economic crisis in England 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 well 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 untoward 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 educating the American people into a realization that world leadership carries with it some very serious responsibilities. At any rate, the trend seems to be in the direction of our lending very sizable sums of money to foreign nations for some time to come.

There may be temporary inter-

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Memphis Security Traders Association

W. G. Leftwich | Frank D. Frederic | Early F. Mitchell | Edward F. Thompson

President: William Groom Leftwich, *Leftwich & Ross.*

Vice-President: Frank D. Frederic, *Equitable Securities Corp.*

Secretary: Early F. Mitchell, *First National Bank of Memphis.*

Treasurer: Edward F. Thompson, *Union Planters National Bank.*

National Committeeman: Early F. Mitchell, *First National Bank of Memphis.*

Elected: January 17, 1947; Took Office: January 17, 1947; Term Expires: January 16, 1948.

Nashville Security Traders Association

Matthew B. Pilcher | Herbert Pettey | Buford G. Wilson

President: Matthew B. Pilcher, *Mid South Securities Corp.*

Vice-President: Herbert Pettey, *Equitable Securities Corp.*

Secretary and Treasurer: Buford G. Wilson, *Jack M. Bass & Co.*

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Delegate: Paul O. Frederick, *Commerce Union Bank.*

Alternate: Jo Gibson, Jr., *Webster & Gibson.*

Elected: December 27, 1946; Took Office: January 1, 1947; Term Expires: December 31, 1947.

Dallas Bond Club

Judson S. James, Jr. | W. C. Jackson, Jr. | William Waggener | Joe W. Ellis

President: Judson S. James, Jr., *James & Stayart.*

Vice-President: W. C. Jackson, Jr., *First Southwest Co.*

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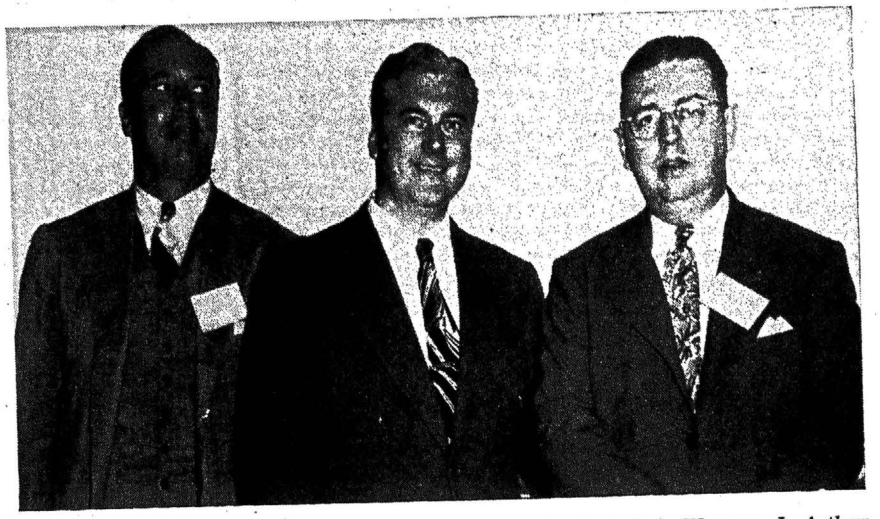
National Committeemen: John B. Cornell, Jr., *Dallas Rupe & Son;* Landon A. Freear, *William N. Edwards & Co.,* Ft. Worth; James F. Jacques, *First Southwest Co.;* John L. Canavan, *Rauscher, Pierce & Co.*

Elected: January 7, 1947; Took Office: January 7, 1947; Term Expires: December 31, 1947.

Mr. and Mrs. Lee R. Staib, *Geo. Eustis & Co.*, Cincinnati; Mrs. and Mr. Walter Saunders, *Dominion Securities Corp.*, New York City



Ted Plumridge, *J. Arthur Warner & Co.*, New York; J. Arthur Warner, *J. Arthur Warner & Co.*, New York; Ed Welch, *Sincere & Co.*, Chicago

In Attendance at The Convention

(Continued from page 28)

WHITTEMORE, DONALD H.
D. H. Whittemore & Co., Boston, Mass.

WILLIAMS, CARROLL W.
Laird, Bissell & Meeds, New York

WILLIAMS, T. EDWARD
Hooper-Kimball, Inc., Boston, Mass.

WILLIAMS, NANETE
New York

WINSLOW, JR., ANDREW N.
Perrin, West & Winslow, Inc., Boston, Mass.

WOELFEL, ERNEST J.
F. S. Moseley & Co., Boston, Mass.

***WOGLOM, ALBERT G.**
A. G. Woglom & Co., Boston, Mass.

WOLL, ALBERT J. T.
E. M. Newton & Co., Boston, Mass.

***WOLLEY, SUMNER R.**
Coffin & Burr, Inc., Boston, Mass.

***WREN, LAWRENCE**
Allen & Co., New York

WRIGHT, FREDERICK J.
F. J. Wright & Co., Boston, Mass.

***YARROW, PAUL**
Clement, Curtis & Co., Chicago, Ill.

***ZIES, CARL W.**
V. D. Anderson & Co., Cleveland, Ohio

ZINGRAF, CHARLES M.
Laurence M. Marks & Co., New York

*Denotes Mr. and Mrs.

Wm. Perry Brown, *Newman, Brown & Co.*, New Orleans, La.; Geo. H. Earnest, *Fewel & Co.*, Los Angeles; Jerry Tegeler, *Dempsey, Tegeler & Co.*, St. Louis; Graham Walker, *National Quotation Bureau*, New York City

Jim Cleaver, *Goodbody & Co.*, New York City; Mrs. Robert H. Warren, Boston; Ed Welch, *Sincere & Co.*, Chicago; Mr. and Mrs. Harry Madary, *Geyer & Co., Inc.*, Boston

Bond Traders Club of Seattle

Andrew A. Jordan

Robert Moore

F. Kenneth Easter

Waldemar L. Stein

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Vice-President: Robert Moore, *Pacific Northwest Co.*
Secretary: F. Kenneth Easter, *F. K. Easter & Co.*
Treasurer: Waldemar L. Stein, *Bramhall & Stein.*
National Committeeman: Donald A. Meyer, *Foster & Marshall.*
Alternate: Hugh R. Schlicting, *Wm. P. Harper & Son & Co.*
Elected: October 9, 1946; Took Office: October 9, 1946; Term Expires: December 31, 1947.

A Call for Balanced Economic Thinking

(Continued from page 36)

ruptions 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 insufficient to meet 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 standard 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 inflexible 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 security prices. At the present time there seems to be no need to go into the matter in detail because there is ample evidence that the credit base has been enlarged 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 clue 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)

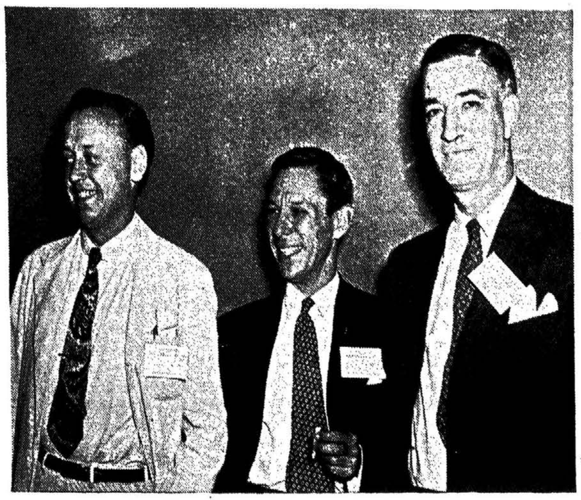
Bond Club of Houston

Claude T. Crockett

R. R. Rowles

President: Claude T. Crockett, *Moroney, Beissner & Co.*
Vice-President: Russell R. Rowles, *Rowles & Co.*
Secretary: Neill T. Masterson, *Chas. B. White & Co.*

Mrs. Ora M. Ferguson, *Merrill Lynch, Pierce, Fenner & Beane*, Louisville, Ky.; Mrs. John Maguire, Boston; Mrs. Joseph Gannon, Boston



John E. Graham, *Brainard, Judd & Co.*, Hartford, Conn.; Allison M. Berry, *Robert Garrett & Sons*, Baltimore, Md.; R. Emmet Bradley, *Mackubin, Legg & Co.*, Baltimore

T. Edmund Williams, *Hooper, Kimball & Co.*, Boston; Jesse A. Sanders, *Sanders & Newsom*, Dallas; Ernest E. Blum, *Brush, Slocumb & Co.*, San Francisco

A Call for Balanced Economic Thinking

(Continued from page 38)

the economic situation and investment policies is 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 understatement of book values when consideration is given to replacement costs. Nor do we hear much about the presently unusually low relationship of stock prices to earnings prospects, nor the attractive spread between stock yields and bond yields. These points have always been worthy of consideration in any well-balanced judgment 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 current ratio was figured out on the basis of recession earnings.

