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The Technical Viewpoint

"Accumulation"

By OWEN K. TAYLOR

Economist-Technical Consultant; Author of "The New Inflation," "The Coming Boom in America's Railroads."

Market analyst in surveying present position of price movement, sees beginning of new dynamic uptrend. Argues basic commodities will stabilize at higher than prewar levels. Optimistic on International Situation.

The Basic Main Trend of American Stock Prices is now **Upward.** After a summer of quiet markets during which excellent accumulation has been taking place, the market is nearing the end of its current accumulation phase. As this analysis is written, the week of Sept. 15—the market has signaled the probability of near-by dynamic upside action.

Owen K. Taylor

A fast advance of about 20 points to about 195 Dow Industrials as one phase of the current **Bull Uptrend** is now a nearby probability.

The Industrials

The current Basic Main Uptrend is indicated to continue un-

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Economic Problems Confronting The U.S.A.—An Earnest Warning

By PHILIP CORTNEY

Economist, and President of Coty, Inc.

Cortney warns falling prices coupled with high taxation and selectively rigid wages will bring on crisis. Believes devaluation of all currencies properly timed will become necessary. Stresses importance of income relationships and of wage structure for a mass production economy. Ascribes 1929 and 1937 depressions to wrong credit and wage policies. Warns we are repeating same errors.

The Mid-Year Economic Report as well as various articles and economic studies which appeared recently prove, I think, that the *nature* of the economic problems already confronting the United States, or due to confront it in the not too far distant future, is not understood. Therefore, most of the people are mainly concerned with symptoms, not with the causes which create the symptoms. Hence, they are always reasoning in terms of expedients to cure symptoms. This is a fundamentally unsound trend. Even a man like the late Lord Keynes, who, God knows, was concerned with curing symptoms rather than causes, still found it necessary on the eve of his death to give the fraternity of economists the following warning, published posthumously in the "Economic Journal" of June 1946:

Philip Cortney

"I find myself moved, not for the first time, to remind contemporary economists that the classical teaching embodies some permanent truths of great significance, which we are liable today

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Is the Stock Market Really Historically High?

By ANTHONY GAUBIS

Investment Counselor

Mr. Gaubis believes skepticism over prices overlooks shrinking value of the dollar, recalling bull market of 1920's started from a base already high on basis of previous performance. Believes general price level will average 80-100% above prewar, and hence concludes current market level is very low.

It is a well publicized fact that common stocks are current selling at very attractive levels in relation to earnings in prospect for the year as a whole. This is true even after allowance is made for the tendency for stocks to sell at a lower ratio to earnings when confidence is at a low level, than they do when the public is rampantly bullish. However, some market students believe that the attractiveness of stocks, from a price-earnings point of view, is canceled out by the fact that stocks are "historically high."

Anthony Gaubis

The arguments run that the Dow-Jones Industrial Average has sold above the 190-200 level during only five of the past 50 years, and that "Every bull market, except the subnormal bull market which ran from April, 1939 to September, 1939, started when the Dow-Jones Industrial Average was

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EDITORIAL

As We See It

The "Marshall Plan"—European Conception

Details may still be lacking, but there can no longer be any doubt about what the European conception of the "Marshall Plan" is. Apparently reliable reports have had it for weeks past that official representatives of the United States in Paris have "kept a close eye" on what was going on there, and from time to time have let the participants know "what was what" so far as "sentiment" in this country was concerned. All in all, it is more than doubtful if the Paris Conference permitted itself to make public a report which did not have at least the tacit blessings of the Administration in Washington. In one degree or another—and we suspect in very substantial degree—we may assume that the European interpretation of what the Secretary of State had to say in June at Harvard University is that which the Truman Administration wished to have.

The report of the Paris gathering must therefore have more than the usual casual inspection by the rank and file of the people of this country. If thoughtful study is given that document, it becomes clear at once that fundamental questions are involved whose importance far transcends any or all of the statistics or even the picture of destruction, prostration and human mis-

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The Outlook for Business

By PAUL MAZUR*
Partner, Lehman Bros.

While expressing faith in our economic future, prominent investment banker holds full employment and high living standards depend on (1) fair tax laws, (2) wise labor practices and management attitudes, (3) availability of new capital, and (4) statesmanlike leadership in government, labor and business.

In retrospect, it is difficult for me to understand why anyone in general, and myself in particular, would accept an invitation into an intellectual trap. For to discuss at any time "the outlook for business" is to hazard the risk of being trapped by one's own words; and to make the effort at a time like this is to assure the phenomenon of opening one's mouth and putting his foot in it. Foot in mouth may be a suitable occupation for infants but it does not seem to be a fitting exercise for adults subject to enthusiastic criticism by other adults.


Paul M. Mazur

It probably would be better for all of us if I emulated the gentleman whose speech came so late in the evening that both he and his listeners were worn and tired. He said, "Gentlemen, my address for tonight is 505 Lexington Avenue," and sat down.

I have the impression that I might well say, "Gentlemen, the outlook for business is indeed confused," and then I, too, should sit down. That device would be a protection for you and an advantage to me—but it would not be cricket for the arrangement committee. The temptation must be resisted. And so it is to the serious task of briefly discussing the economic outlook that we must address ourselves.

The prospects for business always lie behind the iron curtain of an unknown future. The imponderables of the future make mathematical certainty impossible in any economic prognostication. Today the future possibilities are complicated by movements within our own nation as it undergoes the modifications flowing from changing economic and political and social ideologies. And today the difficulties of estimating tomorrow are greatly aggravated by the convulsions of a world struggling to its feet, we hope—after a cataclysm that has no equal in history.

Such an impressive recital of alibis should be as protective as long red underwear. Let us then take stock of the economic situation.

"Where Are We Now?" and "Where Are We Likely to Be Some Time Hence?"

In the first place, it is necessary to divide the outlook for business into two aspects: "Where we are now," and "Where we are likely to be some time hence." This division is really essential, because in my judgment the economic circumstances in which we now find ourselves are basically different from those which have been typical of the U. S. over the major portion of its past.

As it is good orthodox economics to speak of the Law of Supply and Demand—let us examine what that piece of economic legislation has to tell us. Since 1929 two major economic events have taken place: the depression and the war. That date of 1929 has been used effectively by political candidates as a point of reference. It can also be used in economic measurement of the factors of Supply and Demand.

20,000,000 New "Demand Factors" Since 1929

Since 1929 the population of the U. S. has increased some 20,000,000 from 120,000,000 to 140,000,000. Economically, each new unit of population represents a demand factor in the purchase of food, clothing and shelter for consumption and in the necessary investment in tools for their production. In short, the size of the economy

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*An address by Mr. Mazur before National Industrial Conference Board, Inc., New York City, Sept. 25, 1947.

Are Banks to Be Nationalized?

By FREDERIC A. POTTS*
President, Philadelphia National Bank

Philadelphia banker warns unless constructive steps are taken to combat inroads of regulation, banking may become nationalized. Cites result of poll showing substantial portion in favor of government ownership of banks, and lays blame to socialistic postwar ideas.

A shining example of the usurpation of power by government is in the banking system of this country. Unless constructive steps are taken to combat the inroads of regulation, the banking fraternity may find itself completely under the domination of the Federal authorities. This is the most pressing challenge confronting us today! **Are Banks to be Nationalized or Not?**


Frederic A. Potts

An interesting item was published in the "Journal of Commerce" on Sept. 17. It stated, that "The Federal Parliamentary Labor Party unanimously approved today the Cabinet recommendation to introduce legislation to nationalize private trading banks in Australia. The step was taken in the face of thousands of letters and telegrams, including petitions bearing 600,000 signatures, opposing the plan."

Under our form of government, when the general public is either apathetic to a problem, or when the consensus of opinion is in favor of a change, there is a very good chance that action on the matter will be instituted and in all probability consummated. An appraisal, then, must be made of the public's feeling toward the banking system as a whole and toward banks in particular.

An Opinion Poll

Approximately 10 months ago, the Opinion Research Corporation of Princeton, N. J., made just such a survey for the Association of Reserve City Bankers, and, in addition, endeavored to measure the public's evaluation of various bank services. The report is quite lengthy and some of you may already have seen excerpts from it. However, I thought it was so interesting and concerned all of us so vitally that it would be pertinent to touch upon some of the findings.

The first question asked of those interviewed was: "Would you say that most people around here could get along without the banks or do you feel that banks are a necessary part of the community?"

94% of the General Public answered in the affirmative—that banks are a necessary part of the community.

As a corollary to the above banks received top rating of five chosen industries as to their importance to the country, 46% of the General Public coming out in favor of banks, as against 13% for the Telephone Company, 11% for Insurance Companies, 9% for Department Stores, and 2% for Personal Finance Companies. The principal reason that the banks

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*From an address by Mr. Potts before the 25th Convention of the Association of Bank Women, Atlantic City, N. J., Sept. 26, 1947.

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The Business Outlook

By SUMNER H. SLICHTER*
Lamont University Professor at Harvard University

Prof. Slichter, stressing present enormous demand for goods, both durable and non-durable, sees no early business recession ahead. Does not look for precipitous export shrinkage, but foresees some decline in agricultural prices next year. Points out elements of economic strength, such as large unsatisfied consumer needs, accompanied by relatively low indebtedness and expenditure. Sees need for new business capital, but warns expansion of bank credit, drastic tax reduction, and further wage rises may lead to sharp recession.

I.

The most important thing about the present state of business is the enormous demand for goods—a demand which substantially exceeds the capacity of industry. For over a year industry has been producing at capacity with only about 2 million to 2.5 million persons unemployed — the irreducible minimum in a free labor market in time of peace. During the last year employment has increased by about 2.2 million, but industry has been unable to meet the demand for goods. As a result, wholesale prices advanced over 35% between June, 1946, and September, 1947, and over 13% during the first nine months of 1947. A few unimportant articles, such as furs and radios, and some important ones such as fats and oils, have become plentiful, but grain, steel, freight cars, electrical equipment and other important goods remain scarce and will continue to be scarce for a year or more unless employment substantially drops.

Prof. S. H. Slichter

II.

One of the most extraordinary aspects of the business situation of the last year has been the conflict between the performance of industry and the expectations of the vast majority of economists, business men, government officials, and forecasting services. During the latter part of 1946 and the first half of 1947 most forecasters were predicting an early recession—either in the spring of 1947 or in the fall. The downward shift of the stock market during the summer of 1946 and its sharp drop during the fall reflected the general expectation of an early recession among business men. At a conference of business and government economists held under the auspices of the National Industrial Conference Board in the late fall of 1946, opinion was virtually unanimous that there would be a recession by the spring or fall of 1947. A composite forecast of 13 economists published in December of 1946 put unemployment in June, 1947, up to 3.7 million, industrial production down 10% from late 1946, and department store sales (seasonally adjusted) down about 15%. A well-known financial service predicted that unemployment would rise to 10 million by the last quarter of 1947 and that the national income would drop by one-fourth. Virtually every convention of business organizations heard warnings from some high executive that the sellers' market was nearly over. Public policy showed little awareness that the dominant influences were inflationary. On two occasions Congress almost succeeded in reducing taxes—although the times called for maintaining taxes or possibly increasing them. Congress also refused to authorize peacetime imposition of controls on consumer credit and authorized the immediate cashing of $2 billion of terminal leave bonds. President Truman has appreciated the dominant inflationary tendencies better than most government officials and has issued repeated warnings against rising prices. He has failed, however, to insist upon a vigorous anti-inflationary policy by the government and he usually accompanied his warnings against rising prices with the statement that if prices did not come down, wages must be raised—surely a ridiculous way to deal with the problem of inflation.

Of course, there is still time for the forecasts of a recession in the last quarter of 1947 to come true, but the chance is remote. The erroneous predictions of business men, economists, and public officials during 1946 and 1947 are comparable to mistaken forecasts so common in 1945, namely that V-J Day would soon be followed by a high rate of unemployment.

Not only did prices rise during the last year in the face of a widespread expectation of an early recession, but they advanced in spite of powerful deflationary influences. For example, expenditures of business enterprises on capital goods were slowly dropping during the first half of 1947. In addition, the cash receipts of the Federal Government were running above its cash expenditures at an annual rate of about $7.5 billion. The cash surplus was used to retire Federal debt held by the Federal Reserve Banks and the commercial banks. Under ordinary conditions, retirement of Federal-Reserve-held debt and

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*An address by Prof. Slichter before the Pennsylvania Electric Association, Philadelphia, Pa., Sept. 23, 1947.

Dangers of the Depressed Securities Industry

By N. LEONARD JARVIS*

President, Association of Customers' Brokers

Newly elected President of Association of Customers' Brokers, in noting depressed state of securities industry while American economy is at boom proportions, lays causes to international uncertainties; excessive domestic taxes; restrictive governmental regulation, and suspicion that current earnings are largely non-recurrent. Attacks Federal Reserve Board's severe margin restrictions, and warns situation hampers capital investment and leads to unemployment and depression.

There are a few words that I would like to say in regard to our particular situation. Let me start off by saying that although the American economy is now on an operating basis of boom proportions with employment, wages, industrial production and corporate profits at peak levels in most industries, there are a number of very important weak spots. One of these is the securities industry. It is a "depressed" industry. In this industry, employment is diminishing. Wage rates have not kept pace with other segments of the economy and probably a majority of the investment houses are now operating at a deficit. The partners undoubtedly are most unhappy and so is everyone else.

N. Leonard Jarvis

There is no sound reason for this condition. Why should this segment of our economy—the pulse of our capitalistic system—suffer so much? If this continues, it will spread through other areas, much to the delight of certain foreign elements in our country and in other parts of the world. Again I say, that it is most important to recognize that the economy as a whole is not likely to remain healthy and vigorous for a prolonged period if ownership of American industries, as represented by equities, and the flow of capital into industry, as represented by new corporate issues, are not on a satisfactory basis. Yet, at the moment, prime equities can be bought, on an average, at a price one-third below the average of the last 10 years and numerous instances can be found of substantial companies whose stocks are available on the market at from two to five times current earnings. There is no eager reception of new issues of equity capital when proposed by established companies and it is almost impossible to interest investors in the stocks of newly formed organizations. These are danger signals. They must be recognized and corrected if the recession or the depression is to be avoided.

*From acceptance address delivered by Mr. Jarvis before the Annual Meeting of the Association of Customers' Brokers, New York City, Sept. 25, 1947. Mr. Jarvis is associated with Hayden, Stone & Co., New York City.

New Capital Needed

Careful calculations have been made which indicate that $21 billion of new capital must be obtained each year for the next five years if American industry is to remain dynamic and if high employment at good wages is to continue. Of this $21 billion, some $6-7 billion will not be available from corporate resources, such as earnings retained in the business and depreciation funds. Such additional capital must be obtained from investors if industry is to retain its present momentum and the plain fact is that no such amount is likely to be forthcoming under present-day market conditions.

Statistics of national savings indicate that there will be no lack of capital as long as production proceeds at current levels and assuming that normal patterns of saving will carry forward into the future. Not lack of investment capital but unwillingness to place such capital at the disposal of industry is the crux of the problem, not only for the securities business but also for the entire economic life of our country.

Why are investors timid or lethargic in the face of corporate earnings which have never before been approached, of both earnings yields and dividend yields, which are exceptionally high, and in the face of price and yield ratios of stocks to bonds, which definitely favor equities? Answers to these questions are not difficult to find. They are summed-up in international uncertainties, excessive domestic taxes, restrictive governmental regulations and suspicion that current earnings are largely non-recurrent.

There is no need to describe the demoralization which now prevails in the world. Chaos may be too strong a term to apply to the world situation, but we are making excellent progress toward that goal. After more than two years have elapsed since termination of the wars, the drafting of peace treaties has not even been initiated with our principal enemies—except Italy. Instead of solid achievement by the United Nations, there is grave doubt as to whether this institution can survive the sabotage to which it has been subjected. At a time when rapid recovery from war damage should be evident, there may be danger of actual starvation in what were among the highly civilized countries of Europe during the prewar period. All of this does not create confidence among investors.

Excessive Taxation

When the individual income tax was introduced, some one in a rash moment suggested that a tax as high as 5% might eventually be imposed, but such a suggestion was repudiated as fantastic. Now the lowest rate is 19% and this applies to relatively small incomes, with rapid increases in rates in the surtax brackets. The government is now abstracting from its citizens well over one-fourth of the national income. Yet few would argue that government furnishes one-fourth of the standard of living which the ordinary American citizen enjoys. Instead of adding to individual welfare, government has now expanded until it is a millstone around the neck of each worker and each investor.

Income of corporations ordinarily available to investors is taxed at a rate of 38%. This burden is extravagantly high. Not only are new companies practically unable to retain funds for expansion, due to current rates of taxation and also to the legal provision in regard to distribution of earnings, but established companies are not encouraged to introduce new products and new processes. Thus, lack of capital on the one hand and lack of incentive on the other bid fair to bring stagnation to American industry as soon as the postwar replacement boom has run its course. In order for prosperity to continue, it will be necessary for individual and corporate taxes to be reduced and for capital once more to be attracted

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The Befuddled Foreign Exchange Situation

By SAMUEL D. POST*

Vice-President, Guaranty Trust Co. of New York

Contrasting foreign exchange conditions following World War II with First World War, Mr. Post indicates that in earlier period forward exchange markets were very broad and contracts could be made without difficulty. At present opportunities for this type of exchange transaction are rare, since foreign exporters want dollars and many foreign currencies are overvalued and need revision.

I wonder how many of us here today remember the chaotic conditions which existed in the foreign exchange markets after the first world war. At that time regulations such as we have today were practically unknown, and fluctuations in the various exchanges were extremely violent.

Samuel D. Post

During that period practically every importer carried an open exchange position, and it was not uncommon for the importer to make or lose more on his exchange operations than on the merchandise in which he dealt. At that time it was more common for importers to open letters of credit in foreign currencies which provided for time bills to be drawn on a bank abroad of from one to four months' tenor. This in many cases gave the importer time to receive and market his goods before maturity of the foreign currency bill. The importer, having arranged his purchase in a foreign currency, was in a position to base his sales on the current exchange quotation from day to day, and provided he was not inclined to speculate in exchange, would cover his future exchange requirements simultaneously with the sale of the import.

The forward exchange markets were very broad and contracts could be made without difficulty for any delivery, not infrequently for a year ahead if desired.

At times it was possible to draw long bills on a foreign financial center in order to provide temporary working capital without cost and on occasions even at a profit. Under this procedure when the conditions in the exchange market were favorable, the drawer of the long bill would sell it to the bank, arranging the credit and simultaneously purchase the required exchange for forward delivery to coincide with the maturity of the bill. This type of transaction was only feasible when forward exchange could be bought at a discount from the spot rate, but at times the discount at which the forward exchange could be bought more than offset the total cost of the operation and resulted in a net profit on the borrowed money.

*A talk by Mr. Post at Meeting of National Council of American Importers, Inc., New York City, Sept. 30, 1947.

Banks, as a rule, did not draw their own bills to take advantage of a situation such as this as it was not considered good business practice for them to appear as a borrower in a foreign market.

Today opportunities for this type of transaction are very rare, although during the recent excitement over the possible devaluation of sterling it was possible to buy forward at a discount sufficient to cover the cost of the financing. Until last week the British regulations permitted the refinancing of sight sterling credits for a period up to 90 days, but no renewals were allowed. Some importers took advantage of this facility and materially reduced the cost of their borrowing. The profitable phase of the operation, however, was short-lived, for the Bank of England changed the rules a few days ago. The British regulations still permit the opening of time credits in sterling and some importers are taking advantage of the facility. Some are doing it in order to defer the payment date for the merchandise, and others believe that sterling may be devalued before maturity of the bills, and not having purchased exchange to meet the maturity, they will make a profit if the devaluation occurs. Some importers of French products have opened time credits on Paris in French francs, with the same idea in mind.

It was thought that the possibilities of more extensive use of foreign financial centers for import financing would occur with the advent of the general convert-

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

The fate of Europe which has a direct bearing on the future course of business here at home received some consideration last week when the report on the Marshall Plan to assist Europe in an economic way was made known.

The burden of such assistance will naturally be borne by the American people and will entail large stocks of food, coal, oil and raw materials along with further credits. It is reported that after considerable cutting by our own economists, the report of the 16-nation Committee of Cooperation places the amount of necessary U. S. aid to Europe for the period 1948-51 at close to $22,500,000,000.

It should be borne in mind that the salvation of Europe rests not alone in preventing an economic upheaval in both Britain and on the continent, but in dispelling the deep apathy that afflicts these war-weary peoples.

The Marshall Plan will go far in restoring some degree of economic stability to the countries concerned, but what Europe needs most is the encouragement of a dominating personality and leader, such as Winston Churchill, who pointed the way in making a plea for a United Europe last May before a large audience in Albert Hall, London:

> **"We are here to proclaim that the spiritual conception of Europe shall not die. We declare, on the contrary, that it shall live and cast a redeeming illumination upon a world of confusion and woe."**

In an appraisal of the benefits that will accrue to the United States from the Marshall Plan, the current issue of "Business Week" magazine, in its editorial "Outlook," states that the plan's effect upon business will not be immediate and that it has not as yet influenced market prices. However, it observes, it doesn't mean the plan is not affecting business sentiment. It points out that business receded but little from its March peak to the July low. It picked up in August and, the magazine predicts, September figures will show some slight further improvement. Noting that these gains were registered despite declining export trade and slackened inventory accumulation, it adds, if this domestic bounce persists until Marshall Plan funds are voted, the recession may be averted. Drawing attention to the main danger which is inherent in prices, it notes that with big government buying in prospect, markets tend to lose little ground while awaiting results.

Turning to the domestic industrial scene it is found that no significant change in the tempo of total output took place last week, although some slight increase was recorded over the corresponding week of last year. As in past months much the same factors were present to hamper production in some lines, such as a dearth of skilled labor and certain materials. Unemployment insurance claims which serve as a barometer of total employment for the country reveal that in the week ended Sept. 6 such claims declined for the seventh consecutive week.

Steel production which has been on the upgrade rose last week about 5%, while electric power output was sustained at a near peak level. Bituminous coal production declined, as was the case with daily average crude oil output. Loadings of revenue freight in the week ended Sept. 20 continued their upward trend, while automotive output receded from its postwar high level of the previous week as a result of shutdowns by Cadillac and Hudson.

Total civil engineering construction rose 49% to $135,183,000 from $90,627,000 in the previous week, while private construction rose 81% and public construction 16%.

Lumber production in the week ended Sept. 13 jumped nearly 23% to 197,831,000 from 161,388,000 board feet. Shipments, on the other hand, were about 3% below production and new orders nearly 17% below production.

New businesses incorporated in the 48 States during August dropped sharply to the lowest level for any previous month since November, 1945, Dun & Bradstreet, Inc., reports. Numbering 8,055, the August count represented a decrease of 10.9% from July with 9,041 and was 22.5% less than the 10,400 recorded in August a year ago. Incorporations last month, however, were still 76.0% above those for August two years ago when 4,578 charters were issued. In every month so far this year, incorporations have been fewer than in the corresponding month of last year. This was true in more than three-fourths of the States during August.

STEEL OPERATIONS SCHEDULED AT HIGHER RATE THIS WEEK

With the output of consumers' goods moving swiftly towards all-time highs, the foundation and support of such production—transportation—is rapidly reaching a national crisis, says "The Iron Age," national metalworking weekly. The need for a quick and satisfactory solution of the freight car and pipeline shortages caused some steel industry executives this week to privately express the opinion that diversion of steel from consumer needs to transportation channels

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Observations . . . .

By A. WILFRED MAY

MISTAKING SYMPTOMS FOR THE CAUSE

At a recent dinner party the host, a former Yugoslav artist now residing in New York City, seriously broached to his guests the suggestion that the never-ending United Nations disagreements could be ended by the simple expedient of routinely shooting delegates who do not come to agreement within a specified period of wrangling time. While the idea is of course fantastic, its citation is significant in illustrating by *reductio ad absurdum* the widespread fallacy in the public's reaction to international proceedings of overemphasizing mere symptoms instead of the actually controlling causes.

A. Wilfred May

The whole veto concept constitutes the foremost example of this confusion, miscomprehension of cause and effect. The veto's insertion in the Charter was agreed on at Yalta and San Francisco, on the underlying premise of Big Power unity; the voluble arguments against it at San Francisco being rebutted with the correct argument that the veto was only mechanics which would reflect the degree of Big Power unity on which the World Organization would in any event stand or fall. The most valid argument against the adoption of the veto was based on the sanctification of single-nation aggression which such a provision in the charter would supply. But at San Francisco it was considered preferable to accept the Russian *sine qua non* of a stringent veto in lieu of the alternative of an International Organization without Russia. In any event we now have a setup whereunder the 20-time exercising of the veto prerogative by the Russians has constituted a thermometer which clearly registers the degree of underlying disunity but surely does not cause it. If the member nations were really "united" in spirit, the veto would be wholly superfluous. In the same way, amendment of the Charter for veto-elimination is out of the question for just as long as the Russians' own political aims clash with the majority will of the other nations. Hence it must be quite clear that veto-elimination means Soviet-elimination!

The "Hitler Role Oscar" Also a Secondary Matter

Against the background of Moscow's conception of President Truman as a second Hitler (whereas this column last week listed chapter and verse proving Vishinsky's role as the remarkably close imitator of the Munich corporal), how foolishly superficial it surely is to attach great importance to the exact text of the rules governing the international debating forum! But neither, of course, are even the "you're another Hitler" charges fundamental, even though the Russians' barrage of war-mongering accusations are perhaps concocted as a major strategic effort to head off our despatching of troops to back up the Truman Doctrine. Ten thousand American troops actually in Greece furnishing, on the word of on-the-spot observers, the only possibility of saving that country from the Russian-directed guerilla onslaught.

Dialectics Over American Beneficence

Similarly glossing over fundamentals is the East-West discussion over the institution of the Marshall Plan. Actually, as is clearly revealed by the text of the report issued from Paris as a result of the careful deliberations of the Committee on European Cooperation, a most thorough and constructive overall plan is put forward, with (as at least Mr. Churchill realizes) Uncle Sam's taxpayers footing the bill, to bring a long-term cure of the most serious economic crisis in history. An historically unprecedented effort at international economic cooperation, the program aims for a tremendous increase in productive effort; for curtailment of inflation and the restoration of Europe's monetary system; for the elimination of trade barriers and the eventual establishment of a European customs union—all to be financed, at least in the early stages, by $16 billion of American "working capital."

But not so in the professed view of the Russian "bloc" of Eastern nations, as was so volubly expressed before the General Assembly of the United Nations. This whole statesmanlike plan is interpreted by the Polish representative to be economically unsound; a device for splitting Europe in two; and for bypassing the United Nations. The Slavs' spokesman at tremendous length charged that the Marshall Plan report embodies an "artificial" unity; would induce chaos on the Continent; would break down the sovereignty and freedom of the individual receiving countries; and—most ironically of all in view of his own country's absention—that it is inadequate. In the Russians' jaundiced eyes, our gigantic planning for the world's economic relief, even as our contribution to the world's peace effort through tremendously patient fashioning and holding together of the United Nations, allegedly is only vicious war-mongering.

Here again in the East-West controversy over the Marshall Plan, the vocal protagonists completely neglect mention of the deep-seated and controlling *political* rift, under which no machinery

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John Getz Planning Own Investment Firm

E. H. Rollins & Sons Incorporated announces that John G. Getz, Jr., has resigned as Vice-President. Mr. Getz has stated that he intends to conduct a business of his own in New York City.

With Sidlo, Simons, Roberts

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — John C. Klose has become connected with Sidlo, Simons, Roberts & Co., First National Bank Building.

Postwar Bank Credit Problems

By MARRINER S. ECCLES*
Chairman, Board of Governors, Federal Reserve System

Though announcing our banking system is strong and healthy, Chairman Eccles says it is threatened by inflationary forces. Contends country is suffering from undue reliance on a competitive price situation to bring about postwar readjustments. Notes dangerous inflationary effects of heavy export surplus and large inflow of gold and sees continued heavy Government expenditure because of international situation. Points out banks have benefited by war through heavy increase in assets and greater liquidity, but warns they can suffer from undue expansion of credits. Advocates curbs on loans and increase in bank capitalization where shifts are made from bondholdings to risk assets.

In the chaotic world of today, groping for answers to the overriding problems of economic security and enduring peace, we can find comfort in the strong and healthy position of our banking system. At the same time we must be fully aware of the dangers which the present vigorous inflationary forces may threaten for the banking system.

Marriner S. Eccles

Postwar inflation, with its severe distortions in the structure of prices, wages, and profits, is primarily due to the enormous wartime increase in our money supply. The banks of the country, including the Federal Reserve Banks, in helping to meet the needs of war finance, brought about this increase. In the six years from the middle of 1940 to the middle of 1946 the Federal Government spent nearly $400 billion, most of which was for national defense and war purposes. Much less than half of this amount was met by tax receipts and the balance of about $225 billion was borrowed. During this six-year period commercial and Federal Reserve banks together increased their holdings of government securities by $90 billion, and savings institutions, businesses, and individual investors purchased the remainder of the securities sold.

*An address by Mr. Eccles before the National Association of Supervisors of State Banks, Washington, D. C., Sept. 25, 1947.

Commercial bank holdings of government securities have been reduced somewhat since the postwar peak by the Treasury's debt retirement program, but they are still more than four times as large as in 1940. In expanding their portfolios of governments, banks did not decrease their holdings of other assets. As a matter of fact, the total of their loans, other securities, reserves, and other cash have increased since 1940 by about $21 billion. As a result of this credit expansion, largely to the government, commercial bank deposits increased by $70 billion. In addition, currency in circulation showed a growth of $20 billion.

This expansion in bank credit and consequently in the money supply was made possible by the large excess reserves which were held by the banks at the beginning of the war, and by the additional reserves that were provided by the Federal Reserve through an increase of over $20 billion in their holdings of government securities.

It is inevitable that in financing a war, business and individual holdings of money and government securities increase. The reason for this is that people are paid for furnishing the goods and services which are needed to carry on the war and are not available for purchase by business and consumers. Consequently, incomes expand more rapidly than consumption can be increased. Unless taxes are raised sufficiently to absorb all of the surplus income, savings must increase, and they must be held largely in the form of bank deposits, currency, or government securities. To the extent that the government expenditures are not met by taxes or the sale of securities to non-bank investors, the balance must be absorbed by the banking system, which results in expansion of the money supply.

If the public had attempted to spend their entire excess income, prices would have risen very rapidly. However, due to the willingness of the public to save during the war period and due to the effective harness of wartime controls that were put into effect, prices rose but little during the war. By the end of the war vast holdings of money and other liquid assets had been accumulated and large deferred demands had been built up. At the prevailing level of prices, demand was far in excess of any supplies that could be made available within any short period of time.

It should have been apparent that if these forces were permitted free play, a sharp rise in prices would result. The people of the nation, however, not fully realizing the dangers in the situation, made clear their wishes that controls be removed. Business wanted freedom from allocations, price controls, building permits, rationing and repeal of excess profits. Farmers wanted release of all controls affecting agricultural products. Labor wanted removal of restraints on higher wages. Bankers generally sympathized with the desires of all these groups to remove controls. In response to these public pressures, wartime controls, such as allocation of raw materials, building permits, price and wage restrictions, as well as the repeal of the excess profits tax, were prematurely abandoned.