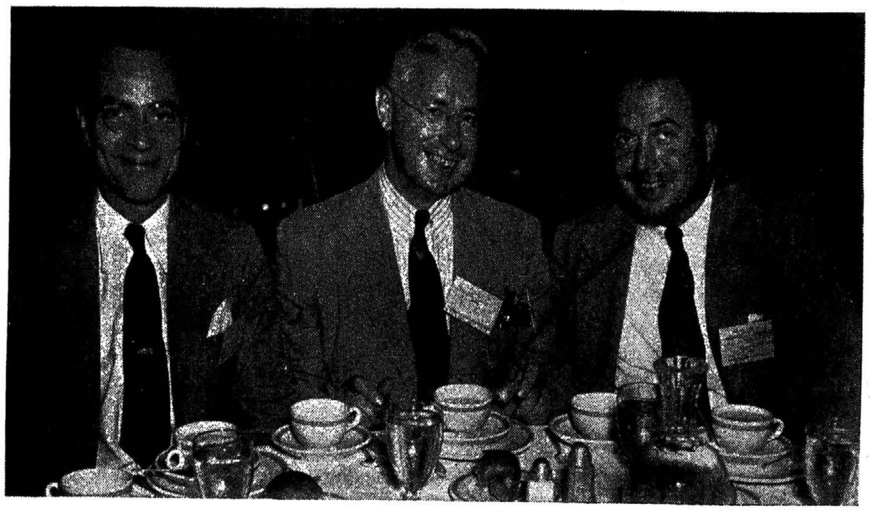
Conclusion

After this brief review of the factors that normally influence economic activity, 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 several other important lines of consumer's durable goods. Nor do we have any evidence that the producing 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 corporations have very high earning power when the volume is rolling. Stock prices are around the lowest price-earnings ratio on record and are in the lower part of an historical price-earnings ratio pattern even when calculated on estimated recession earnings. The stock yield-bond yield relationship is favorable.

On the unfavorable side we observe the uncertainties of the international political sphere from which we get recurrent shocks to confidence. We also have maladjustments within our economic structure in the form of disproportionate price and wage increases; too high a proportion of disposable income is going into food and clothing, leaving a disproportionately small balance for the purchase of other things. We cannot expect that the contribution of capital expenditures and exports to the income stream can persist at such high levels forever, even though the demands both here and abroad are very substantial.

It seems to this writer there is enough knowledge available in a consideration of all of these forces to permit intelligent financial and business planning. Each individual's problem may have to be more heavily weighted for some of these factors than for others, but broadly speaking, it seems advisable to stay away from the extremes of optimistic or pessimistic thinking—at least, for the time being.



Tom O'Rourke, *Stroud & Co., Inc.*, Philadelphia; Tim Murphy, *Chace, Whiteside, Warren & Sears, Inc.*, Boston; Jim Musson, *B. J. Van Ingen & Co.*, New York City

William Skinner, Jr., *Walter J. Connolly & Co.*, Boston; Albert G. Woglom, *A. G. Woglom & Co.*, Boston; John L. Daley, *E. H. Rollins & Sons*, Boston

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 as sound as the so-called "general obligation" bonds. 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 its 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 $6½ 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 Commission'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 of 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 advocate that in lieu of the granting of $100 millions, the government lend its credit to local Commissions and compacts 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 moneys, 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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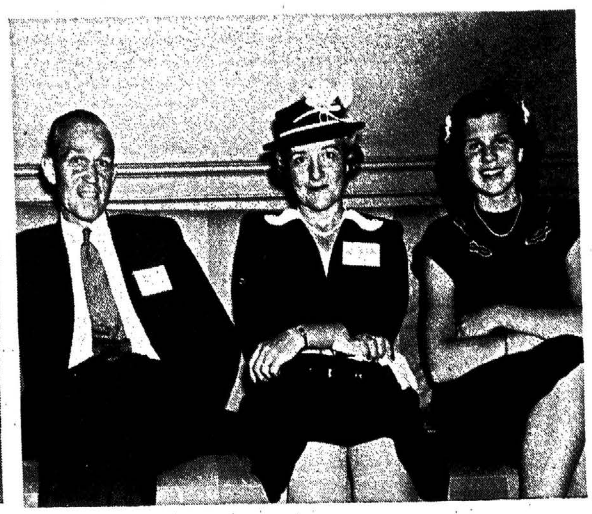
Mr. & Mrs. Geo. J. Elder, *Mercier, McDowell & Dolphyn*, Detroit; Miss Gay Wade, their niece



Mr. and Mrs. T. M. Wakeley, *A. C. Allyn & Co.*, Chicago, and Miss Natalie Wakeley

Jack Roney, *Wm. C. Roney & Co.*, Detroit, Mich.; Mrs. and Mr. Don W. Miller, *McDonald-Moore & Co.*, Detroit

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 wastes 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 recommended 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 percentum (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 costs 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 re-

(Continued on page 42)

Ed Hormel, *White, Weld & Co.*, Boston; Ed Haverstick, *Smith, Moore & Co.*, St. Louis; Clarence J. Maender, *G. H. Walker & Co.*, St. Louis; R. Emmet Byrne, *Dempsey-Tegeler & Co.*, St. Louis

Samuel Varnedoe, *Varnedoe, Chisholm & Co.*, Savannah, Ga.; Larry Wren, *Allen & Co.*, New York City; Gus Levy, *Goldman, Sachs & Co.*, New York City; Ted Plumridge, *J. Arthur Warner & Co.*, New York City

Financing Public Sanitation Projects

(Continued from page 41)

maining 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 particular 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 33⅓%, 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 "municipals." 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 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.

Geo. Geyer, *Geyer & Co., Inc.*, New York City; Wm. J. Mericka, *Wm. J. Mericka & Co.*, Cleveland; George Collins, *Geyer & Co., Inc.*, New York City

Leo J. Doyle, *Doyle, O'Connor & Co.*, Chicago; Mrs. and Mr. Joseph G. Petersen, *Eckhardt, Petersen & Co.*, St. Louis

Mr. and Mrs. Clarence J. Maender, *G. H. Walker & Co.*, St. Louis; Mrs. and Mr. J. F. Jacques, *First Southwest Co.*, Dallas, Tex.

Security Prices and Inflation

(Continued from page 8)

In February, 1929, stock prices as a whole established their peak at 548% 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 time of stabilization on into the '30s.

II.

Effect of Inflation on Different Groups of Stocks

While bonds as a group proved to be poor investments as each inflation ran its course on the Continent, it is impossible to similarly dismiss stocks in one fell swoop. The latter left in their wake widely diversified behavior patterns, profoundly affected as they were by the dominant characteristics of the individual industries or service organizations.

Banking establishments, with money as their stock in trade and their policies dominated by the national treasuries, were extremely hard hit by inflation everywhere. Afraid of money, people withdrew their deposits to purchase tangibles. Time deposits declined almost to nil, German savings banks losing as much as 99.9% of their deposits. Demand deposits, despite the increased amount of money and its greater velocity of circulation, failed to grow in like measure. While government needs carried long-term interest rates upward, short-term rates were slow to rise, not really gaining momentum until the various inflations had reached greatly magnified proportions. In France these rates did not proceed on their inevitable course 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 ex-

(Continued on page 44)

F. Brittain Kennedy, *F. Brittain Kennedy & Co.*, Boston; Robert Cutler, President of *Old Colony Trust Co.*; Boston; Ludwell A. Strader, *Scott, Horner & Mason*, Lynchburg, Va.

John W. Bunn, *Stifel, Nicolaus & Co.*, St. Louis; Henry Oetjen, *McGinnis, Bampton & Sellger*, New York City; Herbert Pettey, *Equitable Securities Corp.*, Nashville, Tenn.; Irving Greene, *Greene & Co.*, New York City

Security Prices and Inflation

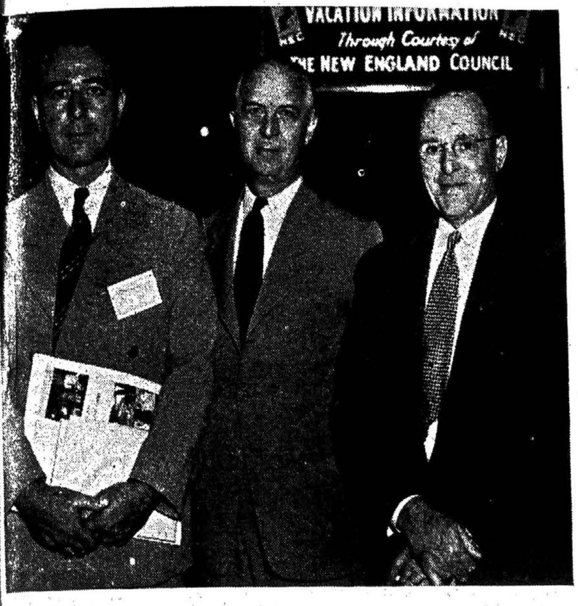
(Continued from page 43)

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, railroads left 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 only 133% of the 1913 prices.

While banks, public utilities, and railroads 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 lagged 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



Barney Bernard, *Schirmer, Atherton & Co.*, Boston; Ralph Carr, *Ralph F. Carr & Co., Inc.*, Boston; John Gardner, *Schirmer, Atherton & Co.*, Boston

Ed Jones, *Edward D. Jones & Co.*, St. Louis; Speed Hughes, *J. Arthur Warner & Co.*, Boston, Mass.

Mr. and Mrs. Roy Trevine, *Harriman Ripley & Co.*, Philadelphia; Mrs. Leo Newman, Boston; Don Sherwood, *Comstock & Co.*, Chicago

doubling of value, or for a profit of better than 100%. Credit for this remarkable showing, however, is not solely due to government noninterference. 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 1926.

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. While still in the early developmental stage, the industry

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Joseph M. Kelly, *J. Arthur Warner & Co.*, New York City; J. Wilmer Butler, *Baker, Watts & Co.*, Baltimore; Barney Nieman, *Carl Marks & Co.*, New York City

Alfred Crampton, *Weeden & Co.*, Boston; Lawrence S. Pulliam, *Weeden & Co.*, Los Angeles; Frank Weeden, *Weeden & Co.*, San Francisco; Stephen C. Turner *Turner-Poindexter & Co.*, Los Angeles

Security Prices and Inflation

(Continued from page 45)

was sorely 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 96% 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 dye 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-

Russ Ergood, *Stroud & Co., Inc.*, Philadelphia; Henry J. Richter, *Scherck, Richter Co.*, St. Louis; Charley Hahn, *Scherck, Richter Co.*, St. Louis

Mr. and Mrs. Louis Gibbs, *Laird, Bissell & Meeds*, New York City

M. Alfred Mack, *Westheimer & Co.*, Cincinnati; Edward Creamer, *Schirmer, Atherton & Co.*, Boston; Carroll W. Williams, *Laird, Bissell & Meeds*, New York City

age of 442% of prewar prices, and continued to climb to 986% 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 attractive 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

(Continued on page 48)

Mr. and Mrs. Paul Yarrow, *Clement, Curtis & Co.*, Chicago; Mike Heaney, *Jos. McManus & Co.*, New York City

Mr. and Mrs. A. W. Marsland, *Wood, Gundy & Co.*, New York City; Mr. and Mrs. Clair S. Hall., Jr., *Clair S. Hall & Co.*, Cincinnati

Security Prices and Inflation

(Continued from page 47)

rise in price. At the height of the inflation in 1923, however, they had caught up and proved an excellent investment.

Casualty insurance companies, too, did nicely during inflation. In France they did particularly well, in view of the new automobile business. 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 rise correspondingly as costs increase.

It was the long-term contracts written by life insurance companies that spelled their ruin, together with strict regulations as to prescribed investments. Being required to invest their funds in only gilt-edged securities, life 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.

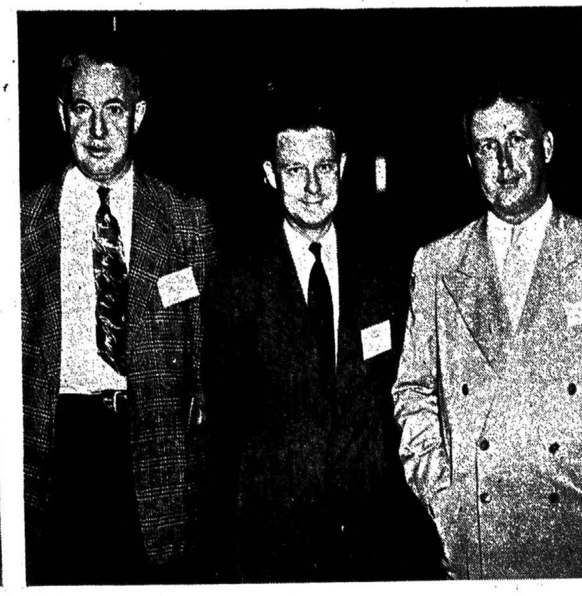
III.
Securities That Proved the Best Inflation Hedges

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 the foremost being freedom from regulation. As the purpose of regu-

Edward L. Kirkpatrick, *Nashville Securities Co.*, Nashville, Tenn.; Joe H. Davis, *First National Bank* of Memphis, Tenn.; Hoyt Purcell, *Martin-Holloway-Purcell*, Kansas City, Mo.

King Waldron, *Grimm & Co.*, New York City; F. H. Welch, *R. S. Dickson & Co.*, New York City; Wm. E. B. Lyon, *R. S. Dickson & Co.*, Charlotte, N. C.



Edward L. Morse, *Boston Safe Deposit & Trust Co.*; Arthur E. Engdahl, *Goldman, Sachs & Co.*, Boston; Geo. M. McCleary, *Florida Securities Company*, St. Petersburg, Fla.

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 thrusting 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 fare 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. Those industries best able to close up and pick up again later offer far better hedging opportunities than those which suffer tremendous losses by operating.

Finally, hedging possibilities depend largely upon the type of goods produced or the type of service performed. Companies producing neces-

(Continued on page 50)

Oliver Goshia, *Goshia & Co.*, Toledo, Ohio; Collins Macrea, Jr., *Wulff, Hansen & Co.*, San Francisco; Mrs. Oliver Goshia

Mr. and Mrs. James A. Morrison, *Ballou, Adams & Co.*, Boston; Mr. and Mrs. Louis Lerner, *Lerner & Co.*, Boston

Security Prices and Inflation

(Continued from page 49)

sities 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.

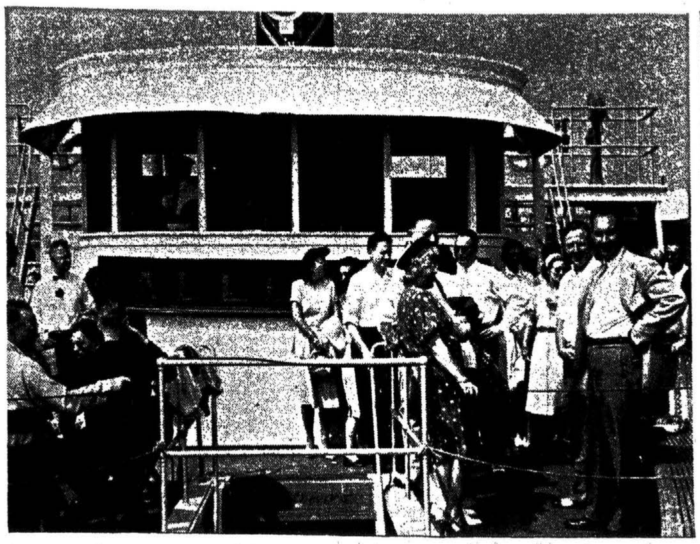
Yet without a good management, even the soundest company would soon go on the rocks. Conservatism, however, does not constitute the most desirable attribute of good management during an inflation. On the contrary, conservatism may spell ruin in such times when the best investments during normal times 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 tangibles, as unwise expansion of productive capacity will prove a burden during the inflation and particularly afterward when 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 enunerated characteristics of a good inflation hedge, it is interesting to summarize again those securities which came out best in the postwar inflations on the Continent. A perfect hedge, both of capital and income, was achieved by fire insurance stocks in Italy, and even in the "hyper-inflation" of Germany, stocks of the old fire insurance companies proved excellent hedges. The newer companies, anxious to meet the demand for low-cost insurance, lowered their insurance standards and suffered accordingly. Stocks of well-run casualty insurance companies, too, were good hedges. Again, in Austria, good mining stocks provided 100% hedging possibilities, and the same type of stocks turned out well elsewhere, so long as the companies selected were operating and not just prospects, and so long as the minerals did not constitute marginal deposits. Producing oil companies with ample resources likewise were good hedges. Stocks of good textile companies and of chemical companies already serving an export market also offered highly satisfactory hedging possibilities. Needless to say, foreign securities of countries with a more stable currency were excellent hedges, especially in the early stages of inflation when domestic stock prices were slow ot respond to currency depreciation. As in the case of Germany, once paper prices caught up with gold exchange rates, domestic stocks became more attractive until eventually these came to possess better hedging opportunities than did foreign securities.