We are currently witnessing the results of this national policy. With demand for goods already large because of high levels of income and with a huge backlog of domestic and international demand reinforced by huge accumulations of liquid assets after five years of war, price inflation was inevitable. The country is now suffering the consequences of having placed our reliance upon the restoration of a competitive price situation to bring about necessary postwar readjustments in an abnormal period when effective demand far exceeds available supplies.

As a result, the economy is caught fast in a serious wage-cost-price spiral. Short farm crops at home and abroad have intensified this spiral. International crisis, in part the result of our rising prices, is imposing on us obligations that can only be discharged by actions that will increase our inflation difficulties. Yet we should not allow what is left of European democracy to perish through starvation and communism. Nor can we ultimately solve our problem of inflation without the restoration of Europe's vast productivity to help take care of the world's needs. The danger that faces us is that inflation will go on unchecked and end, as inflations always have ended, in economic collapse.

The higher the spiral of inflation is wound by further general price and wage increases, by further rapid expansion of private debt, and by failure to reduce public expenditures for all purposes that can be eliminated or postponed until the emergency has ended, the more serious the inevitable readjustment is certain to be. The longer the ultimate reaction is postponed, the longer it will take to reach a stable condition of employment and production.

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Monetary Factors in High Prices

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

Attacking as "economic claptrap," statement of industrialists and merchants that nation will be saved by cutting prices, Mr. Mooney ascribes rising prices to shortage of goods and plethora of money. Accuses government of making scapegoats of business managers by creating impression high prices are due to profit-seeking. Lays blame for increased prices on fiscal policy and heavy taxation and urges steps be taken ot reestablish confidence in our paper currency and inaugurate a constructive fiscal policy and sound taxation system. Says grand total of taxes on a $1,500 car is $392.

Six months or so ago the American people were given a rather nauseous dose of irresponsible public relations which is particularly unfortunate in times like these, when people expect, and have the right to expect, sincerity and rectitude in public statements on economic affairs by responsible management.

James D. Mooney

You will remember, in February of this year, the newspapers were running a kind of rash of publicity about certain of our industrialists and merchants who were going to save the nation by the simple expedient of cutting prices on their products, or their stocks of merchandise.

Actually, of course, every man who has reached economic maturity in his thinking, knew that these publicity-seeking price cuts were utterly futile; that they were counter to the stream of economic events; and that they could not possibly stand up against the pressure of events, no matter how pontifically the pronunciamentos might be phrased.

Taken by themselves the incidents might have been written off as a rather thoughtless use of a kind of publicity generally left to the circus, where it is all done in good clean fun, and is not intended to mislead anyone, but simply to excite the children.

But when Government picked these statements up, and endorsed and approved them as really significant and meaningful attempts at economic statesmanship, then we saw official Washington set a new low in political irresponsibility that must give thoughtful men cause for concern.

However willing we may be to excuse publicity hungry individuals who may want to get their names in the papers by any means, one cannot help being shocked to find government lending the prestige of its public statements to what can only be interpreted as examples of playing cynical politics with important economic problems and issues.

*An address by Mr. Mooney before the Consumer Bankers' Association, Atlantic City, N. J., Sept. 26, 1947.

In other words, either by cynical design, or naive misunderstanding, the government once again led people to look for a utopia that wasn't there and which, in the light of economic events, could not possibly be realized.

Money in Over Supply

These government statements paid not the slightest attention to the law of supply and demand. It is common knowledge that raw materials and goods are in short supply, and that money is in over supply. We were, and are, facing a complete plethora of money and credit in the face of an extreme shortage of commodities. Conditions were such that a rise in prices was inevitable, but in spite of this official Washington felt justified in helping to further the illusion that we could talk ourselves out of the maelstrom.

It was, and is, a time when people need to be reminded of the fact that costs are only reduced through increasing productivity on the one hand, and by a relatively decreasing supply of money and credit on the other. We are setting out on a fool's errand indeed if the government should set out on a course of providing for people's needs by the inflation of paper currency as a practical substitute for increased production of goods.

Now, several months after the abortive attempts to save the nation by pronouncements instead of by work, we find that even the nation savers have had to take note of the real economic facts and increase their prices, for reasons of "simple economic necessity" as one of them put it when announcing the increase in prices.

Six months ago it was plain to anyone who was willing to see facts, that forthcoming events were casting their shadows before them, and that conditions were in the making which must inevitably force prices up.

Now that even our naive nation savers have come up for air, and taken a real look at the world of facts, it is to be hoped that we have seen the end of political and

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From Washington Ahead of the News

By CARLISLE BARGERON

Through the long regime of Roosevelt the Great, the Republicans were always talking about how he was destroying freedom. You would think they had a perfectly good complaint against him and that certainly all freedom-loving people in this country, of whom there are relatively few when it comes to making the sacrifices that go with freedom, would vote against him.

Carlisle Bargeron

But when election time came around, Roosevelt would go on the air and ask: "What freedom did you have three or four years ago, that you don't have now?"

And all over the country, our bohunks would say: "He's got them there because we have lost no single freedom."

They meant that they could still say in the saloons that they didn't like Harry Hopkins and they didn't like Ickes and they didn't like Frances Perkins, or even the Great Man, himself, and no police interfered with them. That they had lost a lot of freedom through the domination of union bosses didn't occur to them and certainly they did not attribute this loss to Roosevelt. No, they could still sit in saloons and shoot off their mouth and this was freedom. Therefore, they had lost nothing and they would make mockery of the Republican charges.

What they didn't realize, of course, is that even in the Police States, unimportants are given this sort of freedom. They are permitted to spout off at the mouth until the government perceives that what they are saying is contagious and then they are pounced down upon. No dictator troubles himself with small fry.

What these people also did not realize then was that men whose opinions meant something were being persecuted when they spoke out of turn. What they didn't realize was that the voices of opposition leaders were being stilled in more ways than one: through their dependence upon the government for a continuation of their businesses, or through income tax prosecutions, or through the most effective smear campaign that has ever been organized in this country.

Nevertheless, what the populace generally saw was that they hadn't been put in jail and insofar as their right to free expression was concerned, they still had it—over their beers and whiskey straights.

Now, the hysterical labor leaders are appealing to the same crowd. They are saying to the wage earner that he is a slave, that the Taft-Hartley Act has enslaved him.

We were told a few weeks ago that the Republican National Committee had had a poll made and that this poll showed the great majority of the workers believing the Taft-Hartley Act, indeed, to be a slave labor bill, but at the same time approving of everyone of its provisions.

The point is that the workers, however, are coming gradually to take the same attitude they did when the Republicans were shouting that the New Deal was taking away their freedom. They couldn't see any loss of freedom then and they are coming more and more now to be unable to understand just how and where they are enslaved by the Taft-Hartley Act. It is my opinion, therefore, that before long, the labor leaders who are raising this hue and cry will be in tremendously bad odor with their constituents, so much so that nothing they say will be taken seriously.

One of the most significant statements I have seen in a long time was in a speech made by Mrs. Martha Taft on the occasion of the Western tour by her husband. Speaking of the picketing demonstration she said they were not all Communists by any means, she could tell by the way the picketeers grinned at her. No Communist, she said, could have grinned this way.

What is evident from this is that these poor fellows don't accept the harangue of their leaders and in such picketing as this they are simply carrying out a job which they are forced to do. It will take months for the pig-headed leaders among labor to realize this but it is a fact.

In Los Angeles, last Labor Day, I witnessed the largest turnout of labor, on parade, that I have ever seen. It was certainly a demonstration of labor strength. For hours and hours the men and women marched in the blazing sun of the hottest day of the year. Furthermore, every restaurant, soda fountain, bar, other places where organized labor might be employed, was shutdown. It was a tighter closing than Sunday in a small town.

The AFL section of the parade was sedate, simply marching people. But the CIO section had a lot of propaganda placards and pageantry, such as men attired as Roosevelt standing by electric recordings sounding the late Great's voice.

But at the end of it, a tired bar tender was telling me bitterly, unsolicited, that he had put in, under orders, a harder day's work than he had ever done for any employer and he was getting damned tired of it. I know this: I wouldn't have paraded for hours in the hot sun of that day for anybody. Workers fell by the wayside and were carried off to hospitals by patrolling ambulances. It was not their day of rejoicing as was advertised, or as the press played it. It was a day of hard work for the workers, without pay.

Causes and Remedies of Present Inflation

By PAUL H. NYSTROM*

Professor of Marketing, Columbia University

Maintaining present inflation is result of combination of causes, Dr. Nystrom points out as remedies: (1) a check on rising wages and salaries; (2) no boost in minimum wages rates; and (3) no further reduction in working hours. Recommends increased production, tariff reduction on some items, and repeal of minimum wage and hours provisions of Fair Labor Standards Act. Says 40-hour week law is an economic strait-jacket.

This country is experiencing a dangerous inflation. Its trend is still upward. The end, unfortunately, is not in sight. We all hope that it may be checked. But nothing has occurred or has been done, as yet, to stop it. To meet an evil, any evil, it would seem good sense to try to find out what its causes are and, when these have been determined, to take steps to correct them.

Paul H. Nystrom

Some of the discussions before this Committee have apparently been directed towards the attempt to discover persons, companies, or groups who may be responsible for the inflation. Such inquiries may be worthwhile. There may be hoarders, monopolists, or other types of evil-doers in our business system. It would be most surprising if there were not. But the opinion may be ventured that, even if all such were apprehended and punished, as they should be, there would still be the inflation and the problem of what to do about it.

Your Committee may serve a still more highly useful purpose, not merely by directing the attention of the public and of the Department of Justice to the crooks and criminals, if any, but also, more important, by determining the underlying causes of this inflation and deciding how they may be checked before the inflation does irreparable harm.

Several Courses of Inflation

The present inflation, like most other past inflations, is clearly not the result of any single cause, but rather of a combination of several causes. Some of them are quite natural and perhaps unavoidable, while others are artificial or the results of mistaken public policy.

We have had inflation from both of these kinds of causes before. For example, there have been several inflations in which there has been a surplus of purchasing power in the form of money, bank deposits and savings which their owners would like to spend, and, on the other hand, a shortage of wanted goods. Under these conditions prices always tend to rise. In time such inflations tend to correct themselves. When production increases and supplies of goods begin to overtake demand, prices go down.

We have all of the economic raw materials for such an inflation at the present time. There is an over-supply of money, of demand deposits, of bank credit, of personal incomes and of other forms of purchasing power with which people are trying to buy more food, clothing, housing and other kinds of consumer goods than are being produced. If there were no other causes at work, these would produce considerable inflation.

But to these causes of higher prices there are still others, such as increases in consumer credit due to the relaxation of credit control, the cashing of terminal leave bonds by the veterans and, most important, the extraordinary demands upon this nation for exports to feed a starving world.

I do not consider that the extentions in consumer credit, or the cashing of terminal leave bonds, such as have occurred to date, are very important as causes of inflation. They merely give a somewhat increasing effect to the present high consumer demands. The dominant factors are the excesses of domestic purchasing power and the demands for export.

The Supply Side

So much for the demand side. What of the supply side?

During the war years the production of consumer goods fell off sharply. This was necessary to the war effort. It was commonly believed, however, that the reconversion and the production of such goods would take place rapidly after the war was over. More than two years have passed by. Production has not yet come up sufficiently. In a few, but increasing number of items, production has actually caught up with demand, but in many of the most needed necessities of life, such as meats, dairy products, sugar, clothing, fuel, building materials, paints, automobiles, and so on, it now looks as if it would take many months, if not years, to take care of the demands.

The reconversion from the production of war goods to the production of civilian goods has been distressingly slow. The explana-

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*From statement of Dr. Nystrom prepared for the Congressional Joint Committee on the Economic Report, Eastern Subcommittee, New York City, Sept. 24, 1947.

Public Utility Securities

Interstate Power Company

Interstate Power Company, a subsidiary of Ogden Corporation, is seeking to recapitalize and divorce itself from the holding company. A recapitalization plan was devised a year or so ago, but action was long delayed, possibly due to hopes of a better market. Last week bids were asked on $19,400,000 First Mortgage bonds due 1977, and 2,132,000 shares of common stock (out of a total new issue of 3,000,000 shares). The successful bid was made by a group headed by Lehman Brothers, Goldman Sachs, and Wertheim & Co. The bid was $4.05 with a retail price of $4.75. The prospectus had indicated that beginning in April, 1948, dividends would probably be paid at the rate of 40 cents per annum and on this basis the yield at the retail price would have approximated 8½%.

This bid, however, was considered unsatisfactory by the trustee of the old debentures (the Chemical Bank) and several other representatives of stockholder and debenture groups. The SEC heeded these criticisms and disapproved the sale of the stock. Since the bid for the new bonds had been conditioned on the company's receiving payment of $8,635,000 for the common stock and the bid was a little short of this figure, the bond financing also fell through.

It is, of course, difficult to pass judgment on the adequacy of the bid. Recent conditions have not been particularly favorable. Moreover, market attention was divided because of the bidding on a similar large issue, American Water Works, Inc. common stock. There was only one bid for the latter stock, the retail price being 8. With an indicated dividend of 60 cents beginning some time next Spring, the yield was 7½%. However, the Water Works bid was on a "standby" basis only (rights are being issued) and the underwriters had virtually sold the stock before they made the bid, since John Ware of Northeastern Water Co. (a former subsidiary in the Associated Gas and Electric System), had indicated his interest in contracting to purchase some 30-60% of the stock (exact details of this offer have not yet been published).

On Aug. 28, a compilation of the prices of utility stocks issued in the past year or so reveals the following high yields:

Birmingham Electric	7.5%
Central Electric & Gas	7.5
Michigan Gas & Electric	7.1
Northwestern Public Serv.	8.2
So. Carolina Elec. & Gas	8.4

It does not seem very surprising, therefore, that Interstate Power received a bid based on an 8½% yield basis. It was probably a mistake to issue such a large number of shares, with a par value of only $3.50 a share and a pro forma book value of the same amount. Unfortunately, this seemed to "tag" the issue as a low-priced speculative offering, since the great majority of utility stocks sell in a range of 15-50. It might have been better from the standpoint of market psychology to have issued one-third as many shares at a price three times as great. Had the offering come at a time of great speculative interest in new issues, a low price might have proved helpful in attracting the interest of speculative buyers, but apparently the bankers did not attach great importance to current potential speculative buying of this character.

The plan for revamping Interstate Power (which has been highly overcapitalized in relation to earnings) seems unduly complicated (see section in Prospectus, pages 3-4, "Purpose of Issue and Application of Proceeds"). A simpler plan might have had better chance of success. The major problem is to pay off the old First Mortgage 5s, provide working capital, and make some payments to the debenture bondholders and to Ogden (which holds a note). On the pro forma set-up, the new capital structure would have been about 65% debt and 35% common stock.

Unless a new plan is worked out soon, there has been some intimation that the company might have to go into bankruptcy, since on June 30 it had outstanding collateral promissory notes payable to banks aggregating $1,400,000. Cash on June 30 was in excess of this amount, although current demands for construction, etc., might make it difficult to maintain working capital if the notes were retired.

Now Proprietorship

ERIE, PA.—Paul B. Root is now sole proprietor of Smith & Root, Erie Trust Building, William R. Smith having retired from partnership.

View of Present Stock Market

By GLENN G. MUNN*

Market analyst holds that the permanent "war-defense" status of our economy is not fully realized. Although "anathema to the solid bears," he expects secondary postwar business boom, and higher security prices to accompany greater investor confidence.

It seems obvious that the stock market is now awaiting the Administration's reaction and answer to the report of the 16 Western European nations that accepted the offer of collaboration implied in the Marshall proposals.

Glenn G. Munn

A scientist must be objective to justify being called a scientist. Investment management and forecasting the stock markets, however, are less a science than an art. As of today, we cannot be sure to what extent the Administration will play ball with these 16 nations, or, indeed, whether the Marshall proposals will be implemented at all.

In our profession, it is necessary to take a position on the outcome of alternate government policies insofar as they bear on the stock market, whether that position be right or wrong. I am convinced that the Executive and State Departments are more fully aware of the Russian menace than the people are told. Our government at last has Russia's "number." We are compelled to make a decision between two evils. Either we bolster the non-communistic nations of Europe and Asia with our moral support and material assistance, or the Eurasiatic continent will fall into the hands of Soviet by default. It is a hard choice. Congress may balk. We have a job of selling our public on the issues, as well as ways and means of meeting them.

The War Factor

My conclusion and premise, nevertheless, is that the American people will agree that the peace of the world was not attained on V-J Day; that Russia is the obstacle to world tranquillity; that we in concert with other nations will accept the Russian challenge, and **will do such things as are necessary to contain Russia, and force a retreat of Soviet orbit of influence. The purposes and ideals for which we entered the war must not remain unfulfilled.**

I do not envision this policy will take form all in one step. The hurdle of getting adequate funds from Congress, and/or through the international banks, is to be overcome. We may need to reinstate some phases of the war economy—mostly on a voluntary basis, I hope. There will be plenty of opposition, which, I believe, will be met by American supervision of the use of funds, to insure economy.

The Market Effect

When the American public realizes that the foregoing is our policy—assuming that my preview will materialize in actuality—our stock market, now deflated in terms of current earning power, and having undergone a well-

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*Abstract of an address by Mr. Munn before National Industrial Conference Board, Sept. 25, 1947.

Dealer-Broker Investment Recommendations and Literature

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

Carbonated Beverages—A Growth Industry—Analytical brochure—Smith, Barney & Co., 14 Wall Street, New York 5, N. Y.

Concerning U. S. Government Securities—Concise, chronological outline of U. S. Government financing from the foundation of our Government to the end of World War II; deals with all major facts, events, and influences affecting our national obligations and includes official reports, statistics and charts, records of market prices and yields, statements of Treasury policies, and details of all major loans (1905-1945)—C. F. Childs & Co., 141 West Jackson Boulevard, Chicago 4, Ill.—cloth—$5.00 per copy.

Cycli-Graphs—Pre-publication offer of new 128-page folio of 500 cycli-graphs with monthly price ranges up to date through September 30—New edition contains individual charts of the 500 largest and most active listed stocks, portraying the cyclical swings for the entire pre-war, wartime and post-war period since 1935—$3.00 before Oct. 8, 1947, $4.00 thereafter—Ask for Folio CFC-102—Securities Research Corporation, 141 Milk Street, Boston 9, Mass.

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

Also available are a valuation and appraisal of **City of Philadelphia Bonds** and **Price Earnings Ratios and Yields on 123 Public Utility Common Stocks.**

Recent Bearish Factors—Discussion of the current market situation in the **"Fortnightly Market and Business Survey"**—E. F. Hutton & Company, 61 Broadway, New York 6, N. Y.

The "Survey" also contains information on **Schenley, International Nickel,** and **Agricultural Implements,** and has a tabulation of **30 Stocks for Capital Gains.**

Tax Loss Sales—Bank & Insurance Stocks—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also available is a circular discussing the position and outlook of **Bayuk Cigars** as an investment stock.

* * *

Allied Mills, Inc.—Memorandum on outlook—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Colorado Milling & Elevator Co.—Data—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available is information on **Portsmouth Steel** and **Beryllium Corporation.**

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, New York.

Also available are analyses of **Osgood Company "B," Tennessee Products & Chemical and Fashion Park.**

Kendall Company—Memorandum on outlook—Seligman, Lubetkin & Co., Inc., 41 Broad St., New York 4, N. Y.

Long Bell Lumber Company—Detailed analysis available for interested dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

National Terminal Corp.—Memorandum for dealers only—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

Nekoosa-Edwards Paper Co.—New analysis in September issue of **"Business and Financial Digest"**—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

New York, New Haven & Hartford—Memorandum—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Northern Engineering Works—Memorandum—Fitzgerald & Company, Inc., 40 Wall Street, New York 5, N. Y.

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

Public Service Company of Indiana—Memorandum—J. G. White & Company, Inc., 37 Wall Street, New York 5, N. Y.

Also available is a memorandum on **Indiana Gas & Water Company.**

Reiter Foster Oil Corporation—Circular—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Skilsaw, Inc.—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Southwestern Public Service Company—Memorandum—J. G. White & Company, Inc., 37 Wall Street, New York 5, N. Y.

Suburban Propane Gas—Circular—Edward A. Purcell & Co., 50 Broadway, New York 4, N. Y.

Upson Company—Special report—Ward & Co., 120 Broadway, New York 5, N. Y.

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

COMING EVENTS

In Investment Field

Oct. 3, 1947 (Springfield, N. J.)
Bond Club of New Jersey annual Member-Guest Field Day at the Baltusrol Golf Club, Springfield, N. J.

Oct. 10-12, 1947 (Myrtle Beach, South Carolina)
Security Dealers of the Carolinas annual meeting at the Ocean Forest Hotel, Myrtle Beach, South Carolina.

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

With The Ohio Company

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Russell L. Brenneman is with The Ohio Company, 51 North High Street.

Letter to the Editor:

Sale of Small Firm Issues Again Possible: Gearhart

Says investors fared well in Gearhart & Co. flotations, which provided venture capital for small and medium sized corporations and jobs for thousands.

Editor, Commercial & Financial Chronicle:

In answer to your inquiry regarding the opportunities of small companies to finance in the present market, and what opportunity there is for the investor to make money in the securities of these small companies, I would like to give you a record of what this firm has done over the past several years, as it is our belief that this type of financing is again possible.

F. D. Gearhart, Jr.

Since its first underwriting in December, 1943, Gearhart & Co. has financed 37 companies. These underwriting, aggregated $34,246,817.

Largely these were small manufacturing companies that could only be financed by a stock issue. Some were old companies, but many were new — the kind of company that needed the venture money that has built America into the greatest industrial nation of the world.

Gearhart & Company raised this venture money which helped build dozens of small and medium sized businesses giving thousands employment.

A first question arises, "How many are going concerns today?" All but one—that one a company in the hazardous airplane manufacturing business which failed more than a year ago.

A second question: "How did these securities fare in the bear market that caught up with them?" Almost a third are selling today in excess of their issue price; a few are twice to eight times higher than the original price to the public, and some few have declined fairly substantially.

A third question: "Had you invested $1,000 in each of these 37 issues, how would you stand today?" A $1,000 investment in each of the 37 issues is $37,000. **The market value on Sept. 29, 1947 was $38,560.**

"Did these Gearhart issues ever advance more than this?" Yes. At the bull market peak in the Spring of 1946 the aggregate value of the $37,000 investment was certainly in excess of $60,000.

"How about dividends?" More than a third of these companies have been paying regular dividends since issuance, and the total paid has been substantial.

On the attached sheet our record is given in detail. [Given below—Editor.]

GEARHART & COMPANY, INC.
FREDERICK D. GEARHART, Jr.
President

New York City,
September 30, 1947.

RECORD OF 37 ISSUES SOLD BY GEARHART & CO., INC.

Date	Shares		Company	Price to Public	Sold At	9-29-47 Market	Value Today of $1,000 Investment
3-19-46	20,000	Uts	American Time Corp.[1]	$100,000	5	6½	$1,300
11-13-45	100,000	Uts	Artkraft Manufacturing Co.[2]	500,000	5	8¾	1,750
5-17-45	100,000	Uts	Baltimore Porcelain Steel Corp.[2]	500,000	5	6	1,200
11-11-44	25,000	Com	Buckeye Incubator Co.[1]	81,250	3¼	4½	1,380
5- 8-46	60,000	Uts	Ceraseal Chemical Corp.[1]	300,000	5	1½	300
8-19-44	100,000	Com	Clyde Porcelain Steel Corp.[1]	75,000	¾	3	4,000
5-28-45	$500,000	Bds	Clyde Porcelain Steel Corp.[2]	500,000	100	102	1,020
2- 8-46	120,000	Uts	Consolidated Industries, Inc.[2]	600,000	5	4½	900
10- 9-44	225,000	Shs	Allen B. DuMont Laboratories, Inc.[3]	1,659,375	7⅜	7	948
5-21-46	425,000	Shs	Allen B. DuMont Laboratories, Inc.[3]	4,675,000	11	7	636
4-25-46	19,252	Uts	D. B. Fuller & Co., Inc.[1]	98,185	5.10	7½	1,470
2- 5-46	60,000	Uts	General Panel Corp.[2]	300,000	5	3¾	750
3-18-46	150,000	Pfd	Globe Aircraft Corp.[2]	1,500,000	10	---	---
3-20-46	900,000	Com	Higgins, Inc.[2]	9,900,000	11	2½	227
9-27-45	175,000	Uts	International Resistance Co.[2]	875,000	5	3½	700
3- -45	10,000	Com	Ironrite Ironer Co.[1]	27,500	2¾	4½	1,636
11- 1-45	60,000	Pfd	Ironrite Ironer Co.[2]	600,000	10	7	700
11-15-45	121,239	Com	Kropp Forge Co.[1]	333,407	2¾	3	1,090
12-18-45	60,000	Uts	Kut-Kwick Tool Corp.[1]	300,000	5	2½	500
5-27-46	120,000	Com	Liebert & Obert[2] (now Cooper Br'w'g)	780,000	6½	3⅜	519
10- 7-46	57,000	Uts	Leader Enterprises, Inc.[1]	290,700	5.10	2½	480
5-12-45	450,000	Com	Lear, Inc.[1]	2,250,000	5	2½	450
10-18-46	225,000	Com	Lime Cola Co., Inc.[2]	1,012,500	4.50	1	222
3- 5-46	$229,500	Bd Uts	Magar Home Products, Inc.[1]	299,500	100	40% + Com.	500
11-18-44	297,500	Com	Majestic Radio & Television Corp.[1]	900,000	4.50	1½	333
10-25-45	300,000	Pfd	Majestic Radio & Television Corp.[2]	1,500,000	5	2	400
6-11-46	58,000	Uts	Pacific Telecoin Corp.[1]	295,800	5.10	4½	882
8-27-46	160,000	Com	The Pep Boys[2]	1,200,000	7.50	6	800
6-25-46	99,000	Com	Radio & Television, Inc.[1]	297,000	3	1½	500
8-21-46	150,000	Com	Reporter Publications, Inc.[2]	525,000	3.50	1	286
12- -43	20,000	Uts	Telecoin Corp.[1]	100,000	5	40*	8,000
7-26-45	60,000	Com	Telecoin Corp.[2]	300,000	5	8**	1,300
4-17-46	99,000	Com	Trans Caribbean Air Cargo Lines, Inc.[2]	297,000	3	1	333
3- 6-46	59,880	Uts	Ventnor Boat Corp.[2]	299,400	5	1¾	350
2-15-46	90,000	Com	Virginia Dare Stores Corp.[2]	------	5	3	600
12-28-45	$300,000	Bds	Wilcox Gay Corp.[1]	300,000	100	96	960
4-23-45	198,800	Com	Wilcox Gay Corp.[1]	675,200	4	3¾	938
					$1,000 x 37		
			TOTAL	$34,246,817	$37,000		$38,660

Principal Underwriters

[1] Gearhart & Company, Inc., alone. [2] Gearhart & Company, Inc., and Newburger & Hano. [3] Van Alstyne Noel & Co., and Gearhart & Company, Inc. * Telecoin after conversion and split-up. ** Telecoin after 2-1 split-up.

Note: In addition, Gearhart & Company placed a secondary distribution (not included in above) of 100,000 shares of Bendix Home Appliances, Inc. before 1943 at 75 cents a share, now selling on the New York Stock Exchange at 18½.

Boston Stock Exchange Re-elects H. W. Besse

BOSTON, MASS.—Harry W. Besse, Draper, Sears & Co., has been elected to a second term as President of the Boston Stock Exchange. Also re-elected was the board's Perennial Treasurer, Mark R. Hodges, Schirmer, Atherton & Co. John Perrin of Perrin, West & Winslow was named Vice-President.

For members of the Governing Committee, terms to expire in 1949, the following were elected: Waldo M. Brown; Frank A. Day, R. L. Day & Co.; Percy G. Crocker; Guy W. Walker, Jr., Guy W. Walker & Co.; Charles P. Atherton, Schirmer, Atherton & Co.; and George N. Proctor, Proctor, Cook & Co.

Samuel Mixter, Mixter & Company, was elected a governor, term expiring in 1948, to fill a vacancy.

The 1947-48 Nominating Committee will be: John W. Adie, Townsend, Dabney & Tyson, Chairman; William J. Brannan; Forrester A. Clark, H. C. Wainwright & Co.; Howard W. Hodgdon; and Gilbert L. Steward, Tucker, Anthony & Co.

Two with Morfeld, Moss Co.

(Special to The Financial Chronicle)

ST. LOUIS, MO.—Eben T. Bradbury and Joseph A. Manion have become associated with Morfeld, Moss & Hartnett, 818 Olive Street, members of the St. Louis Stock Exchange.

With Ames, Emerich & Co.

(Special to The Financial Chronicle)

CHICAGO, ILL.—Robert W. Thomas is now with Ames, Emerich & Co., Inc., 105 South La Salle Street, members of the Chicago Stock Exchange.

NSTA Notes

BROKERS BOWLING LEAGUE OF PHILADELPHIA

"Timber" is the war chant as 16 teams of the Philadelphia Bankers & Brokers Bowling League swing into action for the current season. High spot is the annual contest with New York's STANY keglers, usually held in conjunction with the January dinner of the Investment Traders Association.

Philadelphia firms represented in the League are: "A" Section—Buckley Bros. "A," Butcher & Sherrerd, E. W. Clark & Co., First Boston Corp., Hecker & Co., E. H. Rollins & Sons "A," Stock Clearing Corp., Stroud & Co. "B" Section—Buckley Bros. "B," Gerstley, Sunstein & Co., Montgomery, Scott & Co., "A" and "B," Paul & Co., Herbert H. Blizzard & Co., H. A. Riecke & Co., E. H. Rollins & Sons "B."

CHICAGO BOND TRADERS BOWLING LEAGUE

On Sept. 22 the 12th Annual Tournament of the Chicago Bond Traders, Inc., Bowling League got under way at the Congress-Wabash Alleys for the 1947-48 season. Eight evenly balanced teams of five men each form the League this year. A representative team will be selected at a later date to enter the local IBA Tournament. A good season, with much enjoyment, is anticipated by all.

T. D. WALSH, Secretary.

CINCINNATI STOCK & BOND CLUB

A cocktail party was given for members of the Cincinnati Stock & Bond Club and their wives, on Friday, Sept. 26, at the Pavilion Caprice, Netherland Plaza from 5 to 10 p.m.

Arrangements were handled by Frederick Latscha of Frederick Latscha & Co., Chairman of the Entertainment Committee.

New York a Good Place to Build

By MYRON L. MATTHEWS

Vice-President, The Dow Service, Inc.

Asserting gap in building costs between New York and other cities has been reduced compared with prewar period, Mr. Matthews points out it is even better place to build than before.

Ninety-four cities out of 150 reporting in the current Dow Service National Construction Cost Survey conclusively support the oft stated contention that notwithstanding the increase in New York City the average rate of increase elsewhere has been considerably greater, declares Myron L. Matthews summarizing results of the survey in the Dow Service Daily Building Reports. This much is clear when considered along with other information such as the fact that in 1941 New York costs were 15% higher than the composite building cost level for 66 other cities throughout the country; and the fact that the 94 cities tabulated currently show local New York costs are reduced to 11% above the average. Thus the gap has been narrowed by 27%. Not much consolation can be found in this, however, due to a 92% increase in construction costs here, but the fact remains that in the great transition occurring since Pearl Harbor, New York in relation to the rest of the country emerges, from a building cost point of view, as a more desirable place to build than ever before. If New York was a good place to build before—and it was—it's even better now, cost-wise.