IV.
Switching from Common Stocks to Bonds

While bonds offer no hedging opportunities whatever during the time an inflation is in progress, they cannot be spurned altogether in a complete hedging operation. For a hedge to be entirely successful, it generally becomes necessary to get out of common stocks and into bonds just before stabilization takes place, or very soon thereafter, for one or both of two reasons.

Because of the extreme hardships borne by creditors during inflation, the possibility exists that these may receive preferential treatment through the passage of post-stabilization revalorization laws. Such was the case in Germany, though French and Austrian creditors fared no better than other groups. Mortgage holders were awarded the most gratifying settlement in Germany when mortgages were finally fixed at 25% of their face value.



On the Excursion Boat "Allerton"—chartered for the trip to Pemberton Inn for the Clambake

At the Clambake

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 stablized 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 stock hedges. 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,

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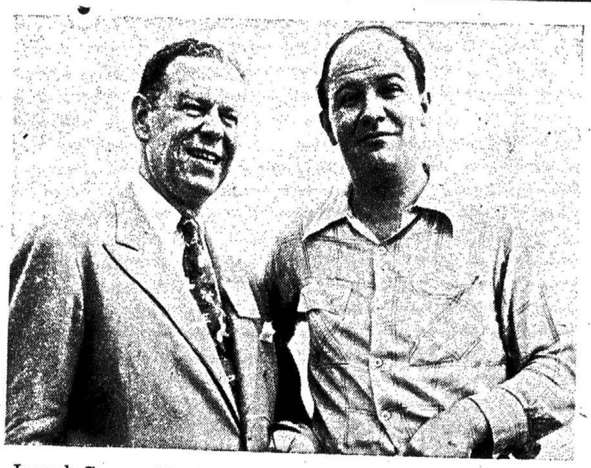


Joseph Sener, *Mackubin, Legg & Co.*, Baltimore George Lestrang, *Arthurs, Lestrange & Klima*, Pittsburgh

J. Frank Keane, *Elmer Bright & Co.*, Boston; Thomas A. Kirwan, *Thomas A. Kirwan & Co.*, Boston; Willis E. Pattison, *Elmer Bright & Co.*, Boston

Charles King, *Bankers Bond Co.*, Louisville, Ky.; Robert Diehl, *Wm. R. Staats Co.*, Los Angeles (holding lobster)

Security Prices and Inflation

(Continued from page 51)

declining 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.

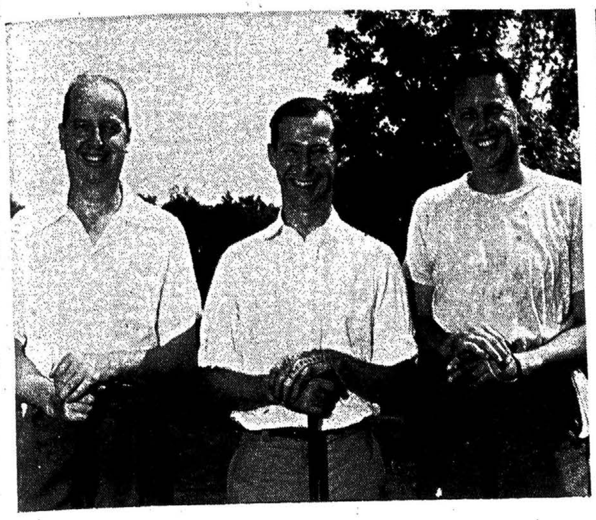
V.
Wisest Investment of Money To Keep Capital and Make It Grow

With fixed interest rates dragging down bond prices as 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.

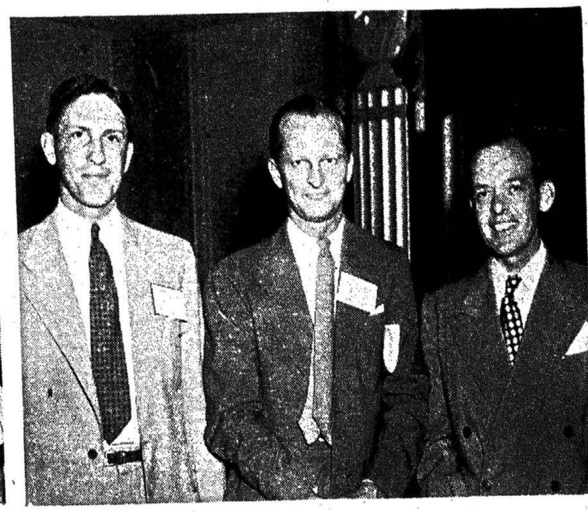
For both capital maintenance and growth, reliance had to be placed in common stocks. Prices of selected groups of stocks tended to move with the cost of living and with gold exchange rates. To the extent that the stock prices kept up with the latter, invested capital was maintained; and some capital 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 process, 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



F. E. Maguire, *Stroud & Co., Inc.*, Philadelphia; Geo. S. Payson, *H. M. Payson & Co.*, Portland, Maine; Jack C. Morris, *Courts & Co.*, Atlanta, Ga.



Alester G. Furman III, *Alester G. Furman Co.*, Greenville, S. C.; Clarence A. Horn, *First of Michigan Corp.*, Detroit; Robert B. Dixon, *McDaniel Lewis & Co.*, Greensboro, N. C.

Irving Gersten, *Gersten & Frenkel*, New York City; John Latshaw, *Harris, Upham & Co.*, Kansas City; John O'Neill, *Stein Bros. & Boyce*, Baltimore

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.

Mr. and Mrs. E. W. Snyder, *E. W. Snyder & Co.*, Syracuse, N. Y.; Mr. and Mrs. "Duke" Hunter, *Aetna Securities Corporation*, New York City

Sumner Wolley, *Coffin & Burr, Inc.*, Boston; Mrs. and Mr. E. R. Mulcock, *E. R. Mulcock & Co.*, Syracuse, N. Y.

Growing Responsibilities in Distribution

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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 $25—a cent a 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 $17.50.

You pay ¼ as much for a nationally advertised light bulb today as you paid for an inferior one in 1923. Nationally advertised gasoline, without tax, costs 40% less than in 1925. Vacuum cleaners cost $70 in 1907, but superior cleaners averaged $54 in 1941. Electric clocks are 50% lower in price now than in 1930. The average price of brand-advertised electric irons dropped from $6 to $2.95 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 amaze their friends with a voice from the air. Today the average set sells for $34 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 large 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 volume 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 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

(Continued on page 55)

Mrs. and Mr. Otto H. Steindecker, *New York Hanseatic Corp.*, New York City

Mrs. Oliver Goshia, Toledo; Mrs. James F. Jacques, Dallas; Mrs. John F. Egan, Los Angeles; Mrs. Harry L. Arnold, New York City

Growing Responsibilities in Distribution

(Continued from page 54)

upon the success of the distribution factors.

But what about the machinery for distribution? More than half our sales was to one customer—the government, and by-passed the distributors. Sales organizations were largely depleted. Salesmen turned from selling to trying to keep customers pacified without giving them merchandise. The machinery for sales promotion became rusty. Advertising was devoted largely to the preservation of reputations. Selling not only grew soft—but often it became non-existent.

The percentage of the consumer's dollar that went into distribution undoubtedly decreased during the war. When people stand in line to buy merchandise, pay cash for it and carry it away, not as much expense for sales promotion and distribution service is required.

It might be pointed out, however, that if any value is placed on the time of the consumer, and we had some way of totaling 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 distribution cost society more than ever during the years of scarcity.

During the war, department store operating costs dropped from 10 to 20%. Now that consumer resistance is increasing, especially on plentiful items, services such as delivery, credit and returned-goods privileges, which were curtailed during the war, must be resumed. 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 converted into salesmen, men and women selected, trained and inspired to do more than had ever been done before.