Myron L. Matthews

As proof of these observations, it is a matter of record that construction costs in the New England States average 11% less than New York City in the current survey. Costs in the states of New York above Kingston, Wisconsin, Michigan, Illinois, Indiana, Ohio, Pennsylvania, and Delaware, average 6% less than New York City. Costs in North Dakota, South Dakota, Nebraska, Kansas, Oklahoma, Texas, Louisiana, Arkansas, Missouri, Iowa and Minnesota average 13% under New York City. The composite of these three districts is 10%, unweighted, under New York against 13%, unweighted, in 1941 for the entire country. Finding to be released for south and southeastern states and west coast and Rocky Mountain states are not expected to alter the 10% figure materially because the final conclusion is now strongly entrenched by findings in about two-thirds of all cities to report.

The 94 cities tabulated to date show a composite increase in contractor's delivered-at-the-job prices for brick, plaster, cement, and construction lumber, of 108%, and for 10 labor trades, of 78%—above 1941. This includes the influence of the Fifth District now tabulated for the first time since V-J day.

With Fahnestock & Co.

Fahnestock & Co., members of the New York Stock Exchange, announce that Barnett Thomas Talbott has become associated with the firm in its New York office, 65 Broadway.

John A. Dawson Adds

(Special to The Financial Chronicle)

CHICAGO, ILL.—Karl E. Krost has been added to the staff of John A. Dawson & Co., 1 North La Salle Street.

Pennsylvania Brevities

"OUT" Says SEC to Philadelphia Company

The Public Utilities Division of the Securities and Exchange Commission has recommended that Philadelphia Company, the $370,000,000 Pittsburgh holding company, controlled by Standard Gas & Electric Co. be "dissolved as an unnecessary and costly corporate complexity."

The 133-page brief, filed by Paul S. Davis, special counsel, and Howard S. Guttmann, attorney for the division, states that the company "performs no useful function whatsoever" and "its continued existence is detrimental to security holders and consumers."

* * *

The brief further recommended that the SEC enter an order forbidding common stock control by Philadelphia Company of the electric properties operated by Duquesne Light Co., gas properties operated by Equitable Gas Co., and transportation properties operated by Pittsburgh Railways Co. and Pittsburgh Motor Coach Co. These companies are subsidiaries of Philadelphia Company operated in the Pittsburgh district.

* * *

The SEC attorneys' recommendations are based upon the study of some 4,000 pages of testimony taken during proceedings which lasted approximately five months earlier in the year.

* * *

Company Will Fight

At its Pittsburgh headquarters, a spokesman for Philadelphia Company charged that the company had been denied "due process of law" and was prepared to battle the issue in the courts.

* * *

In a brief filed with the SEC, Philadelphia Company declared it had not been handled fairly in its "death sentence" fight under the Public Utility Holding Company Act. The company, it was stated, "is not the kind of holding company that Congress intended to break up when it passed the Act in 1935. . . . From start to finish the entire conduct of the Commission and the Commission's staff has had the effect of harassing the respondents in every possible way, and has prevented them from presenting their case in the most effective manner."

The company's brief further maintains that Philadelphia Company is a local, coordinated system which has developed and unified the gas, electric and street railway service in the Pittsburgh area. It declares that if permitted to put into effect its own voluntary simplification plan, the system would conform in every respect to the requirements of the Act. Dismemberment, the company contends, would mean a loss of $1,090,598 annually in ascertainable economies.

* * *

Pittsburgh Rwys. Reorganization Progresses

Regardless of the outcome of the battle royal between Philadelphia Company and the SEC in the latter's attempt to eliminate the intermediate holding company, reorganization of the complex Pittsburgh street railway system is considered a "must." Proceedings before the District Court for Western Pennsylvania have been placed on a definite time schedule.

There are at present three petitions before the court. They may be summarized as follows:

(1) The petition of W. D. George, Trustee for Pittsburgh Railways Co., filed Sept. 11, 1947, praying that the court fix a time for hearing on his, the Trustee's, proposed amendments to the 1942 plan of reorganization, subject to such order as the court may make transferring the hearing to the Securities & Exchange Commission.

(2) The petition of Jules Guggenheim, et al, filed July 21, 1947, praying that the Trustees of Pittsburgh Railways Co. be directed to make a partial cash payment to the public holders of Pittsburgh Railways Co. system, such payment to be on account of principal and that no payment be made to Philadelphia Company, its affiliates and subsidiaries.

(3) The petition of Philadelphia Company praying that the Special Master be directed to proceed promptly with hearings on the claims filed by Philadelphia Company and its affiliated and subsidiary companies, to determine the amount and validity of such claims and whether such claims are entitled to equal participation with claims asserted by other parties in interest.

On Sept. 12, the court entered uniform orders upon the three petitions granting rules upon all interested parties and the SEC to show cause why the prayers of the petitioners should not be granted.

The court fixed Sept. 30, last Tuesday, as the time within which parties at interest were to file answers to the said petitions with attorneys of the respective petitioners and further fixed Oct. 7 as the date upon which preliminary objections would be heard before a judge of the court.

As pointed out in an earlier issue of the "Chronicle" (Sept. 4), the Trustee's proposed amendments to the former reorganization plan appear inequitable in many respects to owners of publicly held system securities. The most substantial complaint lies in the fact that the information and data, upon which the Trustee bases his conclusions, have never been made available to the public. Granting the Trustee's sincerity in attempting a difficult job, it is virtually impossible to argue intelligently with his findings unless the same basic and factual information is made available to all. With the Public Utility Division of the SEC's antipathy toward Philadelphia Company plainly in evidence and with strong representations of publicly held system securities ready to defend their contractual rights, it may be assumed that "full disclosure" will be the keynote of the forthcoming hearings.

* * *

Saturday Bank Closings

Most Pennsylvania banks which adopted the Saturday closing plan for the summer months have found the 5-day program practical and will continue on that schedule. In Philadelphia, Saturday closing was made permanent at the start. In many other localities, extension of the plan requires only the adoption of a resolution extending Saturday closing "until further notice." In the light of the bankers' experience, there seems to be substance in the opinion of many brokerage and financial houses: little, if any, of the business now transacted during the Saturday half-sessions could not be as adequately handled on Friday or Monday.

* * *

National Bank of Germantown

Glenn K. Morris, President of the National Bank of Germantown, Philadelphia, has announced that the bank has purchased six adjoining properties on West School House Lane to provide space for expansion of the bank building and additional parking facilities.

* * *

Pennsylvania Borrowing

Last week's sale of $50,000,000 Commonwealth of Pennsylvania 1⅜s represented the State's largest long-term money-borrowing transaction in its history. Its interest cost to the State was at a new low. The winning bid by a group headed by Drexel & Co. and First Boston Corp. of 101.6899 resulted in a net interest cost of 1.27559%. While designated as a "general purpose" loan, much of the proceeds will be spent for state hospital construction and rehabilitation and for purification of the Schuylkill River.

* * *

Philadelphia Electric Co. Expansion

Citing record-breaking demands for electricity for five years ahead, Horace P. Liversidge, Chairman of Philadelphia Electric Co., states that the company's expansion and improvement program contemplates the expenditure of approximately $200,000,000 and will add 670,000 kw. to existing capacity.

* * *

Lehigh Valley Transit Co.

A new plan of reorganization for this subsidiary of Pennsylvania Power & Light Co., which supplies transportation in and adjacent to Allentown, Pa., has been filed with the SEC. It provides for the retirement of $4,915,000 Lehigh Valley Transit ref. & imp. 5s, 1960, at their face amount through treasury cash or through the voluntary exchange into Pennsylvania Power & Light Co. 4½% preferred taken at a valuation of $112.50 per share.

* * *

Kellet Aircraft Co.

Effingham B. Morris, Jr., and Paul R. Skilling, trustees of Kellett Aircraft Corp. since Oct. 18, 1946, report a net loss of $18,128 from that date until July 31, 1947. They also report no response to their suggestions for a plan of reorganization. Some optimism, however, was expressed in respect to the company's manufacture of frozen food display cabinets and general sheet metal fabricating and assembly work. While endeavoring to cover general overhead, the company is engaged in developing its XR-10 helicopter, an official demonstration of which was held last week. The Army has evidenced an interest in this machine and a production order is a possibility.

* * *

Natural Gas for Philadelphia

Formal approval for the piping of natural gas to Philadelphia by the Texas Eastern Corp. through the Big and Little Inch pipelines may be forthcoming from the Federal Power Commission on Oct. 15. The Philadelphia Gas Works Co. announces that it is ready to go forward with a $7,500,000 construction program as soon as permission is received. It is possible that the first gas, to be mixed with the manufactured product, may be available to consumers by March 1, 1948. Present plans are for Texas Eastern Corp. to extend a pipeline from the nearest Big Inch point—between Phoenixville and Doylestown—to the city limits from where the Gas Works Co. would continue the line to its Tioga and Point Breeze plants.

At a hearing before the FPC in Washington last week, the proposal to bring natural gas to Philadelphia was opposed by representatives of the coal and railroad industries. In defending the case for natural gas, Pennsylvania's Governor, James H. Duff, said, "I am convinced that this natural gas will in no way interfere with or adversely affect the important coal mining industry in Pennsylvania because the fuel affected by this change is oil. That means a net over-all gain for the industry in Pennsylvania."

* * *

U. G. I. Earnings Up

Due to increased payments in respect to preferred dividend arrears on the parts of Commonwealth & Southern and Niagara Hudson Power, in both of which minority interests are held, net income of United Gas Improvement Co. for this year will substantially exceed the $1.52 per share reported for 1946.

In each of the first three quarters of 1947, Commonwealth & Southern preferred has paid $3 per share, bringing payments thus far to $9, compared with $6.25 a year ago. Dividends received from Niagara Hudson Power preferred are expected to aggregate $17.50 per share this year compared with a total of $5 in 1946.

Since it is U.G.I.'s policy to pay out substantially all income in dividends to stockholders, an increase in the dividend rate may be announced at the October directors' meeting.

* * *

Lit Bros. Preferred

Lit Brothers, Philadelphia department store controlled by City Stores Co., has announced that it will receive tenders until Nov. 15 for $1,000,000 par value of its 6% preferred shares. The company proposes to pay par plus accrued for shares tendered.

* * *

Philco Corp.

John Ballantyne, President of Philco Corp., has announced that the company is making available to all radio and television set manufacturers about 700 inventions and patents. Radio Corp. of America, General Electric and Westinghouse Electric have already been licensed to use these processes. Included are Philco's advanced FM system, electronic voltage regulator, large-screen television system employing the micro lens and new developments in the playing of phonograph records.

C. L. Wallingford Is With Harrison & Co.

Chas. L. Wallingford

PHILADELPHIA, PA. — Charles L. Wallingford, formerly associated with E. H. Rollins & Sons and W. H. Bell & Co., Philadelphia, has assumed his new position in the trading department of Harrison & Co., members of the Philadelphia Stock Exchange, 123 South Broad Street.

Alfred M. Dick to Be Field Sec. for AKC

PHILADELPHIA, PA.—On October 15, Alfred M. Dick of Lewis C. Dick Co. will leave the securities business to assume his duties as Executive Field Secretary of the American Kennel Club with headquarters in New York. Prior to his association with Lewis C. Dick Co., Mr. Dick, for many years, was Manager of the trading department of Hopper, Soliday & Co. During the war years, Mr. Dick was active in the local recruiting of Dogs for Defense.

Phila. Secs. Assoc. To Hear on Tax Law

PHILADELPHIA, PA. — Community Property Tax Law will be discussed at the first of the fall and winter luncheons of the Philadelphia Securities Association to be held Monday, October 6, at the University Club. The luncheon speaker and leader in the discussion will be Sanford D. Beecher, member of the law firm of Duane, Morris & Heckscher. The luncheon will be presided over by William B. Ingersoll, of Stroud & Company, President of the association.

R. M. Wright Now With Batkin, Jacobs & Co.

R. M. Wright, formerly with F. H. Koller & Co., has become associated with Batkin, Jacobs & Co., 32 Broadway, New York City, as syndicate manager in charge of special situations.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

A group of 17 leading New York City banks' stocks can be bought today at an average discount from mid-year book-values of 15%. Not since 1942, when bank stock prices fell below the 1932 lows, has it been possible to buy book-vaules so cheaply. At the low point in 1942, during the first quarter of the year, they were selling at a discount of 30%.

The accompanying tabulation shows the book-value of each of the 17 bank stocks on June 30, 1947, together with the asked price of each as of Sept. 25, 1947, and the corresponding ratio of market to book-value. Only two stocks are selling at a premium to book-value, viz. Chemical and First National, and the premium, it will be observed, is very small.

	Bk.-Val. 6/30/47 $	Asked Price 9/25/47	Ratio Mkt. to Bk.-Val.
Bank of Manhattan	31.88	26⅝	.84
Bank of New York	452.07	351	.75
Bankers Trust	49.40	42	.85
Central Hanover	119.20	97½	.82
Chase National	42.88	36½	.85
Chemical Bank & Trust	42.92	43⅛	1.01
Commercial National	57.90	43	.74
Continental Bank & Trust	24.08	16⅞	.70
Corn Exchange	57.14	56½	.99
First National	1,360.39	1,415	1.04
Guaranty Trust	358.12	274	.76
Irving Trust	22.80	15⅞	.70
Manufacturers Trust	58.81	53⅝	.91
National City	47.47	43¼	.91
New York Trust	105.91	96	.91
Public National	53.09	41½	.78
U. S. Trust	770.88	640	.83
Average of 17			.85

Going back over the record for 15½ years (62 quarters), it is found that these stocks, in the aggregate, have sold below quarterly book-values only one-third of the time, and above, two-thirds of the time.

During 1932 and 1933, the market swung back and forth, half the time above and half the time below book-values. In 1934, 1935, 1936 and 1937, bank stocks sold at a premium to book-value, ranging between a low ratio of 1.01 and a high of 1.73. In 1938 the market dropped below book, but recovered and moved above in 1939 and early 1940; it see-sawed during the balance of 1940 and 1941, and dropped well below in the final quarter of 1941 and all of 1942. In the first quarter of 1943 it moved above book-values and remained above during 1943, 1944, 1945 and the first half of 1946. Since June 30, 1946, market prices have been consistently below.

It is pertinent to note that book-values have been steadily and even vigorously rising, quarter by quarter, since the first quarter of 1934. Our study shows that the aggregate book-values of 15 of the above 17 banks have expanded from $1,211,678,000 on March 31, 1934 to $1,979,038.000 on June 30, 1947, a gain of 63.3%. Over this same period the aggregate market value of these stocks has risen from $1.571,923,000 to $1,678,195,000 or only 6.8%.

It is of interest that aggregate net operating earnings of these 15 banks amounted to $127,820,000 in 1936, which represents a return of 7.0% on aggregate book-value as of 1946 mid-year. Highest earning rate on book-value was made by Corn Exchange, with 10.0%; lowest, by Guaranty Trust and U. S. Trust, each with 5.7%.

The following table shows the record, since 1931, of the ratio of market to book-value, based on aggregate figures of the 15 banks. The high and low quarterly ratio is given, together with the average of the four quarterly ratios each year.

Date	Ratio, Aggregate Market to Aggregate Book-Value High	Low	Average
Dec. 31, 1931	---	---	.98*
Dec. 31, 1932	1.26	.74	1.03
Dec. 31, 1933	1.23	.82	1.03
Dec. 31, 1934	1.30	1.06	1.26
Dec. 31, 1935	1.53	1.07	1.32
Dec. 31, 1936	1.53	1.42	1.46
Dec. 31, 1937	1.73	1.01	1.47
Dec. 31, 1938	.99	.85	.94
Dec. 31, 1939	1.19	.99	1.12
Dec. 31, 1940	1.15	.98	1.04
Dec. 31, 1941	1.02	.80	.96
Dec. 31, 1942	.84	.70	.78
Dec. 31, 1943	1.03	1.00	1.02
Dec. 31, 1944	1.14	1.08	1.11
Dec. 31, 1945	1.17	1.15	1.16
Dec. 31, 1946	1.07	.97	1.01
June 30, 1947	---	---	.85*

*As of date shown.

Holding Our Banking System Firm

By PRESTON DELANO*
Comptroller of the Currency

Noting that postwar inflation is full upon us, Comptroller Delano points out heavy loan increases of national banks and decline in their liquidity. Sees need for additional bank capital as protection against increase in risk assets, and warns bank supervisors to use persuasive powers to prevent undue expansion of credits which contribute to inflation spiral. Holds there is danger of concentration of economic power in banking system.

We are meeting today in the capital of the world, certainly the capital of the world to all those free peoples who look for guidance and for assistance in their struggle to remain free and to hold off the encroachment of totalitarianism with its attendant evils.

Preston Delano

Because in that sense we are the capital of the free peoples of the world. You will find there all of the strain and tension which the present situation engenders. These are not pleasant times in which to live, and the future has many ominous portents. In our capacities as supervisors of the banking system of the strongest and the most influential of world powers, we cannot disregard the tremendous economic and social forces now at work. In the last analysis they bear directly upon our responsibilities. There are many facets to this struggle of the western world to maintain the freedom and dignity of the individual and to salvage a competitive economy which stimulate vigor and resourcefulness in men. One of these facets is undoubtedly the necessity of holding our banking system steady during the storm. This is our major obligation and this will make demands upon our wisdom and experience.

Growth of Deposits and Loans

Since 1938 the bank deposits of the United States have increased by $94.9 billion, or 153%. The capital structure, which is the cushion of protection for these deposits, has increased $3.2 billion, or 39.3%. During the war years the implication of these figures was not unduly disturbing. Bank assets became largely government paper or paper which directly or indirectly was guaranteed by the government. These assets were extremely liquid and the war inflation assisted many institutions in writing off their substandard and doubtful holdings. The return of peace, and I call it peace by your leave, is bringing a decided change in this picture. A post-war inflation is full upon us.

Taking into consideration national banks alone, loans and discounts at the end of June 1947 were $18.8 billion, an increase of $4.3 billion, or nearly 30%, since June 1946. Commercial and industrial loans of $9 billion were up 48% since the close of June 1946. Real estate loans were 54% greater than in June of the previous year; consumer loans to individuals showed an increase of 81% during the same period. The percentage of loans and discounts to total deposits on June 30, 1947 was 24.30% in comparison with 18.01% on June 29, 1946. These are significant figures and they compel our attention. While there are still large holdings of government securities in the banks and there remains a high degree of liquidity, the trend is important and should be carefully studied. It becomes our duty to press for additional capital protection wherever we find weakness or an aggravation in the form of a pronounced increase in risk assets.

Inflationary Danger

But there is a deeper meaning to these figures than the technical one of under capitalization. As previously stated, we are in the full swing of a postwar inflation, an inflation which is severe and dangerous. There are several reasons for this: the tremendous increase in the volume of money in this country, the dearth of goods—both durable and consumer—and the necessity of shipping abroad large quantities of food, supplies and equipment to assist those civilizations to recover their balance after the most devastating of all wars. All these factors have combined to make America's problem a difficult one, difficult in the sense of keeping the proper balance between our responsibilities abroad and the demands of our own people for goods and services at home.

What Bank Supervisors Can Do

There is something here that we as supervisors of the banking system can do. We can use our influence and all our persuasive powers to prevent an undue expansion of credit in those fields which contribute heavily toward a continuation of this inflation spiral in which we are caught and which has woven its web around us. I realize we cannot do this directly. No hard and fast regulations may be laid down, and in an economy such as ours, a rigid straight-jacket of bank lending policies would be contrary to our philosophy and quite unworkable. However, much may be accomplished by indirection, by discussion and by persuasion. I trust we will use all our powers in an attempt to check spending in those avenues which contribute toward inflation, and contrawise, I trust we will use our powers to encourage and foster an increase of production in those avenues where there is insufficient supply to satisfy demand.

We are confronted by other problems which, like the poor, are always with us. I again call to your attention the dangers inherent in too great a concentration of economic power in the banking system and in any operation which tends toward a credit monopoly. I think the statement promulgated by the Reserve City Bankers which touched on this subject in their discussion of the bank holding company bill is worthy of study. As the foreign situation passes into its more critical stages, it accentuates once again the necessity for cool and competent handling of our own fiscal affairs, of which our banks are the nerve centers. In any line of endeavor the necessity for capable and experienced management remains paramount. Eternal vigilance is the price of solvency as well as of liberty.

*An address of Comptroller Delano at a meeting of the National Association of Supervisors of State Banks, Washington, D. C., Sept. 24, 1947.

Thornton & Co. Offers Chemical Stock Units

Thornton & Co., New York, is offering to the public 295,000 stock units of Rare Minerals Processing & Chemical Co. The price per unit, which consists of one share of class A stock (par $1) and one share of common stock (par 1 cent) is $1.01. The securities, according to the prospectus, are being offered solely as a speculation.

There is a concession of 20 cents per unit to members of NASD. The company was organized in Nevada, Sept. 3, 1947, and proposes to engage primarily in the business of treating refractory concentrates, particularly those containing rare minerals by processing them into metallic salts, and eventually to market tungstic acid. The methods to be used are distinctly new in the commercial field, and may mark a revolutionary development in the rare minerals and metallic salts industries. The proceeds of the stock will provide the company with capital for the erection of plant facilities and working capital.

Wm. C. Juen Co. Opens

(Special to THE FINANCIAL CHRONICLE)

BELLEVILLE, ILL. — William C. Juen and Sharron R. Fowler have formed William C. Juen & Co. with offices at 9 Public Square, to conduct a securities business. Mr. Juen was formerly Belleville representative for Fusz-Schmelzle & Co.

Now Partnership

WALLACE, IDAHO — Victor Semenza has become a partner with Richard K. Fudge in Pennaluna & Co., 413 Sixth Street. Mr. Fudge was formerly proprietor of the firm.

Securities Regulation in New York

By JOHN P. POWERS*

Asst. Attorney General, New York, in Charge of Securities Bureau
Second Vice-President, National Association of Securities Administrators

Mr. Powers explains system of securities regulation in New York State, and points out requirement of dealer registration; power to prevent and punish fraud; and SEC requirements, which permit proper regulation without elaborate state supervision. Discusses value of prospectus in preventing fraud.

The variety of statutes regulating the sale of securities within the various states was ably analyzed by Commissioner Hueni of Michigan at last year's convention in New York. As he pointed out, 12 of the 47 states having statutes concerning the sale of securities within their boundaries do not presume to pass upon securities issues before they are offered to the public, and of the remaining 35 states, 32 of them mention the presence of fraud in the issue of the security as one of the tests of registration. However, these 35 states are generally treated as registration states since, in each of them, an application must be filed which must meet certain tests before the security may be sold to the public.

John P. Powers

I do not presume to speak in any way on behalf of the administrators of those states for I am not acquainted with their problems, nor, except generally, with their views as to the ideal in the way of regulatory statutes. New York, of the so-called fraud states, has problems that are peculiar to it and, of course, such views as I may express must be regarded as having arisen from the problems of administration in the State of New York. Perhaps if I briefly outline to you the type of statute which we administer you can more readily appreciate our problems.

Of course, we must take the statute as we find it. The Legislature in its wisdom has not seen fit to regulate the securities business within the State of New York by a registration statute, and we cannot go beyond the confines of the law as it is given to us. It might be pointed out parenthetically that the legislative judgment in this regard might well have been influenced by the fact that New York is unquestionably the heart of the country's securities industry. A statute requiring registration and qualification of issuers whose securities are being sold in New York State, would place the burden of regulating the security business of the entire nation upon us. To vest such jurisdiction in a state department would unquestionably be a duplication of the work of the Securities and Exchange Commission and would require the maintenance of a tremendous staff, with the resultant cost of administration. Our statute, therefore, requires no registration of issuers or issues of securities.

Our statute permits the Attorney General to initiate an investigation whenever, in his judgment, any person or legal entity shall have employed, employs or is about to employ any device, scheme or artifice to defraud or obtain money or property by means of false pretense, representation or promises, or shall have engaged in or engages in or is about to engage in any practice or transaction relating to the purchase or sale of securities which is fraudulent or in violation of law. These, generally, are the broad powers of investigation vested in the Attorney General.

He is, of course given sweeping powers with regard to subpoena to require the presence of witnesses at his investigation. Having ascertained that any person or persons are concerned in or in any way participating in or about to participate in such fraudulent practice, he is given the authority to apply for a permanent injunction enjoining such persons from selling or offering for sale in the State any securities issued or to be issued and, of course, may in such action obtain a preliminary injunction. The right to apply for the appointment of a receiver and take possession of assets fraudulently obtained, is likewise granted.

In addition to this civil action, he is given jurisdiction to prosecute any criminal offenses violative of the laws applicable to or in respect of such fraudulent practices. Generally speaking, these are the confines of the power of enforcement vested in our office. I might here say that the language of the statute has by judicial interpretation been given an extremely liberal construction with a view, as the courts have phrased it, "to protect inexperienced, confiding and credulous investors from their own foolish cupidity."

As an instance of the liberal construction given the statute, it might be pointed out that our courts have held that proof of conviction of a crime, Federal or state, involving the sale of securities is conclusive proof of the fact that the person so convinced has engaged in a fraudulent practice within the meaning of our Act. Such person may, without further proof, be permanently enjoined from dealing in securities within the State of New York.

Registration of Dealers

While our State does not require registration of issuers, we do require those that are engaged in selling securities to the public in our State to register that fact with us prior to doing so. This enables us generally to be aware of all issues being sold as well as who is selling them. Fraud in the sale of securities to the public is rarely practiced by the issuer without the connivance, cooperation or negligence of a dealer. More often we find that it is the dealer who practices fraud without the knowledge of the issuer. Our concern is, therefore, with the dealer rather than with the issuer.

Each such dealer, and this includes issuers who are selling their own securities to the public, furnishes us with sufficient information of his background to enable us, with the aid of an excellent filing system and with the cooperation of other agencies like your own, to formulate an opinion as to his character or as to that of his employees. Investigations are instituted upon the basis of such estimates or upon other suspicion or information. If preliminary study justifies it, such investigations are very searching and painstaking and include the questioning of the subject's customers and other persons having knowledge of his affairs. More often than not, frauds are nipped in this manner even before the public has been approached.

Before I come to some of the problems which are constantly present in the administration of the statute, may I say that we are extremely proud of our record under this statute. We believe that by constant vigilant examination and inquiry under the Act we are able to keep out of the securities business those who, by inclination, are prone to fraudulent practices.

Not a Safe Haven for Stock Swindler

I think that I can honestly say that New York is not considered a safe haven for the stock swindler. In fact, I have reason to believe that "the boys" as we affectionately call them, avoid New York as a base for their operations. Considering the volume of securities transactions in our State, its wealth and the number of its inhabitants, you must realize that ours is a gigantic task. The astounding thing about it is that it is being done completely and satisfactorily with a small staff of Assistant Attorneys General, three accountants and a few stenographers and filing clerks.

I might also say at this point that the interchange of information between administrators has been of extreme value to us. On at least one occasion during the

(Continued on page 36)

*An address by Mr. Powers at Convention of National Association of Securities Administrators, Jacksonville, Fla., Oct. 1, 1947.

Mutual Funds

By HENRY HUNT

The Cost of Research

Only big business with its multi-million dollar corporations can afford to maintain adequate research and technical staffs, since their cost runs into millions of dollars a year. Similarly in the mutual fund business, with the cost of a competent research and management organization frequently running well into six figures annually, a fund or group of funds must be of substantial size to carry the expense of management. It is difficult to determine the minimum figure that would pay for proper management of a mutual fund but $50,000 a year might be a good guess. Assuming the sponsor corporation receives ½ of 1% annually on the net asset value of the funds it controls, $10,000,000 of assets would appear to be the approximate break-even point in the industry, if management obligations are to be conscientiously discharged. A fund with $1,000,000 or less is like a $100 checking account—neither carries itself, with the difference being that mutual funds are not in a position to charge the minimum fees or service charges that banks have adopted in recent years.

Thus the trend on the part of a number of investment dealers to form their own mutual funds in order to retain the full selling commission and the ½ of 1% management fee would appear to be a dangerous one. This trend, always in evidence toward the end of a bull market, has in the past resulted in the formation of dozens of funds that never got to first base and exist today as inactive shells of investment companies completely lacking in adequate portfolio supervision. Few of these dealers have sold as much as $1,000,000 worth of their funds and none, to the writer's knowledge, as much as $10,000,000. They may argue that they have their own research departments and managing a mutual fund involves no additional overhead. This may be true but their "research departments" seldom consist of more than a statistician or two. Some of the newer dealers in this category are apt to find that they have bitten off more than they can chew and will rue the day they turned from selling shares of established sponsors to peddling their own offerings.

Need A Laugh?

If you need a laugh, and who doesn't these days, take a tip from this department and listen to the show on the Columbia Broadcasting network at 9 p.m. on Wednesdays starring Frank Morgan, Don Ameche and Frances Langford. The weekly skit, "The Honeymoon Is Over," written by Phil Rapp is tops.

Distributors Group Favors Electrical Equipment

In an attractive brochure on its **Electrical Equipment Shares, Distributors Group** points out that the electrical business is threefold, consisting of heavy equipment, electrical appliances, and electronics. About the heavy equipment end of the business, the pamphlet has the following to say: "The big earnings made by electrical equipment companies are in heavy installations such as dynamos and generators in the utility industry. However, these fluctuate widely, becoming large in periods of capital goods expansion and flattening to almost nothing in times of depression.

"The situation today is:

"We are in a period of capital goods expansion in general; and

"We are in a period of heavy electrical capital goods expansion in particular, and one which appears likely to last for years.

"The main sources of this demand are as follows, according to the Edison Electrical Institute:

"(1) Public Utilities — 1947 budgets of public utility companies for capital construction total more than $1,300,000,000, an all-time peak. It is further estimated that at least a billion dollars a year will be spent for three years. Government agencies are planning to spend another $90,000,000.

"(2) Industry—Increased mechanization of industrial processes to offset rising labor costs has resulted in a huge demand for electric motors and equipment, the supplying of which has been held back mainly by temporary shortages of critical materials.

"(3) Rural Electrification—Somewhat less than half the nation's farms do not have electricity. The program of rural electrification is progressing rapidly but another 1½ to 2 years will be required to complete even the major portion of the job.

"It is a fact that in heavy equipment, profit margins have always been satisfactory when demand was high. This is true today."

Notes:

Union Common Stock Fund, one of the **Lord-Abbett Companies,** added the following stocks to its portfolio during the months of June, July, and August: Allis-Chalmers Manufacturing Company, Imperial Oil Limited, and Westvaco Chlorine Products Corporation.

The Keystone Company of Boston has prepared a readable booklet designed for female investors titled "You Are a Woman."

The Nesbett Fund announces that it proposed to reduce its cash and government position by 10% and increase its common stock position by a similar amount. Its revised portfolio will be as follows: cash and governments 6%; good grade bonds and preferred stocks 24%; common stocks 70%.

Investors Mutual, Inc. of Minneapolis recently declared a fourth quarter dividend of 27c a share of which 16c was derived from security profits and 11c from investment income. Distributions for the past 12 months total 63c a share.

Carr & Co. Admit Jennings Randolph

DETROIT, MICH.—Carr & Co., Penobscot Building, members of the Detroit Stock Exchange, have admitted Jennings Randolph to limited partnership. Mr. Randolph was formerly a Congressman from West Virginia and was assistant to the President of Capitol P. C. A. Airlines.

Valette R. Eis and Sweard N. Lawson have withdrawn from partnership in Carr & Co.

Now Creston H. Funk & Co.