Much of this has been accomplished 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 grappled with falling prices and liquidating inventories. Countless old companies, searching for ways to maintain wartime volume, have launched new products and attempted to invade other fields in which they had had little experience. Now they must step out and sell for they will be among the first to be squeezed when selling again becomes competitive.

Wage 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 distribution field is less than in the field of production where mechanical improvement will be an important factor.

Simply by working two or three shifts daily, a factory's output can be greatly increased with a lowering of unit costs. No comparable opportunity exists in the field of selling which depends upon persuasion.

Because of these immediate considerations we shall delude ourselves if we do not realize that as accumulated wants are satisfied, it will be necessary, and advisable, to face an increase in percentage distribution costs.

And the basic trend that has been primarily responsible for the steady increase of percentage distribution 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 production costs will be achieved through the higher marketing expenses 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 distribution and service industries.

Since 1820 the proportion of our workers in agriculture has declined nearly three-quarters. The proportion in manufacturing has increased roughly two and one-half 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 increased about ten-fold.

The Present Situation

Where do we stand today? Is it possible that we have been so immersed in the problems of reconversion, so enchanted by our contemplation of the unfilled

(Continued on page 56)

Murray Barysh, *Ernst & Co.*, New York City; Abe Strauss, *Strauss Bros., Inc.*, New York City; Carl W. Zies, *V. D. Anderson & Co.*, Cleveland, Ohio

Keating L. Simons, *James Conner & Co.*, Charleston, S. C.; Mrs. Jos. McManus, New York City; Herbert I. Shaw, *Vance, Sanders & Co.*, Boston; Joseph McManus, *Jos. McManus & Co.*, New York City

Growing Responsibilities in Distribution

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wants, so confident that the public had more than enough money to gratify them, that we have been slow to restore distribution to the important place in our thinking and planning that it had before the war?

The war gave forced feeding to production. It brought advances in techniques and increases in facilities that would normally have come gradually over many years.

Now we are attempting to move a wartime rate of production into a peacetime rate of consumption. The machinery of distribution faces responsibilities—and opportunities—which are the greatest we have ever known. The months ahead will require a stepping-up of selling effort.

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 comparisons.

It is estimated that by July 1, 1947, the U. S. population will have grown by over 12 million, from 131,669,275 to 144,126,000—or an increase of 9½% in consumers. The number of family units will show a net increase of over 4 million, from 34,948,666 to 39,100,000—or an increase of 12%. Since 1940 six million people have moved from rural areas to the cities where the pattern and standard of living are quite different. 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 employed in non-agricultural pursuits. With weekly earnings increased 73% and 36% more people employed in non-agricultural work, there has been a 135% increase in money income in the aggregate of non-agricultural workers.

The income of the people of the United States stands today at an all-time high of $176 billion—an increase of 131% over 1940. After adjusting for higher taxes and living costs, we still have a surplus income for discretionary spending or saving of $89 billion—more than two and half times the highest prewar level—backed by the largest volume of savings in history.

This is a market with a potential such as we have never known before. Retail dollar sales are up, though unit sales and manufacturers' sales in some lines are down.

The question is this: Will people continue to buy or must we curtail our wartime production level of $200 billion and provide employment for less than 57 million civilians?

In many lines this is an advertising problem. We are dealing with people — their individual needs, whims, desires and abilities to buy. If we doubled the size of our sales organization we would not necessarily double the inclination of people to buy or consume. We cannot continue to sell the trade unless the consumer continues to buy. We must resort to informing and persuading the

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Mr. and Mrs. Jack Rogers, *Hickey & Co.*, Chicago; Geo. Stanley, *Schirmer, Artherton & Co.*, Boston

Mr. and Mrs. Bert Seligman, *Ward & Co.*, New York City; Mr. and Mrs. Geo. Eisele, *Coburn & Middlebrook*, Hartford, Conn.

Responsibilities in Distribution

(Continued from page 56)

ultimate buyer. Advertising uses mechanized 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, 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 $4,950,000,000.

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

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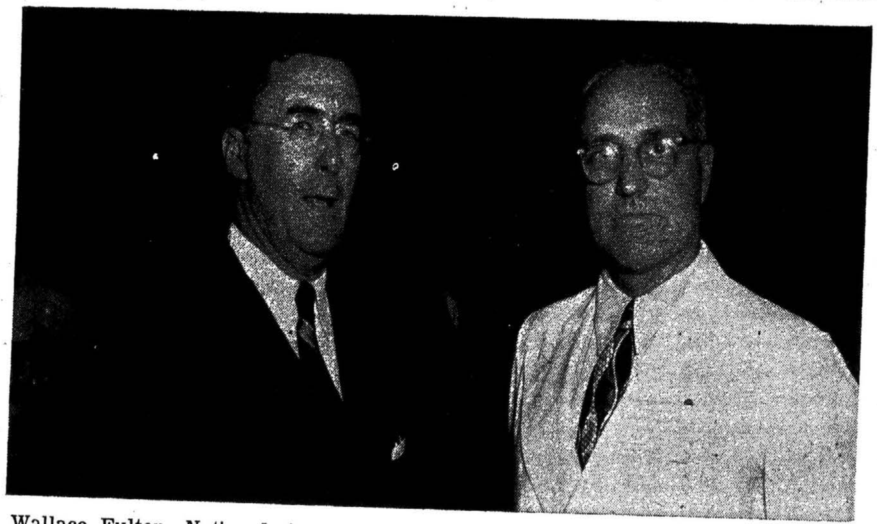


Wallace Fulton, *National Association of Securities Dealers;* B. W. Pizzini, *B. W. Pizzini & Co.,* New York City

Mr. and Mrs. John Sullivan, *F. L. Putnam & Co.,* Boston; Mrs. and Mr. James Maguire, *E. H. Rollins & Sons, Inc.,* Boston

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 so 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 merchandise at higher prices. The problem today is an old one: i.e.—to find the prices and the type and amount of sales promotion that will keep people buying.

I am not unmindful of the increases in the cost of production. But we cannot lower either costs or prices and still maintain profits by speeches, recriminations or edict. That can only be accomplished by greater output per man-hour. That is the key to lower prices, greater volume 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 can 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 rushed 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 counters.

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 consumer—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 one thing 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 have ever known. 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 to increase will continue, let no one conclude that I am blind to the opportunities to reduce unit costs.

In distribution, as in other operations, there are wastes in operating efficiency. The cost factors that influence the movement of

Mr. and Mrs. Edward W. Schaefer, *H. D. Knox & Co.*, New York City; Mr. and Mrs. Frank T. Harrington, *H. D. Knox & Co.*, Boston

Douglas R. Hansel, *Wertheim & Co.*, New York City; Robert U. Ingalls, *Tucker, Anthony & Co.*, Boston; Horace Frost, *Tucker, Anthony & Co.*, Boston

goods from factory or farm to consumer have usually not been as accurately measured as those in the processes of 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 in 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 of research effort to the marketing field.

More and more sales planners are using the engineering approach—informative 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.

Great gains are being made through aptitude tests, training courses and other personnel work.

It is unnecessary to remind this audience of the savings that can be made by the elimination of unprofitable accounts, territories and products and the concentration of effort on those that do, or could, yield a worthwhile return.

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 two years, in the effort to rush new products to market. We eliminate waste too 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.

Let's minimize the leaks and wastes in distribution. But this is no time to fall for that old catch-phrase "Distribution costs too much." Sooner or later our problem would be not the cost of distribution but the cost of lack of distribution.

That generality can become a dangerous concept. It takes management's eye off the target. More than that, it fixed it on the wrong target.

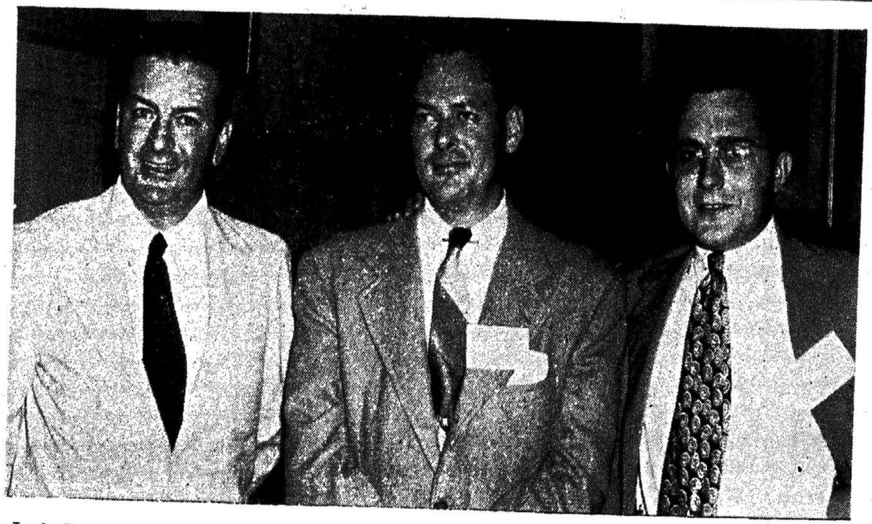
Our true target is not lower distribution costs per se, but lower consumer prices.