SAN ANTONIO, TEX.—Creston H. Funk & Co. has been formed to continue the investment business of Creston H. Funk, Frost National Bank Building. Mr. Funk is President of the firm; Virginia M. Funk, Vice-President; and Kathryn Deres, Secretary-Treasurer.

Concerning U. S. Government Securities

Dean of U. S. Government bond dealers writes book reviewing 156 years of federal fiscal policy. Declares many mistakes made in recent years in dealing with inflation and war financing.

While the continuation of the wartime policy of the Treasury and the Governors of the Federal Reserve Board in managing a flexible supply of banking credits to support fixed interest rates is now of first importance to government bondholders and taxpayers the plain fact is that if the government's "control of conditions" becomes unmanageable, it is this factor that may be the real influence in interest rates, C. F. Childs, President of C. F. Childs and Company, Inc., 141 W. Jackson Blvd., Chicago, declares in his new book, "Concerning U. S. Government Securities," just published and on sale at $5 a copy.

C. F. Childs

He said that the record of the past several years has been that "both individuals and institutions were frustrated by the reluctance of the Administration and a political-minded Congress to prescribe courageous corrections for a menacing inflation agitated by encouragement for wage increases with a corresponding rise in industry's cost of production."

Mr. Childs, who heads the oldest house in America continuously specializing in government securities and is the dean of the nation's government bond dealers, wrote the 600-page book at the suggestion of the Finance Department of the United States Chamber of Commerce. It is the only work of its kind ever published and describes the major factors which affected the loans, redemption and other problems of the U. S. Treasury. It is believed to be the first attempt to review in detail the country's public debt, currency and fiscal policies. Much of the material was resurrected from old files and documents and is generally unknown to the average financier, banker and investor today.

The history of U. S. public finance from earliest colonial days, through the revolution and down through 1945 is reported chronologically. It was two years in preparation.

But Wall Street, LaSalle Street and financial America will not find in the Childs' work a definite guide to the future of Federal financial policies. Childs says that while it might be expected that this exhaustive review of the past 156 years would disclose signals of future market trends, his belief is that the assembled information actually furnishes no dependable guide for what is ahead.

He concludes that "history is an unreliable barometer for anticipating market trends in government securities. Their course will vacillate according to supply and demand which reflect such factors as expedient programs, changing economic conditions and political policies of the Congress. Then follows the reaction and sentiment of investors of capital."

Fiscal policies of recent years are the subjects of considerable comment in the book.

"New Deal doctrines foisted extravagant controlling policies upon free enterprise up to the time war crystallized the magnitude of the nation's economic problems; orthodox poultices for the aftermath of the war were not effectively prescribed or prepared to restore free enterprise. Regimentation had always been foreign to American philosophies.

"Plundering the thrifty by a ruinous load of taxation to support the poor in idleness foments communistic theories of government. Adherence to a policitally inspired program to support a government-planned economy furthering national socialism would prolong inevitably heavy taxation.

"A socialistic state would threaten to absorb what is left of one's savings. A country like an individual can spend only the equivalent of what it earns plus the proceeds of past earnings. The higher standard of life can only be supported by a higher standard of work. Imposing crippling taxation upon people who save, which levels them to people who spend, is no brake on inflation."

Regarding foreign trade, Childs declares:

"It is important for the government to foster the dollar purchasing power of our foreign customers and the only way to do that is for the United States to import freely."

The extent of the heavy tax load which the country is now carrying is shown by the Childs statement that Federal taxes from 1941 through 1945 yielded more than $121½ billion, about 38% more than the internal revenue receipts for the preceding 151 years of our national history.

But the nation's finances are inherently sound, Childs believes.

"From every crisis or temporary embarrassment, the nation's credit recovered from its lowered levels. The Treasury has never suffered from a defaulted debt since the constitutional government was founded."

One section of the work is a year-by-year account of government fiscal policy and events since the Revolution with data about colonial financing. Another is devoted to the government bond dealers profession and the market management by the Federal open market committee, another summarizes each major loan from 1905 to 1945, and another includes a chart of U. S. obligations as of the end of 1945.

Orvis Bros. & Co. Open Newark Office

Orvis Brothers & Co., members of the New York Stock Exchange, New York Curb Exchange and the nation's leading commodity exchanges, have opened a branch office at 760 Broad Street, Newark, N. J., with Roscoe L. Strickland, formerly a partner in Strickland & Widin, and Howard W. Nichols, previously with Francis I. duPont & Co., as co-managers.

The new office is in the space occupied by the former Stock Exchange firm of Strickland & Widin which was dissolved as of September 30. Orvis Brothers & Co. have taken over the business of the dissolved firm in Newark and vicinity. A wider scope of brokerage service will be made available to clients by Orvis Brothers & Co. by reason of the firm's extensive memberships in commodity exchanges in addition to those in the Stock Exchange and Curb Exchange. The firm maintains other branch offices in Washington, D. C., and Plainfield, N. J. The home office is at 14 Wall Street, New York.

Prosperity Factors Still With Us, Dr. Hardy Holds

Director of Congressional economic committee states the various bases of boom have not spent their force, and sees no new factors counteracting them. Says high foreign demand reflects new kind of war economy.

In an address before the National Industrial Conference Board in New York City on Sept. 25, Dr. Charles O. Hardy, Staff Director of the Joint Committee on the Economic Report, maintained that the business outlook hinges on the question whether the forces making for high employment, high production and high prices have spent their force, and whether new forces are in operation which will tend to offset the effects of these earlier tendencies.

Charles O. Hardy

As listed by Dr. Hardy, the chief forces leading to the present boom are:

(1) The great expansion of purchasing power brought about by wartime finance, involving the spending of vast amounts of new money which was a permanent addition to the purchasing power of the community; financing on short-term bonds which are practically money; and permitting incomes to go up more rapidly than either prices or the supply of consumer goods.

(2) A backlog of consumer demand for durable goods, especially housing and automobiles.

(3) A very high demand for all sorts of exports, supported so far as Europe is concerned by governmental expenditures for relief and loans. For Latin America, demand is supported by an inflationary boom in those countries.

(4) Willingness of the population to spend freely because of accumulated liquid assets, high farm incomes, and because the fear of unemployment has subsided.

(5) High level of investment, due to (a) high profits; (b) cheap money; and (c) high labor costs.

Bullish Factors Still in Force

"I do not see that any of these factors has spent its force, nor do I see any new factor working against them; we should not forecast a slump till some cause for such a slump is discerned," said Dr. Hardy.

"Pessimistic forecasts were common in 1945, again last December, and again in the late Spring. These were based partly on the stock market slump which was itself only another forecast of slump—not a reason why the slump should occur," he continued.

"However, the chief basis of the pessimism in all three cases seems to have been a curious doctrine that people didn't have money enough to pay the prices they actually were paying."

Purchasing Power Fallacies

"The fact is that production always creates enough purchasing power to purchase the product. Apparent shortage of purchasing power always means really unwillingness to use purchasing power. When spending stops, incomes fall; but it doesn't stop because incomes have already fallen.

"Food prices have risen more than other prices, chiefly because of the rise of consumer incomes; recently because of damage to the corn crop," said Dr. Hardy. "For the longer run the outlook is bad, because Western Europe has been more or less permanently cut off from its natural source of food in Eastern Europe. The Americas are called on to resume their 19th century role as the breadbasket of Europe. Farm incomes are way up and out of line with other incomes. The result is that industries and cities that cater to farmers are in an especially strong position, while those that cater to city workers are in a weaker position. Money that was available for other purposes a year ago now has to go for food. Moreover, the artificially low level of rents has caused an artificially high purchasing power for other things. As rents work up, clothing and miscellaneous items will have to come down in price or volume, unless incomes rise further. The shift of income from city workers to the farm, and the prospective shift from city dwellers to landlords, may create an illusion of general deficiency of purchasing power; they are really just part of the process of getting from a war to a peace economy."

"But the high level of foreign demand reflects a new kind of war economy; not a shift to a genuine peace economy," Dr. Hardy concluded.

James Vacha Joins Dickson in Chicago

CHICAGO, ILL. — James C. Vacha, formerly of Bennett, Spanier & Company and Adams & Company, has joined the Chicago office of R. S. Dickson & Company, 135 South La Salle Street, in charge of its Corporate Trading Department.

James C. Vacha

William H. Place Co. Formed in N. Y. C.

William H. Place has formed William H. Place Co. with offices at 50 Broad Street, New York City, to engage in the securities business. Mr. Place was formerly a partner in Charles L. Babcock, Jr. & Co.

Joins Hess Co. Staff

PHILADELPHIA, PA.—Hess & Co., Inc., 123 South Broad Street, successor firm to Hess, Blizzard & Co., announce the association with them of F. LeRoy Worley as registered representative.

Oscar Gruss & Son in N. Y.

Oscar Gruss & Son will engage in a securities business from offices at 150 Broadway, New York City. Partners are Oscar Gruss, formerly a partner in Gruss & Co., and Emanuel Gruss.

"A Regulator Looks at Regulation"

By RICHARD B. McENTIRE*

Commissioner, Securities and Exchange Commission

Noting business and individuals are subjected to all types of regulatory processes by Federal and state statutes, Commissioner McEntire traces history of Federal regulation in U. S. and concludes "we have become prey of the regulatory bug." Contends economic forces have become so large they completely overwhelm the individual, and regulation has become essential both in public interest and also as means of maintaining private enterprise. Recommends efficient but moderate system of regulation without interference with managerial functions.

In considering what I might say to you when this opportunity was so graciously afforded to me, quite naturally I first thought of discussing some one or more of the multitude of the technical problems which confront us. I know that you have had that kind of speech made to you many times by representatives of the SEC and I know they have probably done a much more capable job than I could of it. As I turned the matter over in my mind I came to the realization that all of us—in varying degrees perhaps—are essentially in the business of regulating a large, important and dynamic industry which is closely identified and associated with the entire fabric of our economic system. That relationship, close and important as it is, gives our activities as regulators a definite effect upon the economic and business life of this nation.

Richard B. McEntire

I have therefore reached the conclusion that, with your kind indulgence, I would like to ask you to step back perhaps a few hundred paces and look at this job we do from an objective and broader point of view that we can get when we sit from day to day at our desks handling the heavy routine that confronts us.

Let me say at the outset that this is indeed an ambitious undertaking and perhaps one which assumes quite a good deal on my part. It is hard for me to realize that I have spent almost 10 years of my professional life in the capacity of a regulator, first in various capacities on a state utilities and securities commission and more recently on a Federal agency. I have come to have a considerable portion of my life invested in regulatory work and I would like to take this opportunity to talk with you, as fellow regulators, about our common task—regulation.

Part Regulation Plays

Have you ever stopped to realize what a large role regulation plays in the life of the average American citizen? We seldom realize how frequently it affects us, because we have come to accept it, for the most part almost without thinking. Yet if we tried to catalog all of the types of regulatory processes that touch and affect our daily activities, it would require hours to simply mention them. But let us take just time enough to discuss a very few.

When Mr. Average Citizen gets up in the morning, the milk bottle waiting outside his front door comes from a milk producer, whose affairs are probably controlled by the State Milk Authority. The electric power he uses when he turns on the light—if he gets up that early—and the gas he uses when he makes his morning coffee are obtained from a public utility whose rates, capital structures and operations are subject to scrutiny by the State Commission, the Federal Power Commission and perhaps the Securities and Exchange Commission. If he should turn on the radio for the morning news, the station he listens to operates under license by and in accordance with the rules of the Federal Communications Commission. If he takes a commuter's train to work, the railroad is subject either to the jurisdiction of the State Railway Commission or the Interstate Commerce Commission, or both. If he rides a bus or street car, that means of transportation is regulated by either the State utility Commission or the municipal regulatory authority. Even if he drives his own car, the gasoline and oil he uses is produced, in all likelihood, under the orders of a State Conservation Authority. Perhaps he stops at a bank enroute; probably both the State Banking Authority and the Board of Governors of the Federal Reserve System have a hand in the bank's operations and, in addition, his deposit is unquestionably insured by the Federal Deposit Insurance Corporation. If he stops in a drug store on the way, the patent medicine on sale there may have been subjected to the jurisdiction of the Federal Trade Commission to insure that the product he purchases has been truthfully advertised and properly labeled. When he gets to work, the impact of a half dozen regulatory forces are felt; his wages and hours have been regulated under the Wage and Hour Law, and if he is a union member, the union may have had recourse to the National Labor Relations Board or a similar State agency. The securities of the company for which he works or any securities which he may own have been probably subjected to some degree to the jurisdiction of the State Securities Authority and of the SEC. In fact, no matter what he may do during any of his waking hours, the chances are that in some way, directly or indirectly, he will be affected by some regulatory force.

Development of Regulation

Why have we come to have this maze of regulatory process? Let us go back a little way into history to find its inception. As

(Continued on page 26)

*An address by Commissioner McEntire at the Convention of the National Association of Securities Administrators, Jacksonville, Fla., Oct. 2, 1947.

Blue Sky Law Developments

By JAMES F. MERKEL*

Chief, Division of Securities, Ohio Dept. of State
Secretary, National Association of Security Administrators

Mr. Merkel reviews changes in state Blue Sky Laws during last year. Discusses options and stock warrants, and points out Blue Sky Administrators have no objection to options that run in favor of stock traders, but oppose excessive use of options in favor of underwriters. Notes securities business in 1947 has "not been gratifying" and lays blame on lack of fair treatment to stockholders and investors by corporations.

As Secretary of your Association and as a Blue Sky Administrator of the State of Ohio, I shall speak from the viewpoint of one dealing with a broad regulatory act. In Ohio, ours is a combination of a licensing act, a fraud act, and a qualification act. There are many subjects that I could discuss. However, I shall limit my talk to three:

James F. Merkel

I. Legislative Changes

First of all, I feel you are interested in knowing the nature and extent of legislative changes in Blue Sky Laws that have taken place this past year. The five subjects most often dealt with by the State legislators during the calendar year are the following:

Eleven States added new exempt transactions, namely: California, Connecticut, Florida, Indiana, Iowa, Michigan, Oklahoma, Oregon, Washington, West Virginia and Wisconsin. These in general freed from registration process cases not involving the general public, cases of certain changes, stock dividends or changes in par or stated value.

Eight States changed certain definitions. These were: California, Florida, Illinois, Indiana, Michigan, New Hampshire, Washington and Wisconsin. For the most part these broadened rather than limited the definition of "issuer," "security," "sale," etc.

Six States exempted certain securities of insurance and utility companies, namely: California, Michigan, New Hampshire, North Dakota, Oklahoma, West Virginia. Some, as in the Ohio law, permitted the State Insurance Administrator and the Public Utilities Commission to stand in the place of the Securities Administrator on the registration of securities in these two fields.

Six States adjusted or increased their filing fees, namely: Illinois, Michigan, Missouri, North Dakota, Washington and Texas.

Five States exempted securities that are listed or which will be listed upon notice on certain stock exchanges.

Arkansas added some regulatory provisions to its former Fraud Act. Connecticut has a new act replacing its old, as of Oct. 1, 1947. It remains a Fraud Act with the exception of requiring registration of mining and oil securities.

California made approximately eight adjustments to its act. Michigan made 12, leading to a more workable act.

Incorporated as a part of my message is a chart showing the types of legislative changes made to date. In general, it may be said most changes were for more clarification, more workability and to provide for additional exempt transactions and exempt securities.

The most striking enactment and "trail-blazing" in nature was the new law in Wisconsin, permitting the solicitation and acceptance by a licensed dealer under certain conditions of tentative reservations for purchase of securities prior to registration thereof. This is a form of conditional sale which calls for customer ratification following the effective registration and before final written confirmation. I understand that the Wisconsin Department of Securities has not completed its Rules and Regulations with respect to full procedure. Wisconsin was anticipating a change in the Federal law. Since Congress made no Federal statutory change, the Wisconsin provisions have not come into play. The Wisconsin statute now also permits the use of the prospectus in advance of registration. In that State this implements the present Securities and Exchange Commission rule on advance use of the prospectus. This aggressive step on the part of Wisconsin legislators may be the answer to the problem of getting more information disseminated in advance of sale and the problem of "legalizing advance order taking of new offerings." It will be of great interest to observe the practical operation of this provision.

II. Options and Warrants

Another matter of importance is the subject of stock options and warrants. The administrators of Blue Sky Laws at their last convention in New York took a definite stand against abuses in the use of stock options. Quoting their words: "Warrants or stock purchase options to those other than the purchasers of securities will hereafter be looked upon with great disfavor and will be considered as a basis of denial of the application, except in unusual instances, and the burden shall al-

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*Address by Mr. Merkel at the 30th Annual Convention of the National Association of Securities Administrators, Jacksonville, Fla., Oct. 1, 1947.

Chicago Board of Trade Adopts Flexible Margins

Responding to demands from various sources that grain exchanges increase their minimum margin requirements on futures trading, the Chicago Board of Trade on Sept. 29 adopted a new variable or sliding scale system of margin requirements. According to the new rule if a single future price of any one grain advances 10 cents, both the initial minimum margin and the minimum maintenance margin shall be increased 5 cents on all futures of that grain. For each subsequent advance of 10 cents in the price, both the initial minimum margin and the minimum maintenance margin shall be increased an additional 5 cents.

This sliding scale system of margin requirements was adopted as a substitute for the recommendation of J. M. Mehl, Administrator of the Commodity Exchange Division of the Agricultural Department that minimum margin requirements on futures trading be increased to a third of the selling price. This would about double the previous requirement which placed a minimum margin of 45 cents a bushel on wheat and 25 cents on corn.

In announcing the change in margin requirements, J. O. McClintock, President of the Chicago Board of Trade stated: "We are taking the action, which becomes effective today, as an indication of our willingness to help reduce the apprehension in the public mind that has been brought about during this inflationary period. Our position has been and still is that margin requirements are only the guarantees of performance of contract and have no bearing on prices. For more than a year the price of cash grain, as the result of government purchase for export, has ruled consistently above the price of futures on the exchange. Future trends in the market will be guided by the force with which government activities are found in the market place."

Graham Fin. Chairman of Ky. Constitutional Convention; Others in Drive for Revision

LOUISVILLE, KY.—Thomas Graham, President of the Bankers Bond Company, has been appointed State Finance Chairman of the Kentucky Constitutional Convention Campaign, according to an announcement by Paul G. Blazer, State Campaign Chairman.

William H. Courtney, President of the First National Bank & Trust Company of Lexington, was appointed State Treasurer for the drive. Merle E. Robertson, President of the Liberty National Bank & Trust Co., and T. A. Pardue, Vice-President of the Farmers Bank & Trust Company of Frankfort, were named assistants to Mr. Courtney.

Thomas Graham

The officers, according to Mr. Blazer, will supervise the raising of funds to "publicize the issue of calling a convention to revise Kentucky's Constitution, and to publicize some of the shortcomings of the present document."

Mr. Graham stated that the membership of the state finance committee and finance chairman for various communities would be announced at an early date, and that funds contributed would be used to "publicize the campaign as widely as possible in every County of the State."

Mr. Graham has been active for many years in promoting, organizing and financing Kentucky's Businesses. He has served as President of the National Security Traders Association and as Chairman of the Ohio Valley Group of the Investment Bankers Association. He is also a Past President of the Bond Club of Louisville and is a director of numerous Louisville and Kentucky companies.

Ohio Valley Group of IBA Elects Heimerdinger Chairman at Annual Meeting

New officers of the Ohio Valley Group of the Investment Bankers Association of America include Gordon Reis, Jr. (left) of Seasongood & Mayer, Cincinnati, Secretary-Treasurer, and John G. Heimerdinger (right) of Walter, Woody & Heimerdinger, Cincinnati, Chairman. Center is Ewing T. Boles, of the Ohio Company, Columbus, retiring Chairman of the organization.

Left to right: Ewing T. Boles, the Ohio Company, Columbus, retiring Chairman of the Ohio Valley Group of the Investment Bankers Association of America; John G. Heimerdinger, Walter, Woody & Heimerdinger, Cincinnati, newly elected Chairman; Gordon Reis, Jr., Seasongood & Mayer, Cincinnati, new Secretary-Treasurer; William J. Conliffe, Louisville, executive committee member; and Thomas Graham, Louisville, Ohio Valley Group Governor for the IBA of A.

COLUMBUS, OHIO.—John G. Heimerdinger, of Walter, Woody & Heimerdinger, Cincinnati, was elected Chairman of the Ohio Valley Group of the Investment Bankers Association of America at the annual meeting in Columbus.

He succeeds Ewing T. Boles, President of The Ohio Company, Columbus, who served as Chairman two years. Other new officers of the Ohio Valley Group include:

Joseph Vercoe, of Vercoe & Co., Columbus, and Marion H. Cardwell, of J. B. Hilliard & Son Co., Lousiville, Vice Chairmen; Gordon Reis, Jr., of Seasongood & Mayer, Cincinnati, Secretary-Treasurer; William J. Conliffe, Louisville; Allen Watts, Louisville; Ray M. Brock, Dayton, and Charles Tobias, Cincinnati, members of the Executive Committee.

The meeting was attended by more than 200 IBA members, including large delegations from New York, Chicago, Cleveland and other commercial centers. After the morning sessions and luncheon, the investment men were guests of the Ohio Company at the Wigwam, near Columbus.

Charles F. Kettering, famous inventor, was luncheon speaker. Edward Hopkinson Jr., national IBA President and a partner in Drexel & Co., Philadelphia, headlined the business program, and Murray Hanson, IBA general counsel, Washington, discussed legislative problems.

Raymond A. Herman With Gottron, Russell & Co.

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Raymond A. Herman has become associated with Gottron, Russell & Co., Union Commerce Building, members of the Cleveland Stock Exchange. Mr. Herman was previously with Cunningham & Co., Prescott & Co., and prior thereto with Wm. J. Mericka & Co.

With Sutro & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Edward W. J. Olson has been added to the staff of Sutro & Co., Van Nuys Building.

With Wm. S. Beeken Co.

(Special to THE FINANCIAL CHRONICLE)

WEST PALM BEACH, FLA.—Wm. S. Beeken Co., Guaranty Building, has added Paul Gotch to the firm's staff.

Modified Sterling Convertibility

By PAUL EINZIG

Dr. Einzig ascribes early breakdown of sterling convertibility to "dollar greedy" nations, and describes new system of limited convertibility as a "theoretical absurdity," inasmuch as sterling convertibility cannot become a reality until British trade deficit is erased.

LONDON, ENG.—Recent statement made by Mr. Snyder and Mr. Dalton at press conferences during the London meeting of the International Monetary Fund and the International Bank have gone some way towards indicating the nature of convertibility which is intended to be restored in Britain. As Mr. Dalton made it plain at his press conference on Sept. 19, convertibility in the form in which it operated before Aug. 20 is dead—at any rate for a long time to come. Its adoption amidst prevailing conditions was condemned by implication by the annual report of both the Fund and the Bank.

Dr. Paul Einzig

The former, dated a fortnight before the suspension of convertibility, but covering the period ending June 30, declares: "It must be recognized that the assumption of the obligation to permit the transfer of current sterling may add significantly to the burden of the deficit in the British balance of payments. There is therefore a danger that if efforts to improve the United Kingdom's international position and the general international payments situation are not effective, the assumption of this obligation may compel the imposition of even more severe restrictions on imports and thus in some degree reduce the flow of world trade." Which is, of course, precisely what did happen.

The indictment of the premature return to convertibility implied by the report of the International Bank is even more severe. "We now know that the problem is deeper and more difficult than was envisaged at Bretton Woods. The deadening effects of the utter and prolonged disuptions of trade have been more serious than was anticipated in 1944." In spite of the deterioration of conditions far beyond what was anticipated when the Bretton Woods Plan was adopted, the convertibility of sterling was restored about four years earlier than was envisaged at Bretton Woods!

Apart altogether from the fundamental error of returning to convertibility when Britain's trade is still grossly unbalanced, the interpretation formed on the British Treasury was such as to open the floodgates to a torrent of abuses by dollar-greedy and unscrupulous governments. When the full story of these abuses comes to be told it will become evident how the U. S. Treasury's insistence on the convertibility of gross, instead of net sterling, balances accentuated the dollar drain. In one known instance, the Belgian Government abused this provision by converting every pound they could lay hands upon, without first repaying the £15,000,000 owed to Britain. And the way in which Belgium collected sterling for conversion by accepting old sterling in payment for her exports to other continental countries was the result of the adoption of the rule that sterling earned in current trade by foreign countries should also be convertible. Although Belgium is the worst offender, there were many others. The temptation of abusing the convertibility facilities was for many governments too strong to be resisted.

Under the new system of convertibility such obvious abuses at any rate will be prevented. Henceforth, it will be for the Bank of England to decide whether a sterling balance is qualified for conversion. That in itself would reduce the drain caused by abuses, but there would still remain the problem of the drain caused by legitimate use of convertibility. Such a drain will be sought to be reduced by the adoption of a system under which sterling is to become convertible only after the holding of a country has exceeded a certain figure. This rule was adopted in the new Anglo-Belgium Payments Agreement which fixes the inconvertible sterling at £27,000,000. Of this amount £15,000,000 represents repayment of old sterling debt, and £12,000,000 new Belgian sterling balances. This is a fairly high figure and Mr. Dalton stated on Sept. 19 that it is the Treasury's intention to insist on fairly high "ceilings" for inconvertible sterling balances during the coming negotiations with other countries.

The principle of the new system of limited convertibility is from a theoretical point of view the height of absurdity. Under it, Britain is to maintain the inconvertibility of sterling provided that Sir Stafford Cripps succeeds more or less in balancing British trade. Should, however, Britain's trade remain strongly adverse, sterling would become convertible in due course! In other words, if Britain can afford to convert sterling there will be no obligation to do so, but if, owing to the large trade deficit, Britain cannot afford to convert sterling she will have to convert it nevertheless.

The disadvantage of this system is that if a country wants to misuse it this can be done by cutting down the purchases of British goods. Thus, if Belgium is desirous of securing additional dollars, this end could be achieved by accumulating sterling in excess of £27,000,000, not through exporting much more to Britain but through importing much less. Admittedly, this would mean temporary unrequited exports, but sooner or later the sterling balance could be used up and, meanwhile, urgent dollar requirements would be satisfied. Such misuses of convertibility could and should be discouraged by the adoption of the principle that is in operation between Britain and Canada, namely, that half of the proceeds of Canadian exports should be paid in dollars and half in inconvertible sterling. Presumably, if and when it is found that the new form of convertibility would cost Britain more dollars than she could afford to lose, then, and only then, would this modified form be adopted.

However this may be, it is gratifying to note that the U. S. Treasury is not pressing the British Treasury to do the impossible by returning to the formula discarded on Aug. 20. Its restoration would mean certain failure even in the case of the adoption of the Marshall Plan, for the temptation to secure dollars in addition to the amounts to be allocated under that plan would be too strong to be resisted.

J. A. Robb in Fleetwood

FLEETWOOD, N. Y.—James A. Robb is engaging in a securities business from offices at 673 Locust Street. He was in the past connected with Merrill Lynch, Pierce, Fenner & Beane.

The Heritage of America

By JOSEPH STAGG LAWRENCE*

Vice-President, Empire Trust Company, New York

New York economist stresses danger of spread of communism and the efforts of Russia to use this ideological instrument to expand area of its authority. Says business and government should be more active in exposing misery under Russian system and urges examining carefully personnel and teaching programs of our public and private schools. Favors maintaining a powerful military force and lays difficulties of Britain and France partly to socialistic policies.

The subject assigned to me today is one not ordinarily found in a program of bankers. It has in the past been reserved for eloquent exploitation on the Fourth of July, Armistice Day and other occasions calling for an exhibition of patriotic fervor. Businessmen and bankers, as individuals, have viewed these exhortatory treatments of the subject with patronage and condescension. They knew what our heritage was. They knew that it was not in peril. They knew that these holidays were the only occasions on which our political leaders could speak eloquently and without equivocation on a subject that could lose them no votes. It seemed a good deal like extolling the Ten Commandments or expatiating on the virtue of filial piety.

Jos. Stagg Lawrence

The picture has changed. The circumstances which once made a speech on this subject seem like gilding the lily have changed. The defense of this thing which we have so taken for granted has now become a sombre task. The heritage of America, our way of life, is in jeopardy. It is no longer possible to take this heritage for granted. We have seen nothing to equal the present menace to our fundamental freedoms since the days of the Holy Alliance a century and a quarter ago. At that time a group of rulers with more or less despotic power, recognizing in the enjoyment of freedom and the growing prosperity of this country a threat to their power, undertook to stop the spread of the contagion known as democracy. The failure of that effort is a matter of history and need not be revived at this point except for the brief purpose of analogy and possibly to point out that the active leader in this earlier campaign against liberty was Czar Alexander of Russia.

In the following century the contagion of democracy spread throughout the world with, on the whole, happy results—happy in terms of personal freedom, in terms of enlightenment, in terms of material progress. However, during the last 25 years a new challenge has developed, a challenge which, particularly in the last two years, has developed a malevolence the magnitude of which causes justifiable concern.

Danger of Russia

I refer, of course, to Communism, and to Russia as the great world power which uses this ideological instrument to expand the area of its authority. Here again the theory of Communism and the country whose dominant party exploited it were viewed with the indulgence of superiority. Communism was regarded as a vague and impotent threat to our position. Nor did a close examination of Karl Marx tend to modify the contempt with which this ideology was regarded by thinking men and women throughout the world.

Marx was a typical soap-box agitator. One of the more curious contradictions in his character was the fact that he, the son of a long line of Jewish rabbis, was nevertheless violently anti-Semitic. He was a man of strong opinion and weak earning power. His mother once remarked, commenting on her famous son after his major opus had appeared, that it would have been much better had Karl made some capital instead of writing a book on the subject. His basic premises, based plausibly on the experience of the worker, particularly in England during the early days of the Industrial Revolution, have since been demonstrated as completely false.

He argued that the exploitation of the worker by the employer left the worker with means inadequate to buy and consume the products which he produced. As a result of this inadequate buying power, surplus goods tended to accumulate, finally causing a crisis. With each crisis the misery of the worker deepened, his economic plight became worse, until finally, able to tolerate his distress no longer, he rose in his mass might to overturn the society which caused his misery. It was at that point that a new group would rise to power and establish a civilization based upon the social justice developed by Marx.

We know now that Marx was entirely mistaken in this premise and that the theory of progressive misery of the worker in a capitalist society is without validity. For a half century after the death of Marx, Communism was the activating doctrine of a very small group and a subject for college seminars. It had little political significance and never seemed to carry with it any serious threat to the structure and stability of a free society.

What has brought about the change of the last ten years, particularly the last two? In the first place, Russia demonstrated that Communism, even though honored somewhat in the breach, could serve as the basis for a viable society. American visitors before the war admitted that Russia was a securely established state and that her way of life, whatever its shortcomings from the American

(Continued on page 21)

*An address by Mr. Lawrence before the 27th annual national convention of the Consumer Bankers Association, Atlantic City, N. J., Sept. 27, 1947.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Treasury obligations continue to give ground on light volume as the authorities again lowered bids on certificates in a further firming of short-term rates. . . . Accordingly, the floating supply of near-term issues has increased slightly with a somewhat easier tone being evidenced in quotations of certificates, notes and short bonds. . . . The longer obligations also trekked downward on reduced activity as investors and traders stepped aside to see what might happen with tightening short-term rates. . . .

PORTFOLIO CHANGES

There is considerable switching and rearrangement of holdings going on, with the restricted issues apparently more in the limelight now on that score. . . . A large-scale shift from the 2¼s due 1959/62 in the Victory 2½s has had a depressing influence upon the 2¼s, which are not far from their lows of the year. . . . Some selling of eligibles is reported with the proceeds going into the non-marketable 2½s. . . .

Bank issues, like the intermediate-term maturities, have a good steady demand, but there is no desire to pay up for them. . . . Although the government market is a bit on the confused side, investors are looking for a spot to take on securities, which may not be far off. . . .

SPECULATION

The money markets are again playing the old guessing game trying to figure out what will take place in government securities with advancing short-term rates and low-coupon refundings by the monetary authorities. . . . The up-trend in near-term rates is due to action of the powers that be, and the increased demand for loans. . . . Although the rise will be gradual it will no doubt have its greatest effect by the middle of next year, when it is believed that the certificate rate may reach 1¼%. . . .

In the interim the money market will be adjusting its position to the new level of rates, the effectiveness of which will depend in no small measure upon other actions of the money managers. . . .

DEBT POLICY

The refunding of high-coupon maturing obligations with short-term low-rate issues will have different results from a medium-term security with a rate that is needed by holders of the due and callable securities. . . . Higher short-term rates that will be allowed to fluctuate will make the creation of reserve balances more risky, but this in itself will not solve the problem of inflationary trends in loans or the monetization of the debt through purchase of long-term Treasury obligations. . . .

The use of government surpluses as well as funds from occasional issues to non-bank investors to pay off bonds as they become due or callable will cut down reserve balances as well as deposits of member banks. . . .

This program would not be as deflationary as the retirement of Treasury bills since the elimination of this type of security cuts more deeply into reserves of the commercial banks. . . . There is, however, a greater saving in interest cost in the extinguishment of the higher-coupon obligations. . . .

EARNINGS ESSENTIAL

The most pronounced effect of the maturing obligation, debt retirement program would be on commercial banks because of limitations upon the types of securities that these institutions can purchase. . . . Earnings must be maintained by the commercial banks, and this cannot be done by exchanging high-return securities for low-coupon obligations or by having the larger income issues paid off in cash. . . . Increased loans will make up some of the loss of earnings. . . .

This, however, will not solve the whole problem, which must be done by taking on the higher-return longer-term obligations. . . . Thus the monetization of debt goes on in the more distant issues. . . .

EXTENDING MATURITIES

The extending of maturities means that the deposit banks are forced into the longest-term governments because the intervening years will put more of the intermediate-term securities into the short-term classification. . . . The supply of short-term securities would be augmented through the refunding operations of the monetary authorities and the approaching maturity of outstanding obligations. . . . There is very little choice for the commercial banks but to go into the last three maturities of the partially exempts, the taxable 2¼s of 1956/59 and the 2½s due 1956/58 and Sept. 15, 1967/72. . . .

Because of the small number of long-term governments (which are not in any sense of the word long-term obligations) that can be bought by the member banks, there is no reason to expect a sharp recession in these securities under the refunding policy that is being carried out by the monetary authorities. Therefore, price weakness should turn out to be a favorable buying opportunity in the longest Treasury obligations. . . .

HIGHER YIELDS

The spread between yields of short-and long-term bank eligible obligations, based on the present program of the powers that be, is quite likely to narrow, because of the larger supply of low-coupon near-term obligations. . . . This will result in higher yields for these securities, but probably not great enough to attract buying from the longs, which should hold present yields or decline somewhat.

Says Monetary Policy Has Failed To Keep Prices Down

Dean John T. Madden, of New York University, lays price advances to (1) constant increase in wage rates; (2) lower labor productivity; (3) pent-up consumer demand; (4) foreign needs for American goods; (5) vast accumulation of liquid funds; (6) fear of monetary inflation; and (7) too hasty abolition of war controls.

In a Bulletin of the Institute of International Finance entitled "Credit Policies of the United States," Dean John T. Madden, of New York University holds the principal consideration which guided the monetary authorities in formulating their credit policies, particularly after the abolition of price control, was to prevent a too rapid increase in prices of goods and services. The authorities were not successful in their endeavor, however, he states, for the index of wholesale prices of all commodities (1926=100), as prepared by the Bureau of Labor Statistics, rose from 105.5 on Aug. 18, 1945, i.e., four days after V-J Day, to 154.9 on Sept. 6, 1947. The monetary authorities have been criticized for their failure to stop this upward movement of commodity prices. An analysis of the principal causes for the sharp increase of commodity prices reveals, however, that there was indeed very little that they could have done to check this development. The rise in commodity prices since the end of the war was due mainly to the following factors:

Dean J. T. Madden

(1) The constant increase in wage rates of practically all organized workers.

(2) The lower productivity of labor and equipment caused, in part, by bottlenecks, raw material shortages, and in some instances, actually decreased efficiency of labor. In some industries, notably in building construction, these negative forces are still operating.

(3) The pent-up demand for all kinds of commodities which were not produced during the war is very great and despite increasing production the demand for many types of goods still exceeds supply.

(4) The huge demand from abroad, particularly as regards farm products, which is in part responsible for the high farm and food prices prevailing in the United States. Exports of the United States for the year 1946 amounted to $9,742,000,000, (including $1,774,000,000 of UNRRA, Lend-Lease, and private relief shipments) as compared with exports of $3,094,000,000 in 1938, the last full prewar year. This factor is still operating in the American economy and is aggravated by crop failures in many parts of the world. During the first six months of 1947, exports increased to $7,552,900,000, i.e., an annual rate of $15 billion, while imports for the same period were only $2,862,700,000 or at the annual rate of $5.7 billion.

(5) The vast amount of liquid funds accumulated during the war plus the large current income received by the people in the form of wages and salaries greatly increased the consumption of non-durable goods.

(6) As prices keep on rising people are becoming inflation conscious and are buying and hoarding goods with a view to protecting the purchasing power of their current income and in many instances also of their savings. These purchases coinciding with the heavy demand for current consumption are driving prices still higher with the consequent demand by labor for higher wages. Thus the spiral of prices and wages is kept in motion.

(7) Last, but probably the most effective force in driving sharply upwards commodity prices in the United States, was the too hasty relaxation and outright abolition of war controls. It would have been much better for the country as a whole if the excess profits tax, rationing, wage and price controls, and allocation of scarce materials had been continued for another year, until demand and supply had been brought into a position of near-equilibrium. If these measures had been maintained the drastic increase in prices might have been avoided to a large extent. The blame for the sharp increase in commodity prices, therefore, must be borne in part by the people of the United States who became impatient with government regulations and controls, in part by the Administration which wrongly anticipated and took measures to prevent deflation while actually inflation was menacing the country, and especially by the Congress which generally favors inflation as "good business" and is reluctant to enact measures of an anti-inflationary character. The entire population, and particularly those who have accumulated savings in the form of bank deposits, bonds, mortgages, life-insurance policies, pensions, and annuities, is suffering from the decreased purchasing power of the currency. It would be obviously unfair to criticize the monetary authorities for the precipitate repeal of the above-mentioned government controls.

Mystic River Bridge Authority Issue of $27,000,000 Marketed

An issue of $27,000,000 2⅞% bridge revenue bonds of the Mystic River Bridge Authority (Boston-Chelsea Bridge) was offered Oct. 1 by an underwriting group headed jointly by the First Boston Corporation, F. S. Moseley & Co. and Tripp & Co., Inc. Dated Sept. 1, 1947 and due March 1, 1980, they are being offered at 99½ and accrued interest to yield approximately 2.90%.

Proceeds from the sale of the bonds are to be used to construct a high level toll bridge without a draw over the Mystic River from the Charlestown district of Boston to Chelsea to replace the present Chelsea low level draw bridge which is inadequate to meet the needs of present-day traffic.

The bonds are redeemable in whole on any date not earlier than March 1, 1948, or in part by lot on any interest payment date not earlier than March 1, 1951 at prices ranging from 105% if called on or before March 1, 1949 to par if called after March 1, 1976.

Annual gross revenue of the bridge has been estimated at $1,982,000 in 1950, ranging up to $2,669,000 in 1978. These revenues, it is estimated, will provide a debt service coverage beginning at 135% in 1952, the first year of full debt service charges, and ranging up to 152% in 1979.

Mystic River Bridge Authority is an instrumentality of the Commonwealth of Massachusetts authorized to construct and maintain the new Chelsea Bridge, to issue bridge revenue bonds to cover the cost thereof, and to have sole jurisdiction over the regulation and collection of tolls.

Herrick, Waddell Offers United Utilities Pfd.

Herrick, Waddell & Co., Inc. on Sept. 30 offered 75,000 shares of 5% cumulative convertible preferred stock, par value $10, of United Utilities & Specialty Corp., retailers of household appliances and furnishings on an installment or credit basis. The stock was offered at $10 per share.

Proceeds from this financing will be used as additional working capital for the general purposes of the company, particularly in the expansion of the company's sales activities. Company's headquarters are in Boston and present sales territory comprises New England and New York State.

Upon completion of the present financing the outstanding capitalization of the company will consist of 300,000 shares of common stock of $1 par value and the 75,000 shares of cumulative convertible preferred now being offered. Each share of the cumulative preferred will be convertible into two shares of common.

For the fiscal year ended April 30, 1947, the company reported net sales of $2,182,188 and net profit after taxes of $230,362. For the three months ended Aug. 2, 1947 net sales were reported to be $899,087 and net profit after taxes, $113,513.

Railroad Securities

The railroad market has continued in the doldrums, awaiting a decision of the Interstate Commerce Cimmission in the rate case. It had generally been expected that the Commission would take cognizance of the serious plight of some of the major eastern carriers in particular and act quickly enough to allow institution of the emergency rate increases by Oct. 1. With the higher wages effective for the non-operating unions on Sept. 1 and the operating brotherhoods demanding that any increase that they get be effective Nov. 1, an Oct. 1 rate increase was considered essential to sustain earnings during the last half of 1947.

Pending a decision on the freight rate increase, the market has been pretty well dominated by earnings estimates filed by the individual carriers with the Commission in supporting their petition. These estimates generally make pretty sorry reading. Actually, it is obvious that few, if any, of the major carriers could possibly report as poor earnings in the last four months as would be necessary to bring the full year's results down to the levels of the so-called estimates filed. What is not generally recognized is that these figures filed with the Commission are not supposed to be estimates of what the 1947 earnings will actually be. They are merely designed to indicate what the individual carriers would be earning under present conditions if they spent on the properties what the management considers desirable, not essential.

For all but a small minority of the Class I carriers October is seasonally the best earnings month and the last third of the year as a whole is highly profitable. If the potential earnings filed by the railroads with the ICC were to be accepted as estimates of 1947 results this normal seasonal pattern would have to be considerably reversed. Such a drastic change hardly appears likely even with the higher wages now in effect and the sharp increase in virtually all other costs in recent months.

There were 33 roads that filed earnings estimates with the ICC. A look at one or two of them will be sufficient to indicate the fallacy of accepting them as genuine estimates. New York, Chicago & St. Louis reported net income of $4,967,640 for the eight months through August. This was almost $2,000,000 better than for the like 1946 interval. For the full year 1947 estimates filed with the ICC show prospective earnings of $4,906,000 without any rate increase. This would be less than was earned in 1946 and would indicate a net of a little more than $60,000 for the last four months of the year. Even with the wage increase it seems virtually certain that the company will earn more than that in September alone.

Similarly, Illinois Central has filed with the ICC estimated earnings of $7,607,000 for the full year 1947. This would involve a net deficit of over $3,000,000 for the last four months of the year. Even in the worst part of the depression the road never came near such losses during the closing months of any year. In connection with these figures it is interesting to note that the usual seasonal pattern (taking the 1932-1941 average) gives New York, Chicago & St. Louis just about 42% of its net operating income in the last four months of the year and Illinois Central better than 45% during the same period.

It is difficult to see just what purpose is accomplished by the necessity for the railroads every year to file, and have widely publicized, very pessimistic statements as to prospective earnings. It seems, however, that once the speculating and investing public realizes that the statements filed do not indicate the real 1947 earning power a more optimistic feeling towards railroad securities may be looked for.

Upholds Regional Exchanges

James E. Day, President of Chicago Stock Exchange, contends securities of local businesses have best liquidity when traded exclusively on regional exchange.

"It is a misconception when regional stock exchanges are thought of as 'bush league farms' where players are trained for the big league," James E. Day, President of The Chicago Stock Exchange, said in an address on Sept. 29 before the annual meeting of the Boston Stock Exchange.

James E. Day

"Regional exchanges," Mr. Day continued, "are just as necessary to cities such as Boston as commercial banks and investment bankers. There once was a theory that regional exchanges served only the purpose of a proving ground for local securities before they ultimately became listed on a larger exchange. This theory has been disproved by recent studies made of modern markets and by careful analyses of the factors that lead to a good market for any security. These studies further show that securities of well known local businesses have the best liquidity when traded in exclusively on a regional stock exchange, provided they have all the necessary factors that make them suitable for an auction market." He further stated: "Regional exchanges today are on the threshold of a new growth, because of the public's growing realization that a local market place is necessary for the securities of local companies.

"The Chicago Stock Exchange is continuing studies and planning to further increase and improve its facilities," Mr. Day concluded.

Byron Switzer in Boston

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Byron R. Switzer is conducting a securities business from offices at 53 State Street.

A Revised Foreign Policy

By HON. ROBERT A. TAFT*
U. S. Senator from Ohio

Republican Party leader, accusing Administration of abandoning principles of Atlantic Charter and appeasing Russia, urges foreign policy be built around United Nations, and proposes a program to act, if necessary without Russian participation, to maintain peace as long as our freedom is not threatened. Hopes for Russian agreement, and urges both helping Germany develop self-supporting economy and making peace with Japan. Says Marshall Plan based on "World WPA" will fail, and opposes policy of "American imperialism." Says we should combat communism at home as well as abroad.

In the domestic field, the people elected a Congress for the purpose of eliminating wartime controls, reducing government regimentation, expense and taxation, and eliminating injustices which had developed in labor relations. I have shown that the Republican party has kept its promises and done its job.

Robert A. Taft

In the field of foreign policy, the Republicans have not had the same responsibility, because the Democrats still control the Presidency. The people do not realize to what a large extent the field of foreign policy is controlled by the President, and how little Congress has to say about it. Under the Constitution, the President is given the power to intiate all negotiations with foreign nations and carry them on in every field up to the point where a treaty is entered into. He has power to make executive agreements with foreign nations without the approval of Congress, and more and more this power has been developed, often, I think, in derogation of the right of Congress to insist upon treaty ratification.

The President's power was also tremendously enlarged by the state of war and by war legislation. Much of the war legislation has been repealed, but the state of war exists until the peace is signed or declared.

In the field of the United Nations, we have delegated complete power to the President to direct the actions of our representatives in the Security Council and the Assembly, so that the President may actually involve us in war without a declaration of war by Congress. In the Reciprocal Trade Agreements Act, we have temporarily delegated to the President the power to reduce tariffs by 75% from the statutory rate without the approval of Congress.

The truth is that unless the President needs money to carry out the agreements or arrangements he may make with foreign nations, he practically does not have to ask Congress for approval of any important item of his foreign policy. Just at the present time, however, it is true that much of our dealings with foreign nations seem to require cash from the United States Treasury, and so we have had to pass on the British loan, the appropriations for relief, and the Greek and Turkish loans; and the Marshall Plan, if developed, must be submitted to Congress. Even in this field, however, it is difficult for Congress to repudiate agreements made by the President without at least bringing charges of bad faith on the part of this nation.

In general, I believe Congress should hesitate to interfere with the President's foreign policy, unless it involves us in the danger of an unnecessary war, or proposes to drain to an unreasonable degree the resources of our taxpayers and the product of our labor. I believe it is a field where Congress should not, except with great provocation, give foreign countries a picture of a divided America.

Republicans Tried to Cooperate

The Republican Congress has done its best to cooperate with the President. Much has been made of the so-called bipartisan

(Continued on page 29)

*An address by Senator Taft before the World Affairs Council of Tacoma, Tacoma, Wash., Sept. 25, 1947.

Canadian Securities

By WILLIAM J. McKAY

Will the present Canadian crisis prove to be a blessing in disguise? Judging from recent reports from Ottawa there is clear evidence that ltitle remains of any complacency in government quarters with regard to the Dominion's pressing trade and exchange problems. There is now no disposition to consider time-honored palliatives and temporary expedients. It is now realized that Canada has reached the end of one era in her economic history and is at the threshold of another that is likely to be marked by drastic changes in Canada's economic policies.

Whether Canada was right or wrong in restoring the dollar to its original parity is no longer the burning question. The reversal of this step obviously would do little or nothing to solve the essential problem of Canada's imbalance of trade with this country and emphasis is now placed on long-range constructive planning. Similarly when consideration is given to a possible U. S. loan its desirability is judged by its long-term value and not as an easy means of offsetting the current U. S. dollar deficit.

More imagination is commencing to be employed with regard to the possibilities of the development of the Dominion's own resources and also to a greater degree of integration of the U. S./Canadian economies on a more stable basis. No longer does the Dominion view with equanimity its anomalous position as the blind buffer between the overpowering U. S. and British economic machines.

The implications of this steadily changing mentality in authoritative quarters are tremendous. The Government of the Dominion has hitherto been admirably administered by a strong central bureaucracy which in the past has failed to appreciate adequately Canada's unrivaled possibilities of dynamic development. Methods suitable for an older static economy have been employed instead of the bold imaginative planning which is essential for the proper exploitation of the enormous unutilized natural wealth of the country.

Thus Canada as a result of the abrupt disquieting repeurcussions of the world economic crises has been jolted from her traditional rut. Without such stimulus and the necessity for drastic action to meet the urgency of the sudden crisis Canada might very well have been content to follow the previous negative economic course dictated largely as a consequence of U. S. and British policies.

Now Canadian development promises to be independently revolutionary. In the past it has been comfortably convenient to import freely from this country to the neglect of the development of domestic resources and to effect payment by the export to all parts of the world of abundant surpluses of agricultural and forestry products and base metals. Today as a result of foreign events beyond her control Canada is in the anomalous position of possessing an overall favorable balance of trade but as a consequence of the breakdown of the world's exchange system has an embarrassing deficit vis-a-vis this country. It is to be expected that early Canadian initiative will be taken in an effort to solve this immediate problem and at the same time it is likely that a long-range plan will be announced in accordance with which steps will be taken to reduce foreign imports by the energetic exploitation of the vast domestic potential resources of coal, iron, oil, and hydro-electric power. At the same time it is also to be anticipated that the objective of obtaining freer entry of Canadian goods to foreign markets will be actively pursued. With the solution of the relatively simple Canadian economic problem the way would be clear for the Dominion to resume its efforts in cooperation with this country to implement the greater plan for world economic rehabilitation.

During the week the market for external bonds was steadier as a result of a small demand and an inadequate supply. The internals continued to sag in sympathy with a further decline in free funds but the turnover was negligible. Stocks also were lower following the decline in New York and the hitherto resistant golds also lost most of their recent gains.

Joins Straus & Blosser Staff

(Special to THE FINANCIAL CHRONICLE)

AUSTIN, MINN. — Omer W. Bradford has joined the staff of Straus & Blosser, 135 South La Salle Street, Chicago, members of the New York Stock Exchange. Mr. Bradford in the past was with Merrill Lynch, Pierce, Fenner & Beane.

Geo. M. Vivian Now With Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

DULUTH, MINN. — George M. Vivian has become associated with Thomson & McKinnon, Alworth Building. Mr. Vivian has recently been in government service. In the past he was an officer of Martin, Vivian & Co. and Homer Collins & Co.; prior thereto he conducted his own investment business in Duluth.

G. J. Ourbacker Mgr. Of New Kalb Voorhis Office in Philadelphia

PHILADELPHIA, PA. — Kalb, Voorhis & Co., members of the New York Stock Exchange, announce the opening of a branch office in Philadelphia at 1500 Walnut Street, under the management of George J. Ourbacker. Mr. Ourbacker was formerly Vice-President of F. J. Young & Co., Inc., in charge of the Philadelphia office.

George J. Ourbacker

B. A. Brooks Joins E. W. & R. C. Miller

PHILADELPHIA, PA. — Benjamin A. Brooks, for many years associated with the trading departments of G. L. Ohrstrom & Co. and W. H. Bell & Co., Philadelphia, is now on the desk of E. W. & R. C. Miller & Co., members of the Philadelphia Stock Exchange, 123 South Broad Street, Philadelphia.

Benj. A. Brooks

Hiscox, Van Meter Is Successor to Young Co.

PHILADELPHIA, PA.—The investment firm of Allan N. Young & Co., Lewis Tower Building, has announced a change in personnel due to the retirement from active business of Mr. Young. The successor firm is Hiscox, Van Meter & Co., which has taken over predecessor firm's sales organization, office personnel and offices in Philadelphia and New York.

Officers of the new firm are: H. H. Van Meter, President; Arthur G. Hiscox, Vice-President and Treasurer; Sidney W. Tuttle and Charles Gesing, Vice-Presidents, and Raymond A. Cavanaugh, Secretary and Assistant Treasurer.

With K. J. Brown & Co.

(Special to THE FINANCIAL CHRONICLE)

MUNCIE, IND. — Kenneth L. Caupp and Jack G. Lee are now with K. J. Brown & Co., Wysor Building.

Charles E. Bailey Adds

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — Fred J. Huber is now connected with Charles E. Bailey & Co., Penobscot Building, members of the Detroit Stock Exchange.

With Wachob-Bender Corp.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Alvin W. Johnson has become affiliated with Wachob-Bender Corporation, 212 South Seventeenth Street.

Dangers of the Depressed Securities Industry

(Continued from page 4)

by the opportunities which industry and imagination have been able to offer to courageous investors throughout the life of this country.

In addition to the crushing taxes on personal and corporate income, our legislation is so shortsighted and unfair as to subject corporate income distributed as dividends to double taxation. These points were clearly brought out by Elisha Friedman who was our guest speaker at the last educational meeting held during the past season. Another deterrent to investment is the capital gains tax, which fails to make distinction between balance sheet and income account items. Even admitting the propriety of taxation on corporate income, although corporations are in reality mere instruments of production, it is quite clear that a capital gains tax on a security transaction, which actually represents a balance sheet rather than an income item, is in fact a capital levy with the usual consequences of a capital levy on the desire of individuals to invest in the first place or to make appropriate changes in investments which have already been made.

Credit Restrictions

Finally, present legislation, and administration of such legislation has seen fit to place obstacles and restrictions on the utilization of listed securities for credit purposes. Although listed securities are second only to cash in the bank as liquid available assets, government authorities have seen fit to throw special limitations around their use. Under our present banking regulations, securities have a lower collateral value than almost any other marketable asset. This is in spite of the legislative provision that the Federal Reserve Board is merely empowered to prevent the excessive use of credit in connection with listed securities. Certainly, no person of experience would regard loans of approximately 1% of the value of listed securities as being entitled to the description of "excessive." Yet this restriction stands in the way of the confident and vigorous flow of capital into new industry, which is one of the prerequisites of prosperity. Why is this discriminatory policy wholly unjustified, being followed by certain leaders of the Federal Reserve Board? Why do these powers feel that inflation can be controlled by restricting the use of credit under Regulation "T" in the best Federally regulated security markets we have.

During the war, consumer credit was controlled under Regulation "W," but it hardly could have expanded anyway without the production of hard goods. Since the war, consumer goods have been produced, of course, and total consumer credit now probably exceeds $11 billion, as compared with its previous record of some $10 billion in 1941. Yet, debit balances of New York Stock Exchange member firms amounted to only $550,000,000 at the end of August, or about 5% of the amount of consumer credit outstanding. Despite this, Congress enacted a law whereby the not-too-restrictive Regulation "W" must be terminated on Nov. 1 next, which really opens the door wider than ever for the expansion of consumer credit. Do you think that sales of consumer goods would rise if buyers had to pay almost all cash? How long do you think industry would be able to operate at near capacity and provide 60,000,000 people with employment if buyers had to put up cash almost in full? As I see it, the restrictions against the instalment buying of securities is not only discriminatory, but it also seems to be definitely political. Hence, instalment spending is encouraged by the government, but instalment saving via the securities markets is practically prohibited. Can anyone give me a sound reason for this discouraging situation? Under present regulations, we cannot do a good job in selling either well-established or "new" securities. Investors are not only unable to buy sound securities on the instalment plan, but they cannot make loans on the best marketable collateral in the world except under most severe restrictions. Many formerly sound investment accounts have deteriorated because of technicalities and, in their frozen state, are not permitted to substitute more desirable securities. Investment management principles have had to be disregarded, with the result that not only has the broker suffered, but also the investor to an even greater degree.

Foreign Sales of Securities

Ever since the war began there has been almost continuous selling of American securities by foreign interests. Many of us have expressed the opinion that our markets are desultory because of this constant dribbling of selling. Many hundreds of thousands of shares are still earmarked for sale for ultimate conversion into dollar credits which will eventually be spent on American goods, but our markets cannot function properly under Regulation "T." Even our prime securities have such extremely thin markets as to make it most difficult for anyone to execute even a moderately sized order. Brokers are often criticized for poor executions and all holders, both American and foreign alike, are penalized unjustly. It is not only my opinion, but the opinion of many eminent bankers, industrialists and politicians that this deplorable situation should not exist; that the Federal Reserve Board should have the power only to limit the use of credits in the securities markets if such credits should theaten to work to the disadvantage of industry in general.

Should Take Action

It is time that something be done. This situation affects not only our firms' partners and other employees, but also the many millions of investors throughout the world. What can we do about it? We should not just say something should be done about it. Go out and do your share to correct this most unfair and uneconomic situation. Talk about it—write about it—and especially write to the right people, such as important members of the Senate Banking and Currency Committee and of the House Ways and Means Committee.

I am not looking at the problem from any special, narrow or selfish point of view because this is a nation-wide problem. It is not only a capital problem, but also a labor problem as it affects people at work. People act better and cooperate when they realize that it affects them as well. We have a hard year ahead of us, but we can do the job. It will take a lot of effort and a lot of time. The future of the economy of the United States is at stake and we do not wish elements to enter into it which would cause anyone to sell it short.

With Coffin and Burr

Coffin & Burr, Inc., 70 Pine Street, New York City, announce that Horace C. Sylvester III is now associated with them.

The Heritage of America

(Continued from page 17)

point of view, seemed to be a practical way of life.

With all that, the threat she presented still seemed remote. Her deficiencies as a producer, her internal differences, her bloody purges, so absorbed the energy and attention of Russian leaders as to make it most unlikely that she would ever appear as a threat to the peace and security of other nations. The activities of the Comintern, the active participation of Russia in the Spanish War, were ignored as significant symptoms of the future.

All this has been changed by the war. Before September, 1939 Russia was held in check by a powerful rival—Japan—in the East, and by another—Hitler's Germany—in the West. Her latent aggressive aspirations did not dare to express themselves in the face of two powerful potential foes. However, in August, 1939 Russia concluded a pact with Germany providing for a benevolent neutrality and the contribution of substantial material to the impending military campaigns of Germany.

I am sure that when this event is viewed with the greater perspective that time will permit, it will be regarded as the certain, immediate cause of the war. Similarly, in April of 1941 another pact of a like nature was signed with Japan. It is altogether probable that the history of the future will place upon this act the same causal meaning that it will place upon the pact with Hitler.

As events turned out, Hitler, failing in his campaign to conquer Britain, diverted his military energy to an attempted conquest of Russia. Thanks to enormous quantities of lend-lease material, the active and substantial participation in the war by this country and our defeat almost singlehanded of Japan, Russia was able to emerge on the winning side of the war. Furthermore, mindful of an implacable conflict between her way of life and ours, she played all her cards with a view to that ultimate struggle. Her power dispositions did not suffer from any benevolent faith in universal peace. As a result, we know now that Russia has won the war and that we, as the leading defender and principal bearer of the American heritage, have lost it. We have simply substituted one despot, leading one monolithic state, for three others.

The actions of Russia have caused many of us to re-examine with care not only the past and present conduct of the Soviet but the statements of her leaders — Marx, Lenin and Stalin. It has become increasingly clear that there is no basis for compromise between men who profess such a faith and those who believe in individual freedom. In the third place, the Russians have lost no time in promoting their aggressive designs. The recent coup in Hungary, the attempt to over-run Greece, the current disorders in Italy and France, all suggest ominously enough that the Kremlin is wasting no time. In the fourth place, the activities of Communist parties throughout the world have been actively stimulated during this postwar period. Strikes have been fomented, disorder engineered, chaos and confusion promoted in order to retard postwar recovery and create that sense of frustration and hopelessness which constitute fertile ground for revolution. Finally, the propaganda assault upon the American way of life has been stepped up. The spokesmen of the party are again repeating the old Marxian premise of inevitable depression, of a postwar crisis so stark and tragic as to make necessary the abandonment of capitalism. They are playing all the changes on racial discrimination and economic inequality as twin vices of a decadent society.

The time has now passed when an intelligent American can regard this threat with indifference. Indeed it may well be that the hour is already too late. Vast sections of the world have succumbed to the gold brick appeal of Communism, or to its ruthless power pressure. If they have not gone the whole way, they have compromised on some hybrid dogma that professes to offer all the advantages of Communism, none of its vices; all of the virtues of capitalism, none of its faults.

It is hardly necessary to suggest examples. In our own country we had an attempt in the thirties to bridge what is essentially an unbridgeable gap. In due course and after ample demonstration of its essential fraudulence, the American people repudiated this attempt. In other parts of the world, they are still dallying with temptation.

It is an open question whether the cirsis in Britain today, for example, stems from the ravages of war or the election of 1945. A similar confusion makes it difficult to assay the real nature of the French problem.

Americans, at least as of this day and for the time being, have apparently had enough of revolutionary social reform and are now wondering how they may preserve a free capital society against further possible assaults from the Left.

In considering this problem, American spokesmen have tried what might be called the constructive approach. Little if anything has been said about the deception and faults of the "isms" and much has been said about the blessings of capitalism. This has been the standard procedure of the National Association of Manufacturers, the U. S. Chamber of Commerce and other business organizations. They have sought sincerely to avoid what might appear to be self-interested mudslinging.

The value of this approach is questionable. The public mind is so constituted as to reject glittering encomiums upon individuals and institutions. It relishes much more a catalogue of sins and defections. It is for this reason that good newspaper editors feature on the front pages infractions of the law and sensational transgressions of community peace, rather than the exemplary behavior of some noted citizen or the continued good fortune of some community.

It has always seemed so me to be much better strategy to outline fairly to the American public the shocking character of Communism as a possible alternative to a free society. In spite of the iron curtain, in spite of rigorous attempts on the part of the Soviet to shroud living conditions through censorship, an enormous volume of evidence is at hand regarding the true character of Communism.

Of prime importance in defending our heritage would be a detailed description of the absolute despotism that prevails in Russia. Within the borders of that vast conglomerate land, including now the satellite countries, there may be found none of the freedoms which the American cherishes. There is no freedom of speech, of writing or assembly. It is not possible safely to argue for a change of government. Personal movement is possible only upon official order.

A man's total undivided loyalty is demanded by a jealous state. He may not, as he does so freely in a democracy, divide this loyalty into fractions, reserving, to be sure, a substantial portion for his country, and saving other fractions for his religion, for his family, for his school, for his other special interests. Because such fractional loyalty may nourish opposition to the state, it is denied in Russia.

In the second place, there has been revived in this state in all its horror one of the foulest institutions of which men have been the authors, namely, human slavery. The full story of this is not available. Yet enough evidence has seeped through the curtain to make it possible to appraise roughly the outlines of this appalling practice. This is real slavery, with men and women serving under compulsion without compensation, constantly under guard, moved about without their consent and denied the elementary decencies to which human dignity is entitled.