Paradoxically, the way to lower the unit costs of distribution, as well as production, is sometimes by spending more. Very often if you promote your product harder you sell enough more to reduce the unit cost of distribution.

It has been wisely said that nothing happens in our economy until something is sold. Consumer demand — not management — not the unions—dictates the number of jobs in our production system.

The assignment today is to sell the consumer about twice as much goods as we did before the war, or drastically curtail our productive capacity. Perhaps our distribution isn't costing enough.

Certainly the buyer's market is here. But that's like old times. It's why business has needed sales managers, salesmen and advertising as long as we can remember. But let's rename it "a market of buyers"—and go after it.



Jack Sammon, *J. F. Sammon & Co.*, New York City; King Ghegan, *Kalb Voorhis & Co.*, New York City; Wilfred G. Conary, *J. Arthur Warner & Co.*, Boston

Harry J. Steele, *Fauset, Steele & Co.*, Pittsburgh; Frank L. Satler, *Moore, Leonard & Lynch*, Pittsburgh; Mrs. and Mr. Ray Doheny, *General Stock & Bond Corp.*, Boston

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 1946 were 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 $1½ billions. This is a large amount of new capital investment. At least two-thirds of it must be obtained from investors. Whether the expansion programs 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 apathy 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 roadroad capitalization, i.e. the constant piling up of bonded indebtedness and fixed charges, thereby weakening ability to withstand long periods of depression and reduced net earnings. But to expand through capital stock issues means current net earnings sufficient to pay ample dividends—otherwise stocks cannot be sold to investors looking for income rather than appreciation. It means, also, that stock dilution must be avoided, since financing by utilities as by most any other business through capital stock alone entails normally a lower rate of return to stockholders, who bear the greatest risks in investment. Moreover, it removes the speculative possibility of gains from "leverage." Government rate regulation 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 water power policy. Since the late President Roosevelt initiated the Tennessee Valley Authority, with the objectives to launch the Government into business and, at the same time, fix a "yardstick" for rates, Federal owned power projects have multiplied and have caused private companies serious concern. At present there is no clear Federal policy. Recently, Senator Elmer Thomas (D-Okla.) has suggested a halt on all new public power projects until an overall program is decided upon. He characterized the present program as "chaotic."

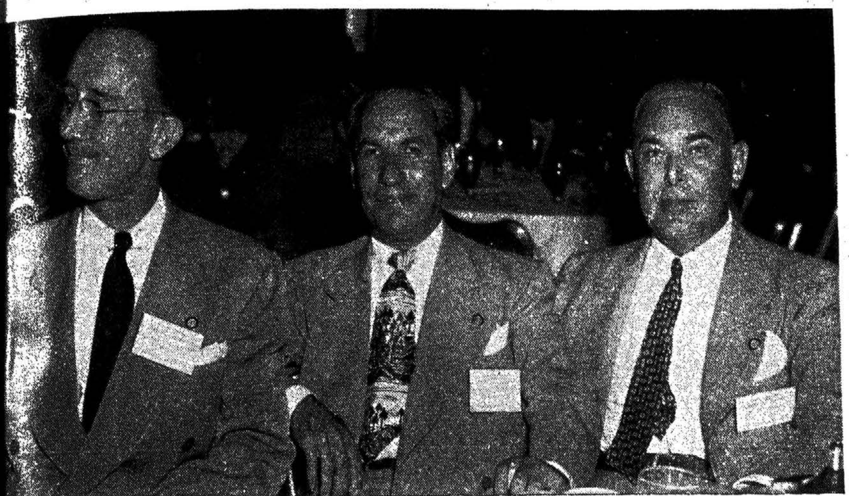
"The Government is getting into a very large public power development," he said, "and there is too much overlapping and confusion. We need an overall agency and policy." He added that every large reclamation project has a public power system, that all projects are administered separately, and that "every one of these 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 at a later date 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 economy drives and the present heavy cost of construction of all kind, 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 admonishment against slashing the Interior

(Continued on page 61)



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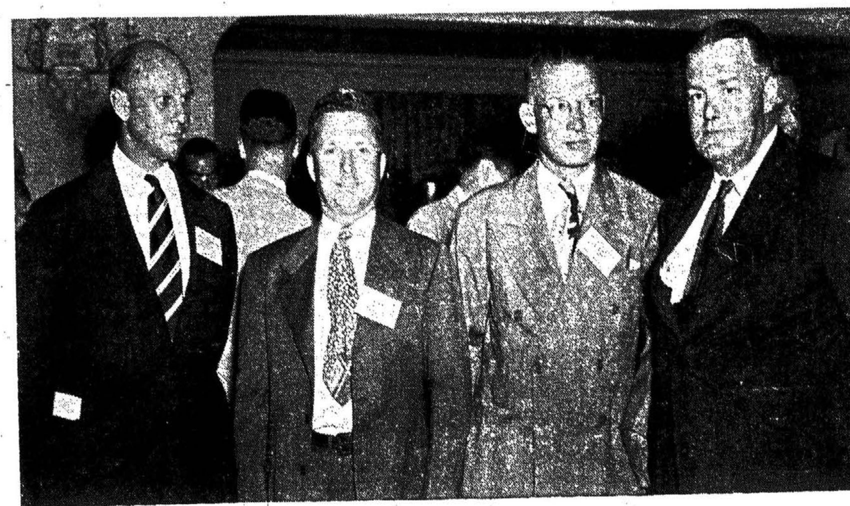

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What's Ahead for Utilities?

(Continued from page 60)

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

The Interior Department's request for $295,000,000 was cut to $161,000,000 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 appropriations 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 the low rate of 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)

was the land of promise, opportunity and freedom. Were it not for those bars to immigration today we would be flooded with people. The meanest level of living in this country is far superior even to the average level of living of a good many countries including those that have beat the drums loudest and longest about the advantages of the socialistic system. Let those either here or abroad who deprecate the achievements of the private enterprise system answer a question: If they are Americans, ask them whether they would rather live in the United States than elsewhere, and why. If they live in Europe, ask them what would happen if the facts about this country were freely available and immigration were not restricted.

So long as we rely primarily upon a system of private initiative and competition to obtain our livelihood there is but little pressure to deny our citizens the basic political freedoms. Once, however, governments undertake to plan the economic life of their citizens, then free speech and a 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 workers."

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 more important that we meet the test in which we are engaged. Our system is in conflict politically, economically, and spiritually with an opposing system. We must make it work to strengthen and support our foreign policy and to give aid and comfort to our friends in other nations lest they be submerged under the avalanche of totalitarianism.