One authority, David J. Dallin, estimates that the slave camps of Russia contain not less than 10,000,000 adults. Another, a former high official of the Soviet hierarchy, Victor Kravchenko, places the figure at 20,000,000. This means that from 10% to 20% of the adult population of Russia lives under conditions far worse than those to which our own Negroes were subjected before the Civil War.

A third item that is receiving, belatedly, greater attention is the level and direction of living standards in Russia. It is often alleged by people whose enthusiasm exceeds their knowledge that it is only necessary to increase the material comforts of men and women in order to avoid the danger of Communism. The idea back of this naive assumption is that we, living under free institutions, are in some way competing in terms of material comfort with Communism, that Communism because it has eliminated private profit has much more to offer the individual.

The fact of the matter is that living standards in Russia since the days of the Czars have declined approximately 40% and they are still going down. Our own Department of Labor has recently published detailed material regarding real income and living conditions in Russia. This material shows clearly that the average skilled Russian worker subsists at a much lower living level than we would dare to provide for men on relief in the worst days of a depression.

The distressing condition of the Russian worker is due partly to the preoccupation of his government with military projects and in part to inefficient production which is inevitable in a state where management is selected not on the basis of ability but on the basis of loyalty to a party line. Ideological reliability is a poor substitute for the intelligence and energy which the prospect of personal reward brings out in the management of private enterprise.

Finally, the threat which Communism constitutes to world peace should be emphasized more effectively than is the case today. In all fairness it must be admitted that our own government is fully alive to this threat and that it is taking steps to bring this to the attention of the American public. It recognizes that its own power of negotiation suffers unless it can count on a public opinion resting upon the same facts which guide government policy.

Let's review the foregoing indictment. We have presented a picture of Russia as an absolute, totalitarian state without those precious personal freedoms which Americans cherish. We have revealed a land in which the dark institution of slavery in its worst form has been revived. We see a country of low and deteriorating living standards, the result of inefficient socialist production. Finally, we see a sinister power offering a threat to world peace. If this picture is negative and destructive, it is negative and destructive because it applies to an aggressive, disturbing member in the family of nations. It is necessary to draw such a picture because it represents a true portrait and because it will help to disqualify a society which pretends to a superiority over our own.

Beyond this it should be possible in our schools and colleges to retrace and describe in modern terms the character of our own government. The men who formulated our Constitution lived in a world in which governments made much the same claim to all power that totalitarian governments do today, with results that were not greatly different. In analyzing the sorry condition of 18th century society, they were greatly aided by political philosophers, such as Hobbes, Locke, Rousseau and Montesquieu and economic thinkers like Adam Smith.

As a result, the founders established certain conditions under which political power was delegated to the state. They started out with the premise that government should have no more power than was absolutely necessary to accomplish its purpose. Power was divided geographically, with a portion allocated to the central government, another portion to the states, and the final and sovereign residue left in the hands of the people.

It was further divided functionally between an executive, a legislature and the courts. Finally, a period was placed upon this power so that it would be impossible for one man or one clique to retain it indefinitely.

A second basic premise embodied in the Bill of Rights was the concept of inalienable residual power left to the individual upon which the state could not encroach. These forbidden areas included religion, the various rights of expression, of movement and of ownership.

Strongly implicit in the Constitution was the principle that the way in which men make a living, their right to assume risks as they see fit, their claim to the rewards of risk and energy, were to remain outside the legitimate province of political power. As we know, this principle has not been fully observed. Social security, confiscatory income taxation, government trading in commodities, river valley projects and yardstick government enterprise, all constitute departures from this basic principle of the founders.

As private citizens, what can we do to help preserve the American heritage?

(1) Encourage our officials to use all the appropriate agencies of the government to direct a continuing play of powerful light upon our adversary. Similar encouragement should be offered to private institutions and individuals.

(2) Insist that we reciprocate in every respect the tactics which the Russians are pursuing in their dealings with us. Our own Tom Boushall serves on a U. S. Chamber of Commerce Committee which has already issued an able report on this subject.

(3) Examine carefully the personnel and teaching programs of our public and private schools.

(4) Maintain a powerful military force.

(5) With blunt diplomacy resting on such power, to counteract at every point attempted Soviet aggression.

Securities Salesman's Corner

By JOHN DUTTON

It is still the little things that count. The other day I was standing in a stationer's when a salesman I have known for some time nodded to me. I walked over to him and he told me he was trying to pick out a get-well card for one of his elderly lady clients who had just returned from a visit to the hospital. The pains he took to select the right card was something you do not see very often. He kept looking at one and then another card discarding each one as unsuitable. Finally he spotted one and said to me, "that's it." I looked at the card and saw nothing unusual. Just the same sort of message you see on most cards of this kind and along the inside border was a picture of a father and mother squirrel and their two little offsprings sliding down a hill. He took out his pen and wrote "from the Gardner quartette," and along side he wrote his name, that of his wife, and their two children.

"You see how it is," he said, "I have to be careful. I don't know this old lady very well after all these years. She is a reserved type of person. I don't want anything too personal in the way of a message. Yet she knows of my family and she has a good sense of humor. I think she'll get a kick out of this." I thought to myself that if this was the way this salesman attended to details concerning his business, that he was definitely on the right track.

A few days after this chance meeting I happened to see this same salesman again and he hailed me from across the street. "Do you remember that card I sent to the old gal the other day?" he asked. I replied that I certainly did remember and what about it. He had a big grin on his face as he told me that he received a four-page letter from the lady in question. She thanked him profusely for his thoughtfulness and told him how much the card had touched her. Then she told him about several hundred shares of a certain railroad stock that **he didn't know she owned** and explained that her brother advised her to sell it. She thought he had better make the commission and also should suggest a reinvestment of the proceeds. He said that card was worth about $200 in commissions to him. Not bad work in these times is it?

All around us there are opportunities for **exposing ourselves to business.** There is a lot of business around we don't even know about because many of us have been looking at the walls in our offices instead of places where we can find it. Out of my own personal experience last week I called a customer to keep him posted on a certain situation not even thinking about suggesting another investment. I didn't imagine the customer had any available funds. But it turned out that he did have them and **he told me about it.** If I hadn't called him on the phone to give him some news, I don't think that he would have thought about any more investments either at this particular time.

What I am trying to say here is this. If you want to do business you must make the calls, see the people, and keep your mind actively alert in seeking out **avenues of approach to business.** Maybe it is a trade out of an unlisted stock into a listed, a sale of some special situation, a revision of a list in light of present circumstances, a chance to present a news item that may be of special interest, a reminder that an interest or dividend payment is due, or any one of a number of services that you can render an old client or prospect. When a fellow buys a card for a quarter and whacks out a $200 commission as the result, it proves one thing—head work combined with a little effort is what pays off in this business **or any other for that matter.**

First Boston Reports National Union Fire Stock 96% Subscribed

Stockholders of National Union Fire Insurance Company of Pittsburgh, Pa., have subscribed for more than 96% of the 180,000 shares of additional capital stock, $5 par value, it was announced on September 29, at the expiration of the subscription period. The remaining 6 467 shares were taken by the First Boston Corporation and associates, who underwrote the subscription, and were sold to a limited number of purchasers.

At a stockholders' meeting on Aug. 20 the then existing shares of $20 par capital stock were split four-for-one, resulting in 220,000 shares of $5 par value, with an annual dividend rate of $1.25 per share. Holders of the new stock were then offered the right to subscribe, at $25 per share, for the additional 180,000 shares, at the rate of nine shares for each 11 shares held.

Proceeds from the sale of the 180,000 shares will be used to increase the capital and surplus of the company so as to improve the relationship between capital funds and the greatly increased volume of premiums being written. It is expected that some or all of the proceeds will be invested in securities which are qualified as legal investments for the company.

The company is primarily engaged in the business of writing fire, marine and allied classes of insurance. Of the total net premiums written during the calendar year 1946, approximately 62% was fire insurance.

Causes and Remedies of Present Inflation

(Continued from page 7)

tions offered have been that there has not been enough plant, nor equipment, nor raw materials, nor fuel, nor transportation, nor labor of the proper skills to turn out the goods needed. These difficulties have been aggravated by widespread strikes, plant shutdowns, by declines in some industries, in manpower productivity,[1] and by sharp general increases in wage costs per unit of production.[2] In view of these conditions what could we expect other than increasing prices and inflation?

In the history of this country we have also had other kinds of inflation, such as brought on by unwise legislation. Among these, we have had inflations caused by the unregulated issue of irredeemable paper money, or by the artificial stimulation of credit. In the present inflation we have too much money, but it is still regulated. We don't have excessive stimulation of credit, particularly at the consumer levels. But there are, nevertheless, some other artifical factors which are, in my opinion, of the gravest importance.

In your search for the causes of the present inflation and what to do about them, may I urge that you consider what legislation, already on the books and what public policies now in effect, may actually be causing inflation? Instead of passing a new law you may possibly find that the need is for the revision or even the repeal of some of the laws already in effect. Among the measures which, in my opinion, deserve serious study is the Fair Labor Standards Act of 1938.

Rising Wage Rates

Ever since 1939 wage rates in this country have been going up. They have gone up because there has been a labor shortage. They have gone up without increases in, or at least without any relation to, productivity. The rates of increases in wages, have in general, been at least twice as great as the increases in productivity. What should we expect in the way of economic effects when wage rates go up twice as fast as productivity? These increases in wages have gone into the only place where they could go. They have increased the costs of production. As a consequence, prices have gone up. It was inevitable that this should happen.

From 1939 down to the middle of 1945, with but few exceptions, wage increases preceded price increases. During the period from January 1941 down to the end of the war, while prices were being held in line, there were over 240,000 wage changes approved by the government, many of them industry-wide. They were called adjustments. I never heard of an adjustment that wasn't an increase. Before the OPA had come to the end of its existence, these wage increases had created a situation in the production of goods comparable to a spring coiled with such force that, when released, there was certain to be an explosion. For a time some foolishly believed that increases in production would take up this tension. This, however, did not materialize and, in the meantime, since 1945, wage earners who have been making demands for higher wages have been like boys chasing their shadows, trying to outrun the rising costs of living caused by their own preceding wage increases.

This should help us all to a clearer idea of what is necessary to regain control of the present price situation.

(1) In order to stabilize prices, to check them from going any higher, it is as simple as a, b, c, that the costs of production of which wages and salaries constitute, in general, and on the average, from 75% to 80%, must be checked from going any higher. This is fundamental.

(2) The Federal and State Governments have an important part to play in this stabilization. Every artificial wage boost, such as the establishment of a higher minimum wage rate by law, is at the present stage purely inflationary. There is much more to a minimum wage law than appears on the surface. Increasing the minimum wage rate for the least employable or marginal worker is not merely the means of raising the costs of production in industries that employ marginal help, but also the means of raising the wage rates throughout the entire national wage structure. When the basic wage rate is increased, all differential wage rates must also sooner or later, but inevitably, be increased.

Proposals to raise the minimum wage rate by law are never based on increases in production, they are simply demands for more money. This means higher costs, and, in turn, higher prices. We must come to an understanding that these artificial minimum wage boosts are at the very core of this inflation. To correct this condition is a matter of interest not only to the public, but in the long run to the workers themselves. A vote for an increase in the minimum wage, fixed by law and without reference to increased production, is a vote for inflation.

(3) Every shortening of hours of work below the hours in which the optimum production can be carried on, particularly if the former rates of pay are continued, is likewise a direct cause of inflation. The Fair Labor Standards Act of 1938, by an artificial and arbitrary restriction placed directly upon all interstate industries, and indirectly upon all other industries, imposes a 40-hour work week. This law removed the issue of the number of hours to be worked in any plant or industry from the place where it should have been settled all along, from the scope of collective and individual bargaining, to meet the ever-changing economic conditions of our country.

The 40-hour work week law is an economic strait-jacket. There is not the slightest scientific physiological basis for such limitation of working hours. The law was the result of a depression psychology and a desire to spread work. When the demand for more work and productivity came along the law remained. It may be doubted whether most workers themselves ever desired it. When the war came on this restriction cost this government and its taxpayers hundreds of millions of dollars in penalty overtime rates to war workers. It is now preventing a more rapid recovery of civilian production.

More important still is that no one knows where this law is leading our economy. There are no facts, positively no evidence, to show whether the economy of this nation, or of any other nation, can be maintained on as little as a 40-hour work week basis. I certainly do not know whether this nation can produce enough on a 40-hour week basis to survive. I doubt whether there is any one else who knows. In the meantime we are rushing ahead under a public restriction without the slightest idea of where this law will land this nation. I can only tell you that of which I am certain and that is that the 40-hour week, generally applied, means continuously higher and higher prices for most of the necessities of life. Beyond these, I fear even worse effects in our international relations.

I am well aware of the fact that the Fair Labor Standards Act of 1938 exempts some industries, such as agriculture, and the other purely intrastate trades and occupations. These exemptions are highly important from a political standpoint. But they are meaningless from an economic standpoint. The hours of work and wage rates established in interstate industries will inevitably spread, and in fact are spreading, to intrastate industries and even to agriculture.

We don't yet know what the effects of this law will be on our economy. The war intervened and postponed a clear-cut observation at any earlier date. The real test, however, is probably not far off. It will come, in my opinion, when the 40-hour, five-day work week, now common in the industries, is applied to agriculture. Can you imagine what it will be like to run a dairy farm on a 40-hour, five-day work week? Can you run a poultry farm, a vegetable or fruit farm, or, for that matter, any other kind of fa farm, under such restrictions? Will this law drive independent agriculture based on the small, single family unit, into a system of collective farming, where work in shifts may be possible? Is this what we want in this country? More immediately, what will the effect be on food and textile prices? Does any one doubt that, under the trends established by this law, food prices will go still higher? Do we have to wait for disaster before doing something to prevent it?

It is time that we should awake to the fact that the Fair Labor Standards Act, with its nationwide minimum basic wage rates, to which all differential wage rates must inevitably be adjusted, and with its senseless restriction of the hours of work that takes no account of the varying economic conditions from area to arear, from year to year, and from month to month, is a tragic mistake.

If there be any other nation that would like to see the strength of this country dissipated and the United States reduced to second-rate importance, there could be no better way by which to accomplish this result than through the debatement of our purchasing power and at the same time by discouraging production by means such as prescribed in the Wage and Hour Act of 1938. Every such effort should, it seems to me, be interpreted as an attack upon this country, an attack that should be opposed by every intelligent citizen, whether an employee or an employer. To stop further inflation and to increase production we should get rid of such arbitrary and artificial restrictions.

Recommendations for the Consideration of the Committee

(1) Nothing can properly cure this inflation but increased production and still more production. Anything that will encourage production deserves consideration. Anything that retards or detards production needs elimination.

(2) As a remedy for the acute shortages and consequent high prices by individual commodities, the Congress might go over the list of items covered by our protective tariffs and reduce or eliminate the tariffs on such goods as our people need, for such time as may be necessary to build up adequate supplies to take care of present abnormal and inflationary demands. There are probably many items on which the price pressures could be relieved by reducing tariffs. One group that deserves especial attention, is lumber and building materials. Canada to the north of us, and the Scandinavian countries, particularly Norway, Sweden and Finland, from whom we import paper

[1] "Productivity Changes Since 1939," Monthly Labor Review, December 1946.
[2] Cleveland Trust Company Business Bulletin, July 15, 1947.

pulp, would, I believe, be delighted to have the opportunity to ship lumber and building materials into this country and at prices that would put a real boom into the building industry. It might be possible to go a step farther, by providing specifications and through reductions of tariffs and other regulations, to encourage the importation of prefabricated houses, landed in knocked-down, compact form, at reasonable prices. Such imports would help this country to curb the housing inflation. It would also help to build up our exports of other goods to those countries. Other illustrations may occur to any one familiar with our present markets who will merely take the trouble to look over our tariff lists.

(3) The minimum wage provision of the Fair Labor Standards Act of 1938 should be repealed; or, if not repealed, should be allowed to stand at its present amount of 40¢ per hour long enough to permit the development of productivity per man-hour to the point where this minimum wage and its effects on higher wage differentials are fully counterbalanced, either by increases in labor efficiency, or by improvements in technology. Present unit labor costs and prices are dangerously high and should be brought down to more nearly normal levels. An increase in the minimum wage from 40¢ to 65¢ per hour at the present time would set off a more than 50% increase in wage costs throughout our entire wage structure without the slightest assurance of any increase in productivity and with disastrous stimulation to the entire present inflationary trend.

There is but one way in which wages, real wages, whether at basic or higher levels, can be increased, and that is through higher productivity. There is no other way. Fixing minimum wages by legislative fiat can do nothing but raise costs, which in turn raise prices and extend the inflation. Raising wages by law, without relation to productivity, is as surely unsound as issuing unregulated, irredeemable paper money.

(4) The hours of work provisions in the Fair Labor Standards Act of 1938 should also be repealed. It is true that we have what is called full employment. It includes the employment of some 20,000,000 workers, out of the total of 60,000,000 gainfully employed, who are working 40 or less hours per week. This is not really full employment in the sense of social needs. It is full employment at part-time work.

The trend towards the 40-hour work week is spreading rapidly to all intra-state occupations, including agriculture. This law has started a movement that has already cost this nation many hundreds of millions of dollars, and, unless changed, it will cost us a great deal more. It may even lead to national catastrophe.

Yes, as a result of this short work week, we have more leisure, but we also have less food, less of the raw materials needed for clothing and less of many of the other necessities of life for our own use, not to mention the needs of other nations looking to us for help. As a result of this law we have less production, less goods and consequently higher prices. As the effect of this law is spread to more and more industries prices are certain to go still higher.

These provisions in the Wage and Hour law spell a sheet waste of the human resources of this nation. They definitely weaken our national strength. If we do not change these policies we shall be throwing away our obligations and opportunities not only for higher and better standards of living in this country, but also for international leadership just at a time when we need such leadership most. These provisions need your careful study.

1947 AMENDMENTS TO BLUE SKY LAWS
(To October 1, 1947)

The following indicates the extent to which various States amended their Blue Sky Laws during 1947. The tabulation shows the subject matter of the amended laws revised by the States in question:

Definitions: Arkansas (new act); California; Connecticut (new act); Florida; Illinois; Indiana; Michigan; New Hampshire; Washington and Wisconsin.

Exempt Transactions: California; Florida; Illinois; Indiana; Iowa; Michigan; Oklahoma; Oregon, Washington and West Virginia.

Stock Exchange Listing Exemptions: Indiana; Michigan; North Dakota; Oklahoma and West Virginia.

Exempt Insurance and Utilities Securities: California; Michigan; New Hampshire; North Dakota; Oklahoma and West Virginia.

Other Exempt Securities: California; Iowa and Michigan.

Registration Requirements: Florida; Illinois; Michigan; Vermont and Wisconsin.

Changes in Filing Fees: Illinois; Michigan; Missouri; North Dakota; Texas and Washington.

Financial Reports: Illinois; Michigan and Texas.

Service of Process: Michigan; Texas and West Virginia.

All Others: California; Illinois; Michigan; Missouri; Montana; Nebraska; Oklahoma; Texas; Washington and Wisconsin.

Blue Sky Law Developments

(Continued from page 16)

ways rest on the applicant to justify their issuance. The number of warrants sought to be issued, the exercisable price, the term in which they are exercisable, and the absence or adequacy of a step-up in the exercisable price will all be taken into consideration."

Blue Sky administrators have no objection to options that run in favor of stockholders. Nor do some administrators object, per se, to options running in favor of others, where modest application is made.

The hue and cry, so to speak, comes in those cases where underwriters "cut themselves in" for a substantial portion of warrants and also in some cases where management does likewise.

Naturally, I can't speak for all on this point, but in Ohio we are now refusing deals with 15% underwriting loads to which are attached any form of warrants to underwriters. Regardless of the nominal present-day value of the warrants, we consider this additional compensation, and thus on statutory grounds we hold the offering to be on grossly unfair terms.

In any warrant deal three principal factors must be taken into consideration:

(1) **Number or Percent of Shares Under Option**—The ratio of shares under option to the shares outstanding after giving effect to the public offering and any convertible securities. We prefer that shares under option do not exceed 7% of shares outstanding after financing.

(2) **The Exercisable Price**—The exercisable price must not be less than, and preferably more than the public offering price. The longer the term of the option, the greater is the need of either an arbitrary step-up in price, or a price related to the future market for the shares.

(3) **The Term** — We consider three years the maximum acceptable term for options running in favor of underwriters.

We administrators have seen many cases of calls of additional stock running in favor of management. Such is often introduced as a reward for incentive. We take no particular objection to reasonable incentive plans involving additional stock. But again, the percentage of the shares under option should be reasonable and preferably not more than 7% and certainly less than 10% of shares outstanding after financing.

Recently, we have seen an incentive plan permitting a call on stock up to 10 years. With the extreme change in earnings that can occur in a decade, it is obvious there can be an undue advantage to those on the inside at the expense of other stockholders.

It would appear that much of our time is spent on the warrant question. Fortunately, however, the vast majority of the investment bankers and dealers do not tolerate underwritings that have such objectionable contracts.

III. Our Objective

States do not have similar Blue Sky Laws. Traffic in every state varies. Some states have little need for comprehensive regulation. That is one reason why a uniform Securities Act remains more a hope than a reality.

We, in Ohio, continue to recognize the value of the various regulatory sections of our Act. Also, we believe that the salutary effect of our supervision is not confined within the borders of our state. Residents of other states benefit by the application of the requirements of the regulatory states. We see daily the need for protection at the onset. We are convinced that making examples of those who have committed fraud is insufficient. We see continually questionable offerings. We see continually the abuses that are attempted against shareholders' rights. We see attempts to mark-up assets, to capitalize intangibles, to bleed the corporation through excessive salaries. We can and do control some of these evils at the time of registration.

The securities business so far in 1947 has not been gratifying. Investing has been done more cautiously and speculation has been less. With modest trends and low volume trading, the public is little attracted to the market and to new issues. In such times, it is only natural for the investment banker to complain. Wherein does the trouble really lie? Is it oppressive Blue Sky regulation? Should Federal control be lightened? Why is it that public offerings are not receiving better reception? Is it that dealers are doing a poor job of distribution? Have they lost their salesmanship? I believe we can find the answers elsewhere. The public today is demanding quality in its investments. Many quality securities at 10 times earnings and 5% yields can be had in many listed and over-the-counter markets. This is proof plenty that new offerings must have value to compete. Therefore, in many cases, I believe the fault lies with the corporations. They are not always interested in giving good value. They want the top price. They want the insiders to have the special advantages. They want capital but they are unwilling to pay the respect and dividends due the contributors. Many companies maintain excellent public relations with everyone except their security holders. Unions in behalf of labor have grown in size and power. No one represents the shareholders. Must we have unions for shareholders? In this growing industrial nation, the respect of not the big but the little capitalist must be gained, those many, many people holding small stakes in big business. A little more corporate wooing is in order. A little more decency and fair treatment will produce more ready investors. More straight-forward, clean plans of financing should be the order of the day.

Here are Blue Sky Administrators, investment bankers, lawyers and accountants and representatives from Federal authorities and associations. Our professional positions are different, but our thinking and acting need not be. We are in fact working for one basic objective — for the proper flow of capital— that more capital shall be provided our growing industrial nation. And by making available fair investments and reasonable speculations for those with money.

In our deliberations here, and in the future, we should strive— for a fuller understanding—for more cooperation—for the proper flow of capital.

Robert W. Allison With Coffin & Burr, Inc.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Robert W. Allison has become associated with Coffin & Burr, Inc., 60 State Street, members of the Boston Stock Exchange. Mr. Allison was formerly associated with Adolph Lewisohn & Sons in New York City and prior thereto was Manager of the bond trading department for Laurence M. Marks & Co. In the past he was with Hardy & Co. and Edward B. Smith & Co.

Robt. W. Allison

McPhail Candy Pfd. And Common Offered

A banking syndicate headed by Brailsford & Co., Shillinglaw, Bolger & Co., and Straus & Blosser on Sept. 30 offered to the public 100,000 5½% cumulative convertible preferred shares par value $10 per share and 200,000 $1 par common shares of the McPhail Candy Corp. The preferred stock was offered at par and the common stock was priced at $6 per share.

Proceeds of the preferred stock will be used for retiring a bank loan, acquiring machinery and for additional working capital. Proceeds from the sale of common stock will accrue to an officer who is disposing a portion of his holding.

With Gordon Graves & Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Michael W. Sullivan has become affiliated with Gordon Graves & Co., Inc., Shoreland Arcade Building. He was formerly with Florida Securities Co.

The Outlook for Business

(Continued from page 2)

has increased greatly since 1929.

That increase in population has been accompanied since 1932 by an almost uninterrupted improvement in the standard of living of the mass of American wage earners. This improvement has been particularly striking in non-durable goods such as food and clothing.

The result of the dual phenomenon of increase in population and rise of living standards has been an increase in national income of more than $100,000,000,000, from $87,000,000,000 in 1929 to around $190,000,000,000 in 1947. Adjusted for price change, the 1947 figure for national income would still be about $150,000,000,000, or $63,000,000,000 more than in 1929.

Abundance of Purchasing Power And the Deficit of Products

Upon this expansion of gross demand the war and the postwar period have exerted several major influences. The first is the deficit in many products, particularly consumer durable goods like houses and automobiles, resulting from the banning of their production for the four years, 1942 through 1945. Another influence is the effect upon the economy of unprecedented full employment at high wages and, with the purchasing power so generated, a desire and demand for more and better appliances, for more and better clothing, for more and better diet. Since 1939 the increase in annual meat consumption alone is estimated at 20 pounds per capita or two billion, 800 million pounds for the entire population, a mere matter of some five million steers.

"Rain Checks" on Future Production

The bulk of the $300,000,000,000 expended by the Federal Government for our military requirements found its way into the pockets by American wage earners and farmers. Much of it was taxed away but for more than 150 billions of that dollar amount no offset was available in the form of consumer goods. This unused purchasing power corresponded to rain checks entitling the holder to convert desire into actual demand on the resumption of civilian production in the postwar era.

With the end of the war, employment did *not* fall off, despite the dismal predictions of government economists, and there was little reduction in take-home pay. On the other hand, the reduction in hours and days of work effected an increase in the leisure time available for consumption.

Present Economy Dominated by The American Consumer

The net of what we have said so far is this compelling fact: the American consumer, who represents the major portion of the over-all demand now straining our productive facilities, has grown enormously in stature and dominates our present economy.

If we look beyond the kingpin of our economy, the American consumer, the call on our productive mechanism becomes not less but even more strident. With the ending of the war, there was of course a marked decrease in the production of war goods. But the expenditure of funds for war material has remained at a level far higher than was expected — in fact, at a level actually sufficient for the requirements of all previous shooting wars. Twenty billions of dollars annually represents our present "peacetime" military appropriation. Of this, probably about half is for food and wages and the rest for equipment.

Demands of Foreign Nations

To the American economy the ending of war meant one other change of form. The demands of foreign nations upon us changed from ships and planes and guns to raw material, machinery, textiles, and food. Whereas between 1921 and 1939 our peak in gross exports had been $5,00,000,000 and in net exports $2,000,000,000, our overseas shipments recently hit the annual rate of about $18,000,000,000 gross and $10,000,000,000 net. The support of this fantastic lack of balance in foreign trade is, of course, American loans, American gifts, and American purchases of foreign gold at inflated values. The problem of continuation is real; but the immediate effect is to add tremendously to the call for goods.

Certainly one can say that the demand side of the American economic equation has been subjected to potent, substantial and frequent shots of adrenaline. How durable the effects will be is conjectural. At the moment, demand certainly constitutes a rather explosive force.

The Supply Side of the American Economic Equation

Measured against the dynamics, one is tempted to say dynamite, of the demand factors, the supply agencies in our economy have been pretty static.

Population increases should, of course, increase the number of producers and consumers alike. But the changing trend of the birth rate has weighted the general population with babies and children. They are consumers and not producers.

Methods for Increasing Produuction

Our present production levels require the use of practically all of our employables. Production could be increased, of course, by working longer hours. This "out" appears to be effectively precluded by the emphasis on regular hours in current labor contracts and by the premiums necessary for overtime, with the attendant problem of further rises in costs and prices.

Production could also be increased by a rising level of labor productivity. However, the expected improvement in this regard has not transpired—in fact, productivity has decreased somewhat over the past seven years.

Against fewer hours of work and a trend toward less production per hour, the American offset in the past has been an increase in mechanization. By this method, even in the face of shorter hours and increased wages, productivity has been so stepped up in the past that costs per unit of production have actually declined. The record of the American plant account, however, does not indicate marked increases in mechanization in recent years. On the contrary, it has actually shrunk drastically.

Plant Capacity and New Capital

There are no *accurate* measures of plant capacities. But on the basis of measuring devices that seem *adequate*, it would appear that the American plant account is short of its proper amount by a minimum of about $40 billions. Part of this shortage comes from the need of supplementing present "depreciation" rates that no longer give protection at existing price levels. The major part, however, comes from a deficit in the supply of new capital as measured against the amounts made available during the '20's.

This estimate of $40 billions does not take into account changes in the standard of living, nor increases in world demands upon us, nor changes in levels of productivity. It is a statistical shortage which probably understates the actual condition.

The construction of plants during the war modified the picture but little, since so little of the war plant went for civilian products. The civilian economy profited little from war ships, planes, guns, and atom bombs.

No, it would appear that the supply side of the American economic equation has not been adequately expanded to balance the forces of demand. Maybe that's why the battle has gone as it has.

Causes of Inflation

Basically, inflation in an economic sense results from the competition of adequately financed consumers seeking to support their standard of living with an inadequate supply of goods. The resulting battle for goods will express itself in rising prices—and the *only*, the *only* means of meeting the requirements of the established standard of living at *any* prices is the production of sufficient goods to satisfy that standard.

Greater National Product With Less Plant

One of the wonders is that American industry and agriculture, have done so much with so little. With baling wire and hairpins and ingenuity and frenzied effort, we are turning out a national product more than 100% above that of 1929, and actually with less plan, comparatively speaking, than we had then.

How quickly will the tools needed for increased production be converted from hope into fact? Will hours be lenghtened? Will productivity be increased rapidly? Will plant and equipment be expanded?

Appraisal of Future Behavior of The Demand Factors

The future behavior of the demand factors is also difficult to appraise. The American payroll is at an all-time high. Will it decrease, and if so, will it be because employment will decrease or because wage rates decline? Will the markets for automobiles, homes, industrial buildings and agricultural implements be sated in 1947 or 1948 or some later year? Will the demand for food contract? Will the $150 billions of savings be husbanded or be expended if take-home pay begins to shrink? Will agricultural income go into a nose-dive—and if so when—and could there be some decline in farm prices without damage to the economy? Will the U. S. Government continue to give huge credits to foreign nations? If not, will exports decline drastically? And if a substantial drop takes place, would such a development contract the volume of business or merely lessen the pressure upon prices, with no real effect upon volume and employment?

The Economy "Pretty Much in Balance"

These are the questions which each individual must answer before reaching a judgment about the nearby outlook for business. My own judgment is that the inflationary forces in the economy have not yet been spent. The factors of demand still have explosive force—and the elements of supply give no indication as yet of sufficient expansion. Doubtless there are serious maladjustments and disequilibria in the economy at present, but the ecomy as a whole seems to be pretty much in balance. In general, prices and wages are in balance, strange as that may seem. Production and consumption are in balance. Inventories are not excessive for the present level of business. Consumers speak of resistance, but seem to offer little. On the whole, it seems to me that the elements out of which depression is made have not been preponderant since the war's end and not likely in the very near future to swing the balance in our economy.

If we lift our eyes to more distant economic horizons, the picture of course appears more hazy. But as some of the discernible long-term elements differ so basically from those of the nearby situation, it is desirable to attempt at least a bit of economic astrology.

The Past Hundred Years

There is really only one way to read the future, and that is to study the past. For over 100 years, the past tells a story wholly unlike the sellers' market of today. From 1840 to 1940 prices in the U. S. showed little over-all change, and if improvement in quality is taken into account, then prices fell substantially over that century. During the same period wages increased six-fold. That increase was cancelled out by increases in productivity, which in turn came from the benefits of mass production. But mass production depends upon huge volume and the efforts to win that volume apparently required that the benefits of production economies be transferred to consumers in the form of lower prices.

Production and the Standard Of Living

The history of a nation leaves strong imprints upon its people because it is its people who print the history. Surely, on the basis of our people's behavior in the past, increased mechanization of industrial and agricultural processes will again become a great force in the economy. Some day America will reawaken to the realization that the average standard of living depends primarily upon production. Once that basic truth is recognized, the skill of American management will put our industrial machine back on the path which, for over 100 years, led to the absorption of a six-fold increase in wages into a declining cost and price structure.

Unless that happens, the American standard of living, which has moved up with the passing decades to a point unequalled in our own history or in that of any other nation, will move down. For if less is produced per hour of labor, less will be available for each hour the wage earner labors. But if productivity does increase, as we confidently hope it will, more and more products will gradually move from a sellers' to a buyers' market.

Some day the economies of other nations will depend less upon America and will increase their exports to the competitive markets of the world. Our current export surplus will some day be replaced by the import balance proper to an international creditor —and the goods which enter our ports will add to the supply available to American consumers.

Industry's Break-Even Point Raised

In the meantime, however, the rising level of wages and salaries and the rising cost of building and machinery have raised the break-even point of America's commerce and industry. A much higher volume is therefore necessary to assure profitable operation. When the forces inherent in the American economy reclaim their previous position, then the pressure again will be upon price in order to achieve for industry the volume necessary to reduce costs and create the benefits of mass production.

Reflationary Pressure of Industrial Capacity Upon Price

During times like these when the inflationary forces are being examined by Congressional agencies, it indeed seems far-fetched to talk of the deflationary pressure of industrial capacities upon price. Perhaps World War II with its political and economic ideological consequences has changed for all time the balance of forces. But it is difficult to dismiss 100 years of American economic history and the industrial habits and customs developed over that period. If we have faith that the past century rather than the present year is more truly typical of our economy, then the day will come again when the demand of mass production for a huge and increasing sales volume will once more force us to call upon the instruments of intensive selling. These are the tools with which we have fashioned our miraculous domestic markets. They include intensive and extensive use of advertising. They count among their number fractionalization of price through installment selling, whereby automobiles and radios and mechanical refrigerators are purchased by 30,000,000 families instead of the hundreds of thousands who could or would buy for cash.

A Rising Standard of Living Behind Product Demand

Behind the specific demands for goods is the economic and social force of a rising standard of living. This is what makes the American family such fertile ground for the development of domestic markets. Here in this country there are no taboos among classes of consumers—there is no sense that desires for goods and services should be graduated according to social strata. For purposes of desire and demand, all American men and women have been created equal. On that future day when goods are available in adequate amounts for the then existing standard of living, the competition for goods among consumers will subside from its present state of frenzy, and once more will the competition be among American suppliers to have their goods included in the family budget. When we arrive at that day, the chief answer to the needs of production for increased volume will lie in the advancement of our standard of living. It will become necessary to encourage people to want more of the existing goods and more of the new goods which research and production will make available.

Standard of Living the "Keystone of the Economic Arch" Called America

That is why in the long run all of us have such a heavy stake in protecting and advancing our standard of living. Sociologically, it is the measurement of the well being of our citizen. Economically it is the keystone of the industrial and economic arch called America.

Will tax laws and labor practices and management attitudes make possible the proper development and advancement of our living standards? I don't know. Will capital be available for the expansion of capacity and for the development of the new enterprises necessary to assure employment and provide substance for improved material well being? I don't know. Will leadership in government, labor, business and banking recognize its own vital interest in economic statesmanship as contrasted to an exclusive interest in today's results and today's opportunities? I don't know.

Faith in the Future

But I do have faith. We, as a nation, have built an economic edifice that has no equal; and I cannot believe that the leaders of tomorrow will destroy the heritage of the past.

The long-time outlook is troubled and uncertain—but for me, it is one of hope.

The Technical Viewpoint

(Continued from first page)

til the zone 205 to 225 Dow Jones Industrials is achieved.

In recent years the market has quickly discounted changes in public psychology. I believe this technical fact will continue. Therefore when present indifference toward American common stocks is supplanted by confidence in the future of the American economy, the demand for equities will find a tight situation and thin markets. The scramble for stocks will quite likely cause an advance as swift and as extensive as the last change which brought about the May-October, 1946 decline of 50 points in the Dow Industrials. This was an all time record move for its short duration and wide extent. I now expect an upside move of about the same approximate character.

No, I do not expect its full extent in a few days or weeks. But, subject to minor setbacks from indicated zones of minor offerings, a sustained advance is now clearly indicated by my **Money-Flow** work to be a very strong probability.

The Rails

Until now we have been discussing the indicated probabilities of the Industrial Group. The **Rails** too are in excellent technical position. For the Dow Jones Railroad Average there is indicated an advance to 74-80 of that average. Zones of probable minor offerings on the way up are indicated to be in the vicinity of 58 to 61 and at 65 to 69.

This is a **Bullish** picture which I paint for you and I realize many of my readers will want evidence to back up this conclusion. I shall try to supply it.

Historical Background

First let's go back a bit so as to review previous indications of my **Money-Flow** work.

During February, April, May, June and July of 1946 when my work warned of a developing top and I urged profit taking, most services were very very **Bullish.** When I said at that time **Sell** and hold cash—a break to 165-170 is indicated—few would believe the evidence which my **Money-Flow** studies supplied. Later in October and November of 1946 I wrote "Who Said Bear Market" which was published in the "Chronicle." In that article, I said, "no nearby depression indicated," "we will shortly enter another period of expansion and increased production" and "conditions now favor continuation of **Bull** market." That developed to be the very bottom of the move and stocks backed and filled in the zone 160 to 170 while good investment buying was taking place. Informed insiders were picking up bargains in anticipation of the uptrend which followed. Remember the wail of the Bears at that time?

Recently as the Industrial Average dipped below the 176 level during early September, I wrote, "This is the time for investors to complete buying in anticipation of a new uptrend indicated to begin soon."

These conclusions were all based on my studies of the movements of money into and out of the market, which is so helpful in indicating what is taking place under the cover of the movements of the averages from day to day and week to week.

In further support of my conclusions I shall analyze first the technical pattern and position of the averages; then similar facts now developing in a number of industry groups and finally some fundamentals which to me clearly support my viewpoint.

The Dow Jones Industrial Average

After the decline in 1946, from 212 to 161, the market backed and filled in a base level of accumulation between 160 and 170. It then advanced to establish the upper resistance zone of a trading range when in February, 1947 it topped off at 184. The February to May decline carried the industrial average down for a double bottom test which held critical levels in May. On May 19 when an intraday low of 161.38 was established, I wrote "This is a turning point climax—the minor correction is complete and the Main Bull Movement is being reinstated." An uptrend followed which carried the average through the trading range resistance established at 184 in February. A high of 187 was then established in July. In this average at the low of September around 175 we now have a completed base; the start of a new Basic Main Uptrend; and a full correction of the first phase of that new uptrend. This is a completed **Bullish** technical pattern now implying a very substantial and dynamic advance.

What if unforeseeable events should interrupt or delay that advance? How far down is it likely to go? Present indications are very **Bullish.** I do not expect such a decline but should it occur, it is indicated to find support at about 153 D. J. industrials or higher. The maximum downside potential would carry down to about 5% below October 1946 and May 1947 lows. Let me repeat, I do not expect a decline of that character in nearby time.

The Dow Jones Rail Average

In May of 1946 and again in June this average developed a triple top with the high at 68 first recorded in January, 1946. The top area of distribution was completed in July and August and implied a decline to 45 recorded in October. Some good buying occurred around 45-46 during September and October and the Rail Average advanced to a trading range resistance in February at 53. The February to May decline dipped to the next indicated Objective at 41-42. In doing so it violated the October support level at 45. Then a sharp recovery May to July carried the Rails to 51 but not through the trading range resistance at 53. In the May to July advance and in the July to September correction the Rails have been stronger than the Industrials both in technical action and in the per cent advance and correction. The Railroad average is now developing a right shoulder congestion area in a broader head and shoulders turning movement. When completed this movement is likely to imply an advance to the zone 74 to 80 for this average.

What if this move fails to develop? Around the May and July lows of the average 41 to 46, I find excellent support indicating the probability of good volume investment type buying in that area. But let me repeat again, I do not expect such a decline in nearby time.

In my last article written for readers of the "Chronicle" June-July 1947, I wrote, "Some stocks are well along in their uptrends from October, November 1946 bases of accumulation. Others are breaking out into new uptrends after extended periods of accumulation. Most of the remainder are now (June) around levels where important long-term buying of investment calibre is taking place. A few—relatively very few—could dip to new lows before basing out. However, these few are not likely to decline more than about 5% to 8% below their recently recorded 1946-1947 lows."

Now, in mid-September 1947, I can report that the Aircrafts Airlines, Building Supply, Distillers, Electrical Equipments, Motors, Movies, Store and Tobacco stocks which were the weak groups when I wrote my June article are now either developing good bases, completing bases or have started new uptrends.

A Strong Technical Position

This all adds up to indicate that the market is in a very strong technical position. I believe that in the next advance the Rails will hurdle both July and February highs and thus confirm the Industrial penetration recorded in July.

One group of market students, those who rely exclusively upon the Dow Theory are awaiting that confirmation before they will concede that we are in a **Bull** market. My work has already indicated that they will soon have the confirmation they are waiting for.

Typical Environment for Dynamic Bull Action

In the past, changes in public attitude towards our stock market have always occurred when conditions similar to those now extant have existed. By that I mean, most widely distributed advisory letters are bearish and expect lower prices; the market has been through a period when it has ignored good news; Dow Theory students are either bearish—in disagreement with each other or admittedly uncertain, and the orthodox price earnings approach is being currently ignored by most investors.

Technical vs. Fundamental Analysis

In the past we have always read and heard many discussions as to the relative merits of either the technical approach or the so-called orthodox statistical or fundamental methods of judging values in stock prices.

In the recent past and currently those who rely exclusively upon and argue for methods other than the technical approach have indeed had a very difficult time of it. Order backlogs, earnings, price-earnings ratios and many other non-technical methods of price trend analysis have all been found sadly wanting. Supplemental helps of a technical nature are currently finding a much wider acceptance than heretofore. Those who have shunned technical helps in the past are now conceding their usefulness.

Briefs on Fundamentals

Basic Commodities—It is now being argued that advancing commodity prices always are a forerunner to collapsing stock prices. This is sometimes true near the end of a cycle when production is in excess of demand and commodity prices skyrocket because of speculative excesses. Such is not the case in September, 1947. I believe commodities will find a new shelf level of balance higher than prewar levels and that recent sharp advances will settle out there and come into balance. Then with fairly stable raw material prices, industry can and will proceed to get into full production. In the postwar period to date industry has not been able to report full production in most basic mass production capital goods industries. A casual glance at the swings of the commodity price curves of the past does not make available the answer to our present problem. We have never in the past had the demand potentials which now exist. If you don't believe this—try to buy a new automobile at list prices and then see for yourself. At least a full year or two is needed at full production before we get to the point where supply will begin to catch up with demand in any important capital goods industry.

Money and Credit—The Veterans' Terminal Leave Bonds, their bonuses, the removal of Federal restrictions on term payments, the Marshall Plan, the demand for new mortgages on new buildings, increasing velocity turnover in business, are some of the many factors making for an expanding economy at this time.

Exports—It is argued that the current downward trend in exports from May-June highs together with the shortage in foreign lands of American exchange will depress our domestic production records. I do not agree with that viewpoint because we were exporting too great a percentage of our national product during the recent peak. This, to the detriment of domestic demand and supply balance. I believe the Marshall Plan, regulating our exports, and new buying power domestically, will more than offset the adverse effects of declining export trends.

Building—This basic industry is so far behind in meeting demand for housing that it is difficult to see when the peak of new building will be reached. Some of the industry's experts say two years, others say ten. It is certainly far off and not likely to occur in 1947 or 1948.

Retail Trade—Recent reports show that retailers have not been overstocked with high priced merchandise likely to become distressed. There is no indication in this industry which is likely to develop into a vicious cycle of price collapse.

Employment—At new highs and at best take-home real wages ever recorded in our history. This is most certainly an argument for optimism.

Production—Production is not yet in full gear. Material shortages and sporadic strikes have been hindrances.

The Foreign Situation—I have no inside track to the answers to the international riddle. This one thing, however, seems very clear to me. We are ready to spend our wealth in dollars and supplies to prevent the spread of communism. Better to spend it for peace than to wait and spend ten times more during a war. Then I think we are now calling Russia's big **bluff.** Cards and hands are now over the table. Our policy makers are beginning to show that they are both idealists and realists at the same time. That is good. Finally I believe there are signs both from inside Russia and elsewhere that State Socialism and Freedom do not go together. That Socialism is not workable. These things are all Main Trend Bullish for America.

Market Now in Buying Area

As I am writing the market is trading in the area 175 to 178. My work shows the zone 170 to 176 to be the present area within which investment buying should be completed in anticipation of an advance of at least 20 points in the Dow Jones Industrial average.

BUY GOOD COMMON STOCKS NOW.

Wall Street Riders Elect New Officers

The Wall Street Riding Club held its twelfth annual election of officers and directors on Thursday, Sept. 25. Gerhard H. Struckmann of the Bank of the Manhattan Company was elected President, Mrs. Mildred Marsh Butler of McLaughlin Reuss & Co., Vice-President, Wm. H. Salisbury of Union Securities Corporation, Treasurer and Miss Virginia McGaffney of Dunham & Fletcher, Secretary.

New directors elected from the financial district included Mrs. Regina Hankinson of F. Eberstadt & Co., Miss Marie R. Cambridge of Amfra Trading Corporation and Frank Hoart of Moore & Schley.

The Club begins its thirteenth consecutive riding season on Friday night, Oct. 3, at its ride headquarters, the New York Riding Club (formerly Aylwards), 32 West 67th Street. Mr. Struckmann, the new President, announces plans for an active season for the financial district's equestrians. Founded in 1935 to promote the social and physical welfare of the men and women of the financial district, the Club has in the course of the years attracted many enthusiastic riders outside of the Wall Street section, who have been welcomed as Associated members.

Customers' Brokers Elect Jarvis President

At a meeting of the Association of Customers' Brokers held Sept. 25 the following officers were elected:

President—N. Leonard Jarvis, Hayden, Stone & Co.

Vice-President—Archie F. Harris, Merrill Lynch, Pierce, Fenner & Beane.

Treasurer — Maurice Glinert, Hirsch & Co.

Secretary—Frank P. Rinckhoff, E. F. Hutton & Co.

Members of the Executive Committee were elected as follows:

Walter McKeag, Jr., Merrill Lynch, Pierce, Fenner & Beane (1951); Richard M. Ross, Dean, Witter & Co. (1951); Anthony Smith, G. H. Walker & Co. (1951); Donald D. Waterous, A. M. Kidder & Co. (1951); Milton Leeds, Pershing & Co. (1948).

New Office for Elwell

BOSTON, MASS. — Elwell & Co., Inc. announces the opening of a Back Bay office at 420 Boylston Street. The firm's main office is at 44 School Street.

"A Regulator Looks at Regulation"

(Continued from page 15)

you are probably aware, regulation as we know it had its beginnings in dealing with the problems of the railroads. The advent of the steam locomotive in the early part of the last century brought forth an era of rapid railroad expansion. At first the attitude of the States and the communities was to aid the railroads in every way possible since it was quite apparent that great benefits would accrue to the nation from the development of a well organized network of railway transportation and that communities would either be on that network, or would die. Generally, the State Legislatures gave bountifully to the railroads. Charters and franchises were offered on the most liberal terms, rights of way were freely conveyed, grants of land, direct loans and credit were provided to ease the financial burdens.

Following this rapid expansion came some very serious problems. The overdevelopment of the roads landed some of them in serious financial difficulties. To meet these conditions, railroads frequently resorted to ruinous, cutthroat competition at points on their lines where they were faced with competition. At places where they were free from it, they charged exorbitant rates.

To meet this difficulty the Legislatures first started to pass acts limiting the powers granted in railroad charters and to impose legislative restrictions upon rates. It soon became apparent, however, that the problems involved were of such complexity that the average legislative body did not have the special knowledge needed to deal with the matter and could not pass statutes of a form and kind which would solve the problem. It was there that administrative agencies were created to help. As far back as the 1830's some of the eastern States created commissions which were advisory in nature and whose functions were principally investigatory. They counseled with railroads and the public concerning their problems, found what the facts were, and reported them to the Legislatures.

In the development of the West the problems of railroad development were intensified to a point where this method of control was found inadequate to meet them. As a result there developed a different type of regulatory commission—one which we will, for convenience, call the "regulatory" type. The State of Illinois pioneered in this development. It created its railroad commission in 1871 and very shortly after its creation the commission was given the power to prescribe maximum rates and to prosecute violators of the statute it was administering.

Insofar as I know, the Illinois Commission of 1871 was the first departure from the purely "advisory" commissions theretofore in vogue. Other states began to follow. By 1887 10 states had regulatory commissions with actual rate-making powers and 15 states had the advisory type commission.

It further became apparent that because of the interstate character of much traffic, federal regulation was essential. In 1886 the Supreme Court decided the famous Wabash case (*Wabash, St. L. and P. R. v. Illinois*, 118 U. S. 557) holding that the states could not regulate interstate railroads even in the absence of congressional legislation. The Interstate Commerce Act followed the next year, marking the advent of the Federal Government into the regulatory field and establishing the Interstate Commerce Commission to enforce the provisions of the Act. At its inception, the Interstate Commerce Act did not grant rate-making power but it did prohibit certain objectionable practices such as rate discriminations, rebating, pooling and charging unreasonable rates. During the next half century the powers and jurisdiction of the ICC were tremendously increased until it stands today as one of our most powerful regulatory agencies.

Other Regulation

In 1890 Congress began to come to grips with the problem of trusts and monopoly. At first it chose to handle the matter by judicial rather than administrative procedures and the enforcement of the Sherman Anti-trust Act was left entirely to the courts. As that problem became more complicated, however, the Federal Trade Commission was established in 1914 as an administrative agency also created to deal with the fair trade aspects of these matters. In 1913 the Federal Reserve Act became a law, creating what later became the Board of Governors of the Federal Reserve System to deal with banking. During the '20s, the Federal Power Commission was created to deal with power problems and the Federal Radio Commission, in 1927, was created to regulate the new radio industry. During the '30s, we all know that there has been a substantial increase in federal regulatory agencies, one of which of course is the SEC, which grew out of the chaotic condition of the securities market during the boom of the late '20s and the bust of the early '30s.

While this development was occurring on the national scene, the states themselves were greatly increasing their own regulatory functions as conditions demanded. Shortly after the turn of the century, the regulation of utilities developed very rapidly among the states. In 1911 my own State of Kansas passed the first law regulating the sale of speculative securities, and Blue Sky Laws followed rapidly in the other states. Banking and insurance were fields in which state regulation developed. The advent of motor vehicles and their use as commercial carriers of passengers and freight called for state regulatory activity in all the states. Still later conservation statutes regulating oil and gas production were enacted generally.

Need for Regulation

But let us ask ourselves why have we had this development of regulation? What is the need for it? Why has it been so universally turned to? The answers are numerous. An easy answer that we sometimes hear is that we have become prey of the regulatory bug—that we are committed to the philosophy that regulation is a cure-all. Sometimes we hear dire predictions that we will some day find ourselves strangled in a web of regulation.

Not a Fad

But that is not the fact. We have not succumbed to regulation as a fad. The charge has elements of truth in it which I will mention shortly. But it is woefully inadequate as an explanation for our present condition. If we are looking for a short answer, it is more probably found in the fact that we are, as a people, far beyond the stage in which the hurt we do one another is limited to simple torts, trespasses and crimes. The general statutory or common law which administers itself through the moral conscience of the citizen is no longer enough to deal with the vast machinery of power and abuses which economic control can become if unfettered from the ties of public interest.

But let us not over-simplify our thinking about this. It is customary to talk about the "abuses" that call for regulatory control. We have come to use the word "abuse" as a shorthand term to cover all the host of conditions which require the imposition of regulation. To be sure, many of these abuses are downright misconduct on the part of wrongdoers. So in our administration of the securities law, we still find the old fashioned swindler engaged in perpetrating fraud upon the unwary or unsophisticated. In other fields we also find people who are doing things which are contrary to law and contrary to ordinary, common morality.

But these "abuses" go much further than that. Frequently we find an abuse of the economic power that individuals or groups hold. For an example, one of the important functions of regulation is to protect the individual from unfair treatment by large economic groups. As our economy has grown much more complicated, and the success or failure of enterprises has come to depend upon a whole host of factors many of which are obscure, the doctrine of *caveat emptor* ("let the buyer beware") just cannot operate satisfactorily in many types of business activities. The odds in the game of business have become too uneven in many fields and the average citizen is simply unable to gather sufficient information to adequately protect himself in the business decisions which he is called upon to make during the course of a day. Our economic forces have become so large that they completely overwhelm the individual. Specialized treatment is required to deal with these forces so as to prevent great injury from being done to the interests of the general public.

"Abuses" Not Sole Cause

I recognize that it is extremely easy to think of all of the "abuses" as being the activity of some more or less "personal devil" and that the imposition of regulation somehow carries with it the implication that the people to be regulated are not trustworthy or are universally motivated by improper desires and considerations. That, again, is simply not true. Let us consider for a moment one of the plainest examples, and we shall have to go back to the very start of regulatory processes to find it.

I mentioned a few moments ago the wide disparity in rate structures that led to the first railroad regulation. The fact that railroads engaged in cutthroat competition, where there was competition, and charged exorbitant rates where no competition existed, by no means implies that the management of those railroads were animated by improper motives or were out to gouge the rate-payer in every case where they could.

Quite to the contrary, they were faced with a practical problem. Competition required them to lower their rates in a race to get business where others could take it from them. That competitive traffic was frequently handled at a tremendous loss. The exorbitant rates they charged elsewhere on their lines were sometimes not enough to make up for the losses sustained in handling the competitive freight. The fact that many railroads were broke is the best proof of that. The chaotic condition which existed in the industry rather than the malfeasance of the railroad management contributed much toward bringing about the regulation which was necessary to protect both the railroads and the shipping public. I don't mean to minimize the fact that there were some of the "robber barons" who played their full part in causing the advent of regulation as well. The fact is that the increasing complications of our economy have required the development of the regulatory process, both to protect the individual and to develop and maintain sound and strong commercial enterprises. And I would suggest that you may easily test that conclusion by asking yourself the question, how would this economy of ours fare if suddenly all of our regulatory safeguards were withdrawn for even a single year?

Perhaps a very simple example will serve to bring this home to us. When all people were pedestrians there was no need for any traffic control. When horses and buggies became the mode of transportation, most cities had a constable or a town marshal who, as one of his many duties, saw to it that folks didn't race their horses along the main street or do any other of the few things which might endanger the life and limb of the citizenry. But with the advent of the motor car came the extensive traffic control calling for a policeman or an electric signal on every corner and for radio equipped squad cars patrolling so that they could be available at a point of danger or difficulty within a matter of seconds.

To carry the example a little further, in the days of horses and buggies the town council could adopt the surveyor's plat and declare where the building line should be and what part should be streets and alleys. There was no complex problem involved. But today we have come to have a great profession in this country of traffic control engineers, who make complicated and exhaustive studies and recommend detailed provisions for traffic design and for city ordinances. He have one-way streets, over-passes, under-passes, and clover leafs. We have divided highways. We have cleared great sections of some of our populous centers in order to widen streets. We have to build express highways through the very hearts of our great cities. And in order that all of these projects key into the life of the community, we have to create regulatory agencies — planning commissions—to administer and control the whole program.

Complexities of Human Activity

This is only one example of the degree of complexity which has affected a single minor branch of human activity. Where there was no problem a few years ago, there now is a very great one. That same tendency has manifested itself time and time again throughout the whole fabric of our life and our economy. Business has not only grown in size but it has permeated deeply into the daily lives of each one of us. The consequences of a power failure, of a railroad strike, of a bank moratorium, of non-delivery of milk supplies, and so on, stagger the imagination. We have become so dependent upon the normal operation of our economy that it is often a matter of life and death to many of us that it keep going.

Furthermore, the economic destinies of all of us become more and more linked with each other through the medium of business. Management decisions by the operators of large business are no longer matters of private concern to limited economic groups—they affect thousands of working people, consumers, credit sources, security holders and other businesses. In the proper gearing of these enterprises, in the honest operations of their businesses, the public has a vital and a growing stake.

Faced with the increased tempo of life and the increased complexities of our economy, there are presented only two possible alternatives. One is the establishment of proper regulation in the public interest. That, of course, has generally been accepted in this country. The other course open is government ownership and operation of the instruments of production, transportation and public service. You can call it socialism, or you can go a few steps beyond and have communism. The bald fact remains that completely unbridled economic conflict is so injurious that the public must and will protect itself from it.

Public ownership in any of its forms is one method of dealing with that problem. But I am quite sure that none of us here wants to see it adopted as the complete pattern of our economy and final destiny of our whole lives. The success, although not completely universal, which this country has met in dealing with the problem by regulation affords the answer to the challenge which public ownership and operation of all economic enterprise presents.

Basis of Our Economy

Our economy is predicated upon the essential freedom of the individual and the essential initiative of management. Our great national plant whose physical splendor and operating efficiency are the envy of the world was built by individuals working out their individual destinies. Where necessary in the public interest—and only then—has it been curbed by regulation. That system of regulation, it seems plain to me, is the most important single bulwark which we have against the threat of the complete undermining of our system of free economy and the inevitable tyranny which follows. Proper regulation is the keystone to the maintenance of a free economy liberated from the threat of government ownership. And I firmly believe that those who urge that we eliminate substantially all regulation and return to the laissez-faire theory of a century ago, are unwittingly but surely playing into the hands of those groups that are seeking to overthrow our system of free enterprise.

Perhaps at this point we very properly are asking just how this relates to us as securities administrators. That question is perfectly in order and I think we should for a few minutes see if we can discover the answer together.

If our system of regulation of free enterprise in the public interest is to succeed and is effectively to meet the challenge which we have just been talking about, it must be intelligent, efficient, moderate and effective. Those four qualities—intelligence, efficiency, moderation and effectiveness—are absolutely indispensable if regulation is to work. Let us look at each of them very briefly.

Referring to intelligent regulation, I have in mind that it must be a well thought-out system. The various statutes under which regulatory activities are conducted must be carefully and intelligently drawn. They must be drafted in the light of the recognized need which exists. They must grant adequate powers to deal with the problems. At the same time, they must propertly limit the powers conferred to the end that regulatory effort does not exceed its proper bounds. These statutes must be drawn with due regard for other regulation of the same subject matter or of related subject matters. In other words, it must be harmonious with the general scheme of the regulatory pattern. Further, the scheme of regulation must take into account the character of and the needs of the business or enterprise regulated. It must not impose a system of regulation on an industry without a careful and sympathetic understanding the the problems of that industry.

Meaning of Intelligent Regulation

At this point let me make one thing crystal clear. Intelligent regulation means regulation where a need exists. The unwarranted meddling with business affairs simply for the sake of meddling or purely for some hypothetical or fancied purpose is not intelligent regulation. In what I have said today I certainly don't want to be understood as suggesting that regulation is a pancea for all ills, economic and social. A system of regulatory process should never be invoked unless and except there is a genuine need for it which cannot be otherwise met.

It must be efficient. Here the human element enters heavily into the equation. No system of regulation can be any better than the administrators which are assigned to it. Capable administrators with adequate staffs can accomplish a great deal, frequently even when the statutes which they administer are not as perfect as might be hoped for. At the same time, it is axiomatic that the best law poorly administered is worse than no law at all.

The third quality that I have mentioned is moderation. Moderation, of course, is an admirable and necessary trait in almost every branch of human activity, but certainly that is especially true with the administration of regulatory functions. There is a constant temptation, and frequently there is a constant invitation, for the regulator to invade the province of management. Quite obviously, if regulation ousts management from its function there is little or nothing to choose between regulation and public operation. Sometimes, I think the cardinal maxim for us as regulations is, "It is a wise regulator who recognizes where his function stops." At the same time we have to always keep in mind that one must not let himself become moderate to the point of inaction. Good administrators, I believe, keep constantly reappraising their jobs and their responsibilities—they take inventory so to speak to make doubly sure that they are adequately performing the functions required of them and at the same time not imposing their jurisdiction beyond the legitimate boundary of regulation in the public interest or in fields where there is no real need for it.

Effectiveness of Regulation

The fourth and last quality that I mention in defining what I conceive to be proper regulation is that of effectiveness. If regulation is going to work it must cure the evils which it is intended to cure—it must meet the problems which confront it.

I personally feel that there is nothing more dangerous to the public welfare than letting the impression be given to the people that their interests are being protected when in fact the problems are not being met squarely—where the regulation is not effective. The average citizen is much better off knowing that he is "on his own," so to speak, than to be lulled into a false sense of security that somebody on the public payroll is looking out for his interests when that is simply not being done. I might parenthetically mention that I think all of us in the regulatory field owe an obligation to keep the public constantly informed of the limits to which our regulatory efforts go. This is doubly true in the securities field when none of us grant any assurance that securities registered and sold are bound to retain their value or return dividends. As you all know, we at the SEC are constantly trying to remind the public that we do not "approve" securities or do we give investment advice; on the contrary, that our function is to see that the necessary facts are given which afford the individual an opportunity to draw his own conclusions and make his own personal determination of whether to buy or not to buy.

Only one final word in connection with making regulation effective. To be effective, it must never prejudice the essential public interest in carrying out the law for the sake of convenience, friendship, or a misguided conception of good public relations. To be effective, a regulator must, first and last, do his job by seeking to protect the public.

Problems of Regulatory Duties

I do not mean to minimize the problems which face anyone in assuming regulatory duties. There are a host of pitfalls which present themselves. I have already mentioned the danger of over-regulating to the extent that regulation may rob free enterprise of its virility and stamina. It is equally true that there is often a temptation to seek or attempt to exercise powers which are unnecessarily extensive. On the other hand, it is easy to fall into a pattern of regulating by rote, simply putting everything in one or another pigeonhole without clearly analyzing the effect of so doing.

As we all know, it is extremely easy to second-guess problems, thereby failing to be fair to those whom we regulate in setting out the rules of the game so that "He who runs may read." I do not suggest that all rules and regulations can be made air-tight or that any regulator can anticipate all the problems that will arise. If this could be done, it would afford a basis for having the legislatures pass final statutes covering all situations. The very basis of the regulatory process is that it requires continuing observation and change to meet the technical problems that cannot be foreseen. However, whenever possible, those being regulated should be told in advance what is to be expected of them.