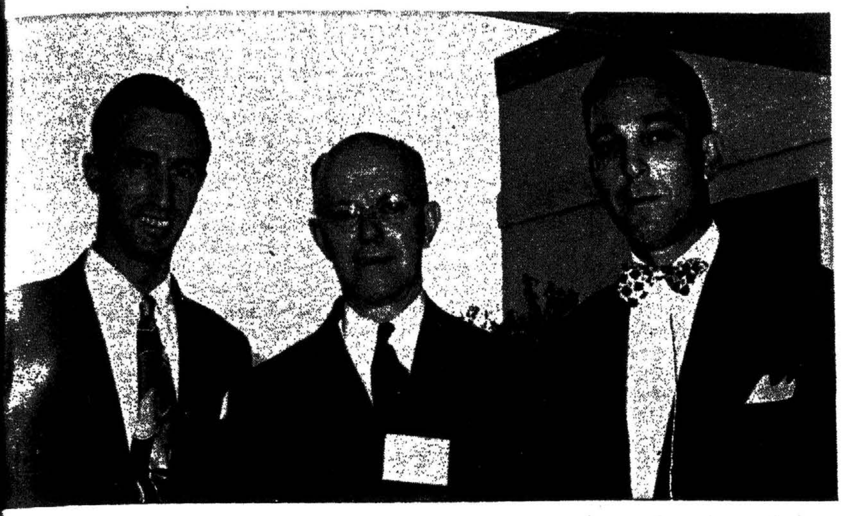
The Supply of Money and Credit

At the moment there seems to be little doubt that the private enterprise system is working. It is producing at the highest peacetime level in history. It has provided the legendary 60 million jobs. But remember that we are still hopped by that narcotic shot in the arm administered by the war and by the method of financing the war. We are experiencing the after-effects of the greatest volume of pump priming 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 that 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 some 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 controls 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 the private enterprise system work effectively? What will businessmen need to do 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 dead hand of security has touched not only the worker; too often it has touched the investor. We have, for example, an enormous reservoir of capital in institutional hands in New England. In 1939



d Kelly, *Carl M. Loeb, Rhoades & Co.*, New York City; John J. Mullen, *Garrett, Bromfield & Co.*, Denver; Frederic F. Latscha, *Frederic Latscha & Co.*, Cincinnati

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nventments of insurance companies, banks, government trust unds, endowed institutions, investment trusts and other investment institutions amounted to more than $10½ billions. We must find, and we are now trying some way to tap such funds for use in 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 also need a revision of the tax laws and especially the laws and regulations governing 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 for 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 who 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 cannot 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.

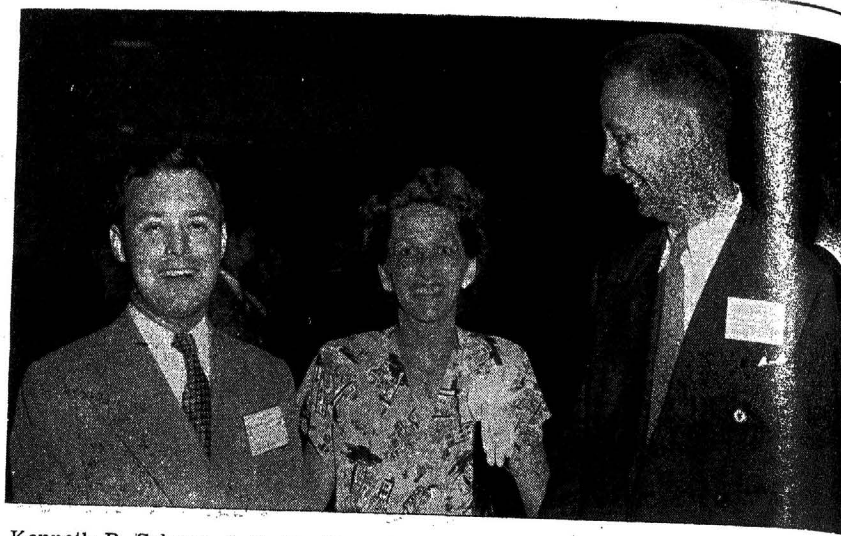
Building a Backlog for Leaner Times

Along the same line, this is the appropriate time not only to balance budgets, Federal, state and local, but the time to be piling up surpluses 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. This 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."

Mrs. D. C. Leahy (guest); Mr. and Mrs. Arthur C. Murphy, *Bond & Goodwin, Inc.*, Boston



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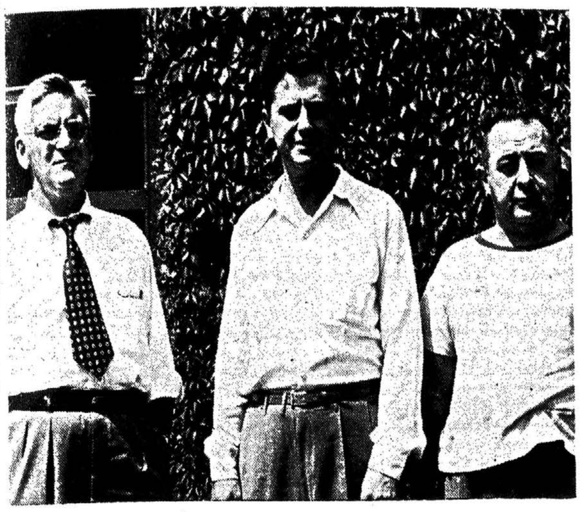

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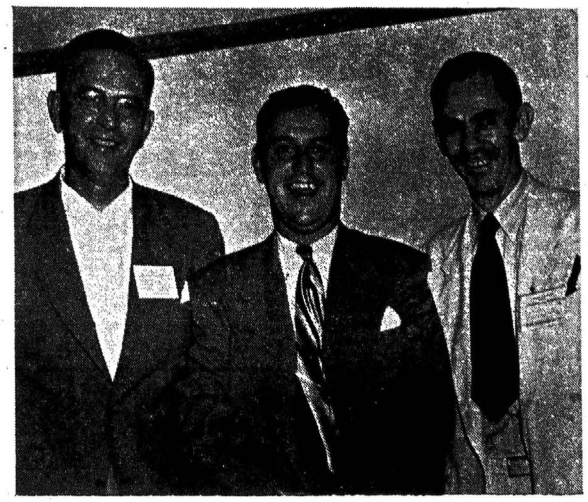

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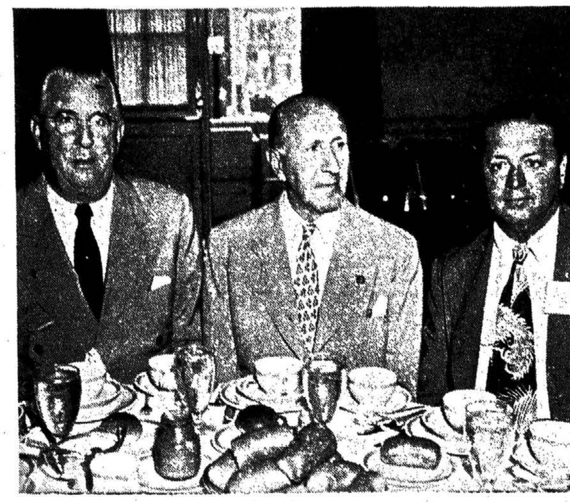

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Roster of Advertisers in NSTA Convention Issue

The Tax Battle on the Potomac

(Continued from page 11)

that this is the wrong time for tax reduction. Cynics may read into this statement the interpretation that 1948, an election year, would be considered to be the right time. Such a construction is passed over here, in order to examine the economic logic which is used to support the criticism of timing.

To begin with, this writer holds the view that any time when budget conditions will permit of tax reduction is a good time to do it. Taxes are always burdensome, and when they are high, it means that the people are deprived of a larger share of the fruits of their labor or their saving. As pointed out above, they have to work a greater part of the time for government. No matter how much or how little one's income, it is more satisfying and more inspiring to be able to decide what to do with it than to have some one else make that decision. Through taxation, government rather than the individuals who get the income by working, or saving and investing, does the spending. As taxes come down, we all have a larger share of our respective incomes for our own uses. This tends to stimulate the production of more income, with the result that the aggregate public revenues may even be greater, despite the reduction of tax rates.

Three major points were developed in support of the contention that this is the wrong time for tax reduction. The first was the proposition that the debt must be reduced. The second was the proposition that with full employment, no present opportunity for additional capital investment exists, hence there is no present need to provide additional funds through greater savings. The third was the proposition that tax reduction now would be an inflationary force which would increase the danger of a recession. The conclusion was reached that while employment and production continue at present levels, tax rates should remain as they are and the whole surplus should be applied to the debt. It was further concluded that when signs of a recession appear would be the time for tax reduction. This viewpoint was emphasized by Secretary of the Treasury Snyder in his testimony before the Congressional committees in charge of the tax bill.

Red Herring of Debt Reduction

The debt reduction argument has been, in a sense, a red herring across the trail. Thus far, Mr. Truman has not submitted a budget containing provision for debt retirement out of surplus revenues. On the contrary, he has apparently been more concerned with maintaining a high level of Federal spending than with anything else. The evidence of this is his complete lack of cooperation with the Congress in its attempt to reduce Federal expenses, an attitude revealed by the absence of curbs upon the efforts of high administration officials to defeat the Congressional purpose.

The fruits of this propaganda, so far as it has concerned national defense, have been rounded up by Mr. Hanson W. Baldwin in a dispatch to The New York "Times" of July 17, 1947. The gist of Mr. Baldwin's article was that all the talk about the weakness and inadequacy of our defense establishment had done us mischief abroad since it had been taken seriously there. He pointed out the failure of foreigners to understand that all such talk was solely for home consumption, being a device resorted to by the high brass from General Eisenhower down in an effort to force Congress to adopt universal military training and to ward off any cuts in the defense budget. Actually, Mr. Baldwin said, we have far and away the strongest navy in the world and an army which is greatly superior to the Russian army in equipment, though not in numbers. The behavior of the Customs Bureau, the Bureau of Internal Revenue, and other agencies in their resistance to budget cuts was quickly detected for what it was, but many people here as well as abroad took seriously the allegations about defense which Mr. Baldwin now shows to have had an ulterior purpose.

Tax reduction and debt reduction are not mutually exclusive alternatives. During the 1920's both of these desirable purposes were achieved. Notwithstanding the zeal with which the Administration of that time pushed for debt retirement, it proved possible to grant more and more tax relief throughout the income scale in a series of tax revision acts. The nation was prosperous then, but it is prosperous now. The President's mid-year economic report make this plain to those who had not already been aware of the fact. In view of this unparalleled prosperity there is no reason why both tax reduction and debt reduction cannot proceed together. This view is rejected however, in the second veto message, where it is said that there will not be a sufficient surplus to permit of both reductions. The only basis for such an opinion is that the spending will not be sufficiently reduced, and the President does not expect this to happen.

There is an odd inconsistency of emphasis in the veto messages. Stress is laid both upon debt reduction and upon the large amount of spending that is said to be necessary. Although the war ended in 1945, war obligations are still being used as a smoke screen to explain and defend the spending; and, particularly in the second veto, the changed foreign situation is brought in. Even the Administration will have to choose between debt reduction and spending as the main line of argument against tax relief. No matter how high taxes are, there will be no debt reduction if all of the money is spent for current purposes. And if the spending is cut, then perhaps we can have a cut in taxes as well as in the debt.

Foreign Aid Program

The foreign aid program does not really require an increase of total spending. It does involve a rearrangement of priorities in the spending program. If it is necessary to devote several billion dollars to European aid, then an approximately equivalent amount should be squeezed out of the domestic spending. When the average family that has saved up enough money to buy a new car finds that a member of the family must undergo a costly operation, the sensible thing is to give up the car for the time being. Aid to Europe is analagous, for the nation, to the unexpected operation for the family. We can easily cut out and cut down enough on the fancy things that have been planned here to pay for the operation.

Even if it be true that the expenditures authorized by the Congress for the fiscal year 1948 are not to be, in total, substantially less than the original budget estimates, too little account is taken of the effect of the rising level of national income upon the Federal receipts. There has been a consistent tendency to under-estimate receipts, possibly in order to build up a case against tax reduction. The record of such under-estimating for the fiscal year 1947 is as follows:

Date—	Budget Estimates of Federal Net Receipts for Fiscal Years (in Billions) 1947	1948
January, 1946	$31.5	---
August, 1946	39.6	---
January, 1947	40.2	$37.7
Actual, 1947	43.3	

It will be noted that when the first estimate of receipts for the fiscal year 1948 was published, in the budget sent to Congress in January, 1947, the pattern of under-estimating receipts was apparently being laid out for 1948 as it had been for 1947. In the meantime, the rise of national income which had invalidated the estimates for 1947 continues and the later budget estimates of net receipts for 1948 are likely to be revised upward as were those for 1947. The mid-year economic report shows that the income payments to individuals, which were $177.2 billion in the calendar year 1946, were at an annual rate of $191.1 billion in the first half of 1947. Because of a complete revision of national income concepts, definitions, and methods of estimating, these figures are not strictly comparable with the data formerly used in calculating tax yields. Nevertheless, it seems clear that with a continuation of income payments, or "personal income" as it is now called, at a much higher rate than heretofore, the Federal net receipts in 1948 will be much above the actual amount realized in the fiscal year 1947. Final returns on the spending for 1948 are not yet in, but the preliminary count indicates approximately $35 billion. Even if the receipts for 1948 should be no greater than the Joint Committee estimate of $43.6 billion, there would be a substantial margin for both debt reduction and tax relief.

The second ground for opposition to the tax bill because of alleged bad timing was that there is now full employment, hence no present opportunity for additional capital investment, hence no present need to release personal income for that purpose. This is a concession of the obvious fact that under present tax rates, very little individual saving is possible and small likelihood exists that even the amounts that can be saved will be invested in venturesome undertakings. The argument reveals, however, an inadequate understanidng of how our complex economic system works. For one thing, there is a necessary and inevitable lag between the time of tax reduction and the accumulation of additional savings out of income. There is a further lag between the accumulation and the final conversion of the savings into capital equipment through investment. A delay of the tax cut until signs of a depression appear, as Secretary Snyder urged, would be too late to be of help in halting the depression, in so far as fresh capital supplies would contribute to that end.

Furthermore, it must be noted that the labor force is continually expanding through the net increase of the population. From 1940 through the first half of 1947 the civilian labor force expanded, on the average, by 500,000 persons per year, notwithstanding the withdrawals into the armed forces during this period. The full employment figure of 1947 will shortly represent under-employment, unless more jobs are provided year by year. Additional capital must be supplied in order to provide more jobs. This addition cannot be created over night, like drawing water out of a faucet. Unless action is taken with reasonable promptness, through tax reduction, we shall face before too long the prospect of a rise in unemployment because we were not sufficiently forehanded in releasing income from the sterile purposes of government into the fruitful purposes of trade and industry.

It is entirely erroneous, also, to say that there is no present need of capital investment because of the current high production. The Committee on Postwar Tax Policy, in its 1947 report, demonstrated the great shortage of capital, here and elsewhere throughout the world. One need only consider, as examples, the average age of the motor vehicles now on the roads, and the decrepit condition of railroad rolling stock, to realize that we face an enormous job of rebuilding and replacement. Beyond mere replacement is the matter of improvement. We need not only more capital in the quantitative sense, but also better forms of capital. The continued growth of productivity per man-hour which is so essential to an advance in the standard of well-being requires that the workers be equipped with better tools as fast as invention makes them known. Improvement of quality requires additional investment.

As a final point in this connection, there are the new fields of enterprise to be exploited and developed. The mature economy doctrine which had such vogue ten years or so ago has gone with the wind. Our concern now is whether we shall be able to supply the capital that will be required for the production of the new goods which technological advance has made possible. Certainly we shall not unless there is a drastic revision of the individual income tax throughout the income scale.

The Inflation Argument

The third basis of opposition to tax reduction now was that such a course would add to the inflationary pressure. This curious, and in the writer's opinion, wholly erroneous notion got into the recent economic report, probably because it is the present party line. In that report the following is said:

"While the American people look forward to relief from the burden of taxes, tax reduction now would add to the existing temporary inflationary pressures."

With all due respect to the learned council of economic advisers, this is complete and utter nonsense. It implies that to let the people spend more of their own incomes rather than let government do the spending, would produce greater inflationary pressure. It implies that when government takes purchasing power away from the people, through taxation, and spends it, there is a smaller total demand for goods and services than exists when the people are free to spend their own income.

The simple fact is that taxation and public spending is a transfer process which does not change the overall total of buying power in the community, and which, therefore, can have no effect upon prices, or upon the demand for goods and services. A large part of the money taken in taxes is paid out in salaries, benefits, settlement of contractors' claims, and interest on the public debt. Taxpayers can buy less, because of the taxes, but the government employees and beneficiaries fill the gap. Government buys cement and other materials to build roads and public buildings, whereas the citizens would have used the cement, etc., to build a garage or a factory. Altogether, there is only a negligible difference, at most, in the aggregate demand, because of taxes. If they are reduced, the people spend more but government spends less. It is utterly naive to say that private spending will tend to push prices up more than public spending.

Conclusion

To conclude: H.R. 1 was not, in all respects, a good bill. It made too much concession to the demagogic viewpoint that taxes on the upper ranges of income should not be at least proportionately reduced. It did not attack the basic evil of the present income tax, which is the rate scale itself. Its advocates should have made more clear than they did that this bill was to be in the same position with respect to the ultimate revision of the individual income tax as was the 25% reduction across the board which was authorized in connection with the broad revision of the tax rates by the Revenue Act of 1924. As to timing, it may already be too late to begin that relaxation of excessive war taxation which is so essential to the provision of the additions to the capital fund upon which the future prosperity and well-being of the nation depend, if we are to escape the consequences that are most likely to ensue from a deficiency of capital.