There is one other matter which is again personal to those of us who engage in regulation. Sometimes regulators seem to forget the fact that their position is basically that of an umpire, obviously protecting the public welfare. That end is not best served by becoming a partisan of one or the other economic forces whose clashing interests it is the duty of the regulator to keep in line. We have all seen too many regulators who, although approaching their task initially with that objectivity which is basic to all good regulation, in the course of time become strongly pro one side or the other. Some of them almost seem to develop into spokesmen for the industry being regulated; others become prosecutors imbued with the notion that everything the industry does must be wrong. Neither of these attitudes can produce sound regulation. A regulator must, above all, be fair and impartial so that when deciding cases he does so on the basis of all of the facts before him, approaching each problem with an open mind and always keeping clearly before him that the public welfare is paramount. It is that public welfare which we, as regulators, are bound to serve. We are bound to serve it not in its narrow sense alone, but upon the broader basis of maintaining a fair and orderly economy where the article is worth its price and where the workman is worthy of his hire.

The public good which the legislature sought when it enacted the regulatory statute cannot be achieved if the regulator substitutes prejudices and preconceived views for the standards laid down in the law he is administering. I am certain that it is worthwhile for us all to safeguard our trusteeship by examining and reexamining our thinking and our feeling to make sure that we are maintaining that proper level of detachment.

Monetary Factors in High Prices

(Continued from page 6)

publicity commotion, and that we will now turn our hands to industrial production as the only means to increased wealth and prosperity.

Economy Claptrap

To circulate economic claptrap and to give the sanction of responsible utterance to economic nostrums is to do the nation a serious disservice and to lend credence to those who assert that the capitalistic system of free enterprise serves only those who would manipulate prices and who seek profit at the expense of social and economic progress.

Actually, of course, we know that the free enterprise system has done more for mankind than any other method ever tried; but surely that fact does not give responsible men the right to give out misleading statements; statements which by their very nature and phraseology create the impression that while others may try to boost prices, there are some who will refuse to yield to temptation.

Perhaps the most solemn duty confronting men in responsible industrial and financial positions in these times is to be meticulously honest and sincere in their public utterances. Americans believe in success; their confidence is given freely and fully to men who have achieved a degree of success and leadership. But Americans also expect that such men act up to their jobs, and above all, that they speak as men aware of their responsibility.

Certainly it is time indeed for government, along with the rest of us, to face the facts and sit up with the task that now confronts us.

High Prices and Money Situation

That brings me to a point I want to make about monetary factors as principal causes of high prices—factors over which government has more control than anybody else, but about which it has so far done little or nothing.

I pointed out in Cleveland at the automobile day luncheon of the Mid-America Exposition on May 24, that the government was diverting people's attention from the true facts by setting out to make management the scapegoats in the public mind by creating the impression that management was making high prices out of sheer willful profit-seeking.

I want to discuss the monetary factors which cause high prices, and which are under Government control, under two categories.

First, there is the factor of the cheaper paper dollar, which in itself, automatically operates to increase prices of commodities; of wheat, corn, cotton, rubber, tin, copper, lead, pig iron, scrap and so on.

There is a great deal of public misunderstanding about the relationship between money and prices. Instead of adding to the confusion and misunderstanding it should be the prime concern of government to aid in circulating the truth of the situation as a means of promoting unity and mutual confidence, instead of distrust and suspicion. To do less than tell the truth in times like these seems to me to be a long step in the direction of public betrayal instead of public service.

But while the government can do much harm through careless talk, it can do little of practical value through mere preachment. Until the government takes practical and realistic and honest steps to get our dollar back on its feet on a firm foundation of honest value, there is little sense in asking management and labor to lower prices, because the higher prices are the direct result of the debasing of our dollar value.

There is no short road to cheap money and cheap goods—for the two are incompatible as oil and water. Cheap money automatically and inexorably means high prices for goods and commodities—and by cheap money I mean paper money that does not bear a realistic relationship to the economic cost of goods and services.

There is no substitute for economic truth—no utopian short cut to progress and stability. The cheaper dollar, as bankers very well know, results primarily from the enormous increase in the public debt; and secondarily the process of dollar debasement is continued by the government's failure to deal with the facts by way of governmental economy in order that we can begin to pay off the debt. Government must put its own financial house in order and do it soon.

The first and foremost function of government should be to deal factually and honestly with its citizens in the matter of fiscal policy. It can only do this by action, not by talk—and the first step is to base its fiscal policy on the strictest kind of fiscal integrity and sincerity.

Financial finagling surely should have no part in government—and no honest government will play politics with economics in times like these, even if there is a presidential election in the offing.

The second aspect of the monetary causes of high prices is taxes—taxes which today make up so large a part of all costs, and therefore, of all prices.

Let us consider for a moment the repeated suggestion by government that management reduce its prices, and that labor take a cut in wages, and translate this bit of governmental propaganda into facts, in relation to the automobile, for example and see what would happen if they followed this bit of paternalistic government advice.

If a motor car company decided to sell its cars and trucks *without any profit at all*, and if automobile workmen should agree to take, say a 20% cut in wages, these two facts together in the case of a $1500 car would amount to a saving of only about $60.

Think of that for a moment—for the company to operate without any profit, and for labor to work for 20% less—all you could achieve would be a $60 saving on a $1500 car.

But now let us take a look at the taxes that are wrapped up in a $1500 car and see what they amount to. First there are the direct taxes, which on a $1500 car amount to $112. Then, in addition, there are the indirect taxes of one kind or another amounting to about $288—so that we have a grand total of taxes on a $1500 car amounting to about $392.

Even a 20% reduction in taxes would amount to $78.40 as against a possible $60 saving if the manufacturer operated without any profit, and if workers took a 20% cut in wages.

So it is plain to see that government is barking at the wrong doors in urging management and labor to get the cost of cars down. Certainly, to say the least, the government is not acting in good faith, unless it first takes steps to clean its own door step, before shouting at management and labor in terms of criticism and abuse. It is a peculiar spectacle, indeed, to find a government cynically, or thoughtlessly, pitting its citizens against each other through fomenting unrest by means of misleading public statements.

It is high time, I think, that we take steps to challenge the government to quit talking about inflation, and to start doing something really practical about it; or at least to stop misleading public opinion as to the real facts.

The Remedies

Let us call upon government to take immediate and practical and positive steps to stop all further cheapening of the dollar; and thereby to reverse the trend towards still higher prices. This will give the dollar a chance to pick up value; and will bring public confidence in money. What we are witnessing is the spectacle of a people saying through their buying and selling that they have little faith in the continuing value of the dollar.

Prices will continue to soar so long as people believe that the dollar is to be further cheapened.

Let government reduce taxes and thereby take a genuine step forward in the direction of making lower prices possible.

Once and for all the government should clear the atmosphere; get out from behind the fog of misrepresentation; do away with the smoke screen; and come out into the open and lay the economic facts on the line, and then set a practical example by stepping up to the problem.

The steps are relatively simple. They call for courage and honesty by government in dealing with the problems as a welcome contrast to political propagandizing to mislead and misinform its own people.

Government must reestablish confidence in our paper currency, and do it by acts which indicate the existence of a sound, constructive fiscal policy in government. Without such a constructive government fiscal policy we are as a ship without a rudder. We need a calm, steady hand on governmental purse strings.

What we need from government, and what, even in 1947, we have a right to demand from government are:

Honest Money.
Economy in Government.
Reduction of the Public Debt.
Reduction in Tax Rates.

and above everything else, we need a complete cessation of government propaganda aimed at fostering distrust between labor and management, and what is even worse, of seeking to foster public distrust of industry and business.

There can be no political stability unless there be economic health and productive good will between all groups.

It is the solemn duty of government to create the atmosphere within which enterprise and industry can flourish; wherein men can work confidently knowing that today's labor can and will buy its full value in tomorrow's market. And that means that they must have money in which they can put their complete and continuing reliance.

And the prime requisite is a governmental policy of fiscal integrity.

Now Emerson, Roche & Dunn

AUSTIN, TEXAS—Effective Oct. 1 the firm name of Emerson, Roche & Company, Capital National Bank Building, was changed to Emerson, Roche & Dunn.

Duncan Sterling Dead

Duncan Sterling, member of the New York Stock Exchange since 1903 and a senior partner in the firm of Sterling, Grace & Co., died at his home at the age of 70.

Richard G. Horn Dead

Richard G. Horn, manager of the bond department for Peter P. McDermott & Co., New York City, died at his home after a brief illness.

The Business Outlook

(Continued from page 3)

bank-held debt out of cash receipts at this rate would be a powerful deflationary influence—unless it aroused strong expectations of an early reduction in taxes.

III.

Why is demand so large? The explanation is not found in the main in business spending because the expenditures on private capital formation are not abnormally large relative to total demand. In the second quarter of 1947 private capital formation represented 12.7% of the gross national product in comparison with 12.9% in 1940 and 15.2% in 1929. The expenditures of business on new equipment, it is true, are high—7.8% of the gross national product in the second quarter of 1947 in comparison with 6.2% in 1929—but these high outlays are offset by a very low rate of expenditure on private construction. The explanation for the strong demand is two-fold—the large excess of exports over imports, and consumer spending.

The net foreign investment of the country during the first half of 1947 has been about 4.7% of the gross national product in comparison with less than 1% in 1929 or 1940. The figure 4.7% may seem small. One should bear in mind, however, that when foreigners buy more from the United States than they sell to the United States, they both raise incomes here and diminish the supply of goods available to meet domestic demand. Hence net foreign investment at only 4.7% of the gross national product can have a pronounced inflationary effect.

The strong demand from consumers is the result of several conditions: (1) the great accumulation of needs during the war; (2) the rise in real income per capita; (3) the increase in the number of workers per family; (4) the great accumulation of liquid assets by individuals during the war; (5) the rise in consumer indebtedness from the abnormally low levels reached during the war; and (6) the decline in the rate of saving from the abnormally high levels of the war. Some businessmen and economists have believed that the wartime accumulation of needs was small because during the war people managed slighly to increase their purchases of consumer goods. During the war, however, people spent their money on what was available. Hence, despite their large expenditures, the accumulation of needs was great. Largely as a result of the expansion of employment, average real per capita income in the United States in the second quarter of 1947 was about 33% larger than in 1940. The higher per capita incomes, the larger the stocks of various goods which individuals feel able to afford. Individuals have not yet had an opportunity to raise their stocks of goods to the quantities which they feel able to afford at their present incomes. Particularly important is the fact that the increase in employment has greatly increased the number of workers per family. Since 1940, for example, the number of families has increased by about 4 million but the number of persons employed has increased about 10 million. Families with two or more income earners feel able to afford many things which a family with only one income earner could not afford.

During the war the holdings of cash and bank deposits by individuals rose far faster than their incomes or their expenditures on consumer goods. Today personal holdings of cash and bank reposits are three and a half times 1940 but expenditures for consumer goods are less than two and a quarter times 1940. During the war individuals also reduced their short-term indebtedness to 42% below the level of 1940. Short-term consumer debts are rising to more normal levels and during the last year have increased nearly 40%. During the war the rate of saving by individuals became abnormally high. It has been returning to normal and the proportion of incomes spent for consumer goods has been rising. In the first quarter of 1946 individuals spent 83.4% of their incomes after taxes on consumer goods; in the last quarter, 86.9%; and in the second quarter of 1947, 89%.

Striking evidence of the tremendous demand for goods is furnished by the long continuation of the large-scale buying of non-durable consumer goods. Virtually everyone expected that this buying would drop off as durable consumer goods became available. By the first half of 1947, the proportion of personal incomes spent for durable consumer goods had become virtually "normal" by pre-war standards. Nevertheless, in that period 59.7% of all money spent for consumer goods went for non-durables in comparison with 47.4% in 1929 and 52.3% in 1939. The kind of expenditures which seem to have suffered from the large demand for non-durable goods were expenditures for services.

The very fact that demand exceeds the capacity of industry tends to make the rise in prices continue because, under these conditions, a rise in prices does not produce a drop in output. Hence, every rise in prices produces a proportionate advance in incomes and leaves the relationship of incomes as a whole and the price level unchanged. Likewise, so long as demand exceeds supply, increases in wage rates produce a proportionate rise in payrolls because they do not cause a drop in employment. If a rise in prices produced some drop in output so that incomes failed to rise in proportion to prices, sales resistance would quickly develop. So long as a rise in incomes keeps pace with the average increase in prices, sales resistance develops very slowly.

IV.

Should the country expect an early recession? Most businessmen and economists who express themselves on the matter appear to think so. Just as a year ago they put the recession some time in 1947, now they put it some time in 1948. Various reasons are given for expecting an early recession. Many people believe that the recent skyrocketing of prices is bound to be followed by an early and more or less precipitous reaction. Some people expect that there will be an early and large drop in the record-breaking export surplus. Some people believe that rising prices of food and other products are soon bound to produce sales resistance. Some people believe that fears of a European collapse and high and uncertain construction costs will prevent the effects of a drop in exports or in consumer demand from being offset by a rise in business expenditures for construction and equipment.

The large excess of exports over imports, the abnormally high level of agricultural prices, and high and uncertain construction costs are undoubtedly the three principal weaknesses in the economy. The large excess of exports over imports cannot continue indefinitely. As it declines, the supply of goods available for consumption in this country will rise. Unless domestic expenditures increase, prices will fall and enterprises will stop producing that part of their output for which prices fail to cover costs. As agricultural output throughout the world recovers, and as European farmers become more willing to sell their products, world prices of farm commodities are bound to fall and the incomes of farmers will drop. If people use the money which they would have spent on farm products to buy other things, the drop in the prices of agricultural commodities will be offset by rises in other prices, and the drop in incomes will not be cumulative. On a small scale there may be some transfer of resources from agriculture to other industries. On the other hand, if the drop in agricultural prices does not lead to an offsetting rise in expenditures for other goods, the total money income of the community will drop, prices of non-agricultural commodities will fall, many business concerns will be unable to meet the costs on part of their output and will lay off employees.

Whether a drop in the export surplus or in the prices of farm products is accompanied by an offsetting rise in expenditures will depend (1) upon how rapidly the drop in farm prices or in export surplus occurs; (2) upon how soon it occurs; and (3) upon whether or not goods in general are priced low enough to induce an expansion in demand. These conditions require little explanation. If the export surplus falls rapidly, this drop is likely to be accompanied by a sharp weakening in domestic prices. This will cause businessmen to postpone commitments in expectation of a further drop and cause the decline to become cumulative. Likewise, a rapid fall in farm prices is likely to lead businessmen to expect a general drop and, consequently, to postpone commitments. A postponement of commitments would lead, of course, to a decrease in production and employment. The sooner the export surplus and the prices of agricultural goods decline, the greater is the chance that these drops will be offset by a general rise in expenditures, because at the present time the accumulated need for goods is enormous. Finally, the adjustment to a decline in the export surplus or in the prices of farm products will be made easier if these changes occur at a time when many goods are priced too low to equate supply and demand.

An early but not a precipitous shrinkage in the country's export surplus is to be expected. Aid by this country to Europe will not be sufficient to prevent a drop in exports, but it will be sufficient to keep the drop moderate—at least for another year. I am skeptical that this country will be willing to give aid to Europe on a large scale for much more than a year or two and I do not believe that long-continued aid is either necessary as an economic policy or wise as a way of winning goodwill. A slight decline in some farm prices may be expected after the first of the year when sales by farmers will no longer affect their 1947 income taxes. Unfortunately most farm products will be scarce at least until next summer and probably longer.

An early shrinkage in the export surplus of the United States would contribute to the long-run stability of the economy and would help this country to adjust itself to the eventual drop in farm prices. Indeed, the shrinkage in the export surplus which can be expected now and next summer is likely to be less than would be desirable from the standpoint of the long-run stability of the economy. An early and moderate shrinkage in the export surplus, however, is not likely to produce a recession because the economy has important elements of strength. The following seven seem to me to be particularly important:

(1) Many prices, especially those of durable consumer goods, industrial equipment, and many trade marked goods, are too low to equate supply and demand. Indeed, never has the country gone so far in a boom with so many articles substantially underpriced in relation to supply and demand. This means that there could be a substantial drop in the demand for many articles without its becoming impossible to sell the present output at present prices.

(2) Unsatisfied consumer needs are still very large. This is particularly true of the demand for durable consumer goods and for housing. For example, there are about three million more families in the United States than at the time of Pearl Harbor, but fewer automobiles. With real per capita income substantially above the level of the time of Pearl Harbor, the number of cars which the community would like to own is considerably larger than the number which it owned at the time of Pearl Harbor. Although the number of families has increased by 3 million in the last six years, the number of dwelling units has increased by about 2 million. With the rise in real incomes, the public demands better housing. Little has been done to raise the quality of housing to the quality which people with present incomes expect. About one-fifth of the housing units need major repairs, about 30% have no running water; and about 45% no private bath or shower. A long time will be required before the quality of the country's housing has been adjusted to the recent advance in real per capita incomes. Incidentally both the experience of this country in 1921 and the experience of Britain in the thirties show that the demand for housing is surprisingly independent of the state of business—at least when the need for housing is considerable.

(3) Consumer indebtedness is still very low in relation to consumer incomes. At the present time consumer indebtedness is only about 6% of disposable income in comparison with 12% in 1940. An early recession would see little drop in consumer indebtedness and might have only the effect of retarding the increase in consumer indebtedness.

(4) Consumer expenditures are still low in relation to their holdings of cash and bank deposits. Expenditures depend upon income more than upon holdings of cash and bank deposits, but the fact that expenditures are low in relation to cash and bank deposits means that a drop in incomes would produce a less than usual drop in expenditures.

(5) Inventories are still very low in relation to the volume of sales. Indeed, to make manufacturers' inventories as large relative to sales as they were in 1939, these inventories would have to be increased by over one-fifth or $4.8 billion; wholesale inventories by one-third or $1.4 billion; and retail inventories by nearly 50% or $4.3 billion. In short, to bring inventories up to the same ratio to sales which they had in 1939 would require an increase of over $10 billion. A recession is not likely to be materially aggravated by a drop in inventories from present levels.

(6) The rate of private construction is low in relation to the gross national product—representing less than 5% of the gross national product in comparison with almost 7.7% in 1929. A recession is not likely to produce a drop in construction from the present low levels.

(7) The accumulated need of business for more capital is very great. During 10 years of war and depression, the consumption of capital exceeded the additions to capital. During the entire 17-year period, between 1929 and 1946, there were only five years (1929, 1930, 1937, 1940, 1941 and 1946) when capital formation substantially exceeded capital consumption. As a result, the unused life of the plant and equipment of American industry is no greater today than it was 17 years ago. In the same period, employment has increased by over 12,000,000, or nearly one-fourth. Hence, there is considerably less capital per worker in industry now than in 1929 or in 1940. Indeed, to raise capital per worker to the level of 1940 would require an investment of about $43 billion. Capital per worker, however, has been growing at the rate of about 2% a year. In order to raise capital per worker to the amount indicated by the long-term trend would require an investment of about $75 billion. American industry is grievously short of capital and will be for some years to come.

V.

Is the country likely to be able to make the transition to more normal conditions without an ultimate recession or depression? If a recession is avoided during the next year, will the ultimate adjustment be more severe? Some highly respected authorities think that the postwar boom is bound to lead to a substantial recession. For example, the London "Economist" of May 31, 1947, says: "It will be very surprising, not to say unnatural, if the present feverish pace of business can be replaced by a rather more sober stride without an intervening adjustment of some severity."

Four present or prospective developments greatly increase the danger that the present boom will ultimately end in a severe recession.

The first of these developments is the current expansion of bank credit—commercial, industrial and agricultural loans. Such loans, though still small relative to the volume of business have recently resumed increasing. Between July and the middle of September the commercial, industrial and agricultural loans of the reporting member banks increased from $11.8 billion to $12.7 billion. In addition, total consumer credit continues rapidly to expand. At a time when the ocnomy is producing at capacity, an expansion of credit simply gives people more dollars to use in bidding up the prices of goods. Thus the current expansion of credit tends to increase the adjustments which will ultimately have to be made. The expansion of credit also means that during a period of contraction part of incomes will be used to pay debts rather than to buy goods—thus aggravating the severity of the contraction.

A second development which would increase the danger that the boom will be followed by a severe recession would be an early reduction in the personal income tax, Congress is pretty certain this winter to resume its efforts to make immediate reductions in taxes and is likely to succeed. A reduction in the personal income tax, however, while demand still exceeds supply, would in the main increase the already excessive demand for goods and would thus keep up prices or raise them still further. The principal immediate beneficiaries from a reduction in the personal income tax would be the farmers and business corporations. They would get more for the goods which they have to sell. Individual tax payers, however, would lose in higher prices a large part of what they save in taxes. In the long run, the whole community would suffer because the eventual adjustment to lower prices would be more painful. The time to reduce taxes is when business contracts, not when the demand for goods exceeds output.

A third development which would increase the danger of an ultimate severe recession would be a third round of wage increases this winter or spring which exceeds recent gains in output per manhour. The rising cost of living puts trade union leaders under strong pressure from the rank and file to ask advances in wages and the great demand for goods puts trade unions in a strong bargaining position. So long as demand exceeds supply and the economy is operating at capacity, however, higher wages simply give the workers more money with which to buy a given quantity of goods. Hence, the workers lose in higher prices what they gain in higher wages. The effect of higher wages upon prices would be particularly undesirable in the case of farm products, which are already dangerously high in price. A substantial part of any wage increase would go to buy food, but during the next few months the available supplies of most kinds of foods will drop. Hence, further wage increases would raise the prices of food still further. The principal beneficiaries of higher wages would be the farmers. The community, however, in the long run, would suffer because the adjustment to normal supplies of farm products would be made more difficult and more likely to result in accumulative reductions of incomes.

Finally, the danger of an ultimate severe recession would be increased if aid to Europe were financed in part by an expansion of credit in the United States. This is not necessary, but it is likely to happen.

Great as is the danger that the postwar boom will be followed by a more or less severe recession or depression, one should not assume that business and government can do nothing to prevent or mitigate a recession. Much can be done and the time to act is now. Business can help avert an ultimate depression by the following methods:

(1) Avoiding wage increases which raise cost per unit of output except where the wage advance is needed to correct inequities. This means that the third round of wage increases should not ordinarily be permitted to raise payrolls faster than output advances. The reasons for this were indicated above.

(2) Keeping inventories down to present low levels. The smaller the volume of inventories the less business concerns will be able to live off of inventories during a recession and the less, therefore, will be the cumulative growth of a recession.

(3) Avoiding dividend increases, except those required by equity, such as increases to restore the prewar purchasing power of dividends. Dividends should not be permitted to contribute unduly to the present excess volume of consumer purchasing power. Account, however, should be taken of the fact that the purchasing power of dividends of many companies is still far below prewar.

(4) Financing capital needs by plowing back earnings or by borrowing from insurance companies or savings banks rather than from commercial banks. Borrowing from banks is peculiarly inflationary because it produces an expansion of demand deposits. Hence, under present conditions it should be avoided as far as possible.

(5) Restricting extension of credit to customers as much as possible. Such extension helps inflate the demand for goods and thus to put upward pressure upon prices.

(6) Keeping prices well below the levels which present demand would justify. I realize that this is a controversial suggestion. One may well argue that the less customers have to pay for automobiles, radios, household furniture, clothing, shoes, hosiery and other items, the more they will have left to spend for food and the higher they will bid for the price of foodstuffs — the very prices which are most dangerously high. Hence, one might argue that the way to keep down the price of food is for industry to charge all that the traffic will bear for nonagricultural products. The weakness in that procedure is that it leaves the economy too vulnerable to an eventual cumulative contraction. It is better to make a more direct attempt to keep down food prices and to keep nonagricultural prices well below the levels which present demand would justify.

(7) Intensifying efforts to raise output per manhour. This means more goods available for a given disbursement for labor and raw materials. The index of industrial production in July, 1947, was virtually the same as in August, 1946. Manhours, as indicated by employment and weekly working hours, were slightly greater in July, 1947, than in August, 1946. This seems to indicate that there has been a drop in output per manhour. The figures are probably misleading, as over-all figures often are. Nevertheless, the increase in output per manhour has been unsatisfactory and will continue to be unsatisfactory until industry is supplied with a better flow of raw materials and more adequate transportation.

The government can help avert an ultimate depression by the following principal methods:

(1) Encouraging voluntary reduction of the consumption of those food products which are most needed for European relief. Unless there are substantial hoards of food in Europe which can be released in the near future, western Europe will have less food in the next few months than it has been having. The United States should decide how much food it is not going to conume in order that Europe may have more. If the division of food by the United States and Europe is settled by competition rather than by voluntary reduction of consumption by Americans, food prices will remain up and may be pushed higher.

(2) Postponing the reduction of taxes until the upward pressure on prices has been clearly diminished. As I pointed out above, high taxes are needed to limit the volume of incomes available to be spent on consumer goods. They are also needed to make it unnecessary that European aid be financed by an expansion of credit.

(3) Pushing vigorously the sales of government savings bonds. Buying government savings bonds is one way in which most individuals can now eat their cake and keep it. The more money they spend for bonds, the less is the upward pressure on prices. They are able to buy the same quantity of goods at lower prices and to increase their holdings of liquid assets—assets which they will be glad to have available some time in the future. Of course, purchases of government savings bonds out of current income by individuals reduce the incomes of farmers and the profits of business enterprises. In the long run, however, even the farms and business concerns are probably just as well off because large sales of government savings bonds this year will mean a milder recession some time in the future.

(4) Moving at an early date to help some European countries, particularly France and Italy, stabilize their currencies. An early restoration of confidence in currencies would undoubtedly bring to market new supplies of goods, particularly much-needed agricultural products.

(5) Putting banks under constant pressure to maintain their reserves, thus preventing any appreciable over-all expansion of commercial, industrial, agricultural, real estate and consumer loans. The reasons why loans should not be expanded when industry is producing at capacity is self-evident. Unfortunately, it is by no means clear that the government will be in a position to put the banks under pressure to maintain their reserves. Certainly the government will have difficulty in doing so if Congress reduces taxes, because the surplus in the cash accounts of the government will then be largely, if not entirely, wiped out. Indeed, large-scale aid to Europe may eliminate the surplus even if there is no reduction in taxes. In that event, the government would be dependent upon sales of government securities to individuals, insurance companies and other real savers for an instrument to prevent the expansion of bank credit.

(6) Encouraging an early increase in imports. The sooner that imports begin to rise, the more gradual will be the decline in the country's export surplus and the smoother, in consequence, will be the adjustment to it. Even countries which are producing most goods at less than the prewar level have some items which they are well prepared to export provided markets are available. The United States has gone to great extremes in shutting the rest of the world out of the American market and thus eliminating the ability of the rest of the world to buy from the United States. Overlooked by most Americans is the fact that American industry is the most productive in the world. With about 6% of the world's population, the United States produces well over one-third of the world's goods. A country as efficient as the United States needs to proceed with great caution in imposing tariffs. Prompt negotiation of additional reciprocal agreements could open substantial parts of the American market to foreign sellers and hasten the decline in this country's huge export surplus. In particular, it would be desirable for the United States promptly to negotiate trade agreements by which France, Italy and other western European countries permit American wheat to enter on favorable terms in return for concessions by the United States on wines, lemons, olives, woolens, cotton goods, gloves, cutlery and other articles. America is better able to raise wheat economically than most western European countries. Before the war, some of these countries were supplying themselves with wheat at very high cost. Opening the western European countries to American wheat on favorable terms would be especially helpful to the United States in adjusting its economy to the ultimate rise in world agricultural output. It should give support to one of the commodities which is most likely ultimately to need support.

Each day the opportunity to prevent the postwar boom from ultimately producing a substantial recession grows less. For example, whatever is done within the next two or three months to weaken the upward pressure on prices will help to limit the size of the third round of wage increases and therefore to limit their effect in holding up food prices. Particularly valuable would be a moderate drop in food prices within the next several months. Prompt and vigorous action in sponsoring a voluntary reduction in food consumption, in increasing the number of regular buyers of government savings bonds, and in restricting the expansion of bank credit can bring about some weakening of food prices. The present policy of drift, however, simply permits the economy to build up conditions which make a severe recession more and more difficult to prevent.

A Revised Foreign Policy

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foreign policy, but most people do not realize that it has covered a very limited field. It has really extended only to Senator Vandenburg's participation in the formulation of the United Nations Charter, in negotiations with European nations regarding peace in Europe, and in the regional agreement with South American nation. In these fields Senator Vandenberg has taken the lead and accomplished results which could never have been reached without his sound judgment and force. But in most other fields of foreign policy even he was not consulted until the policy itself had been formulated and was ready to be announced.

Thus in the matter of the Greek loan and the Marshall Plan, the Republicans were called in only to be asked to go along with a policy already adopted. The Republicans were not invited to have any part in the policy in China, the policy in Germany or the policy in the Argentine. Nor, of course, was any Republican in any way responsible for the fatal mistakes made earlier at Teheran, Yalta and Potsdam.

In spite of the lack of cooperation on the part of the President and the State Department, the Republicans, since they have controlled Congress, have tried not to rock the boat or upset any reasonable effort to correct past errors. They have supported the United Nations. Since the Russians indicated their unwillingness to accept the spirit of the United Nations, and their intention to veto all important actions, the Republicans have opposed any concessions to Soviet Russia.

In my opinion, current foreign policy as far as possible should not be a subject of partisan debate, and the Republicans have not made it so. But it certainly is the function of the opposition to point to the serious errors of the past and the philosophy of government which brought them about. Foreign policy must be judged by its results, and the results of the foreign policy of the Administration during the past three years have created a situation as bad or worse than that which existed before the war, and have brought the world to a state of economic collapse.

Certainly the Administration whose policies have produced these results has no basis for appealing to the people for further confidence on the ground that they are peculiarly fitted or fitted at all to administer foreign policy.

We could have had only one justification for entering the war, a war we really entered long before Pearl Harbor. That was not because we desired to reform the world, but because we believed that German success would ultimately threaten our own freedom. After the magnificent work of our armed forces, backed by our industrial and agricultural production, we had only one real interest. That was to insure through an organization of nations that no nation whatever should again undertake to conquer the world, and in particular, that such restraints be imposed upon Germans and Japanese production as would prevent their rearming.

Atlantic Charter Abandoned

Of course, having become involved in the war, we had the responsibility of seeing that the new world started on a basis of freedom, justice and equality. This was the essence of the Atlantic Charter, a joint declaration by Franklin Roosevelt and Winston Churchill, formally transmitted to Congress by the President as the policy of his Administration.

The second clause of the Atlantic Charter stated that we desired to see no territorial changes that did not accord with the freely expressed wishes of the peoples concerned.

The third clause stated that we respected the right of all peoples to choose the form of government under which they would live, and wished to see sovereign rights and self-government restored to those who had been forcibly deprived of them.

The fourth and fifth clauses expressed our intention to further the enjoyment of all states, great or small, victor or vanquished, of excess, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity, for the purpose of securing economic advancement for all.

The sixth and seventh clauses looked towards a new league of nations.

Beginning, however, at Teheran, we gradually abandoned most of the ideals stated in the Atlantic Charter until today the attainment of many of them is impossible. We have won the war, but we have lost the peace.

Attitude Toward Russia

Until Senator Vandenberg entered the picture, our attitude toward Russia was one of complete surrender. We gave them billions in goods under Lend-Lease, without a condition looking to the postwar world. We seemed to feel that we had to beg Stalin to continue the battle against Germany, and accepted his view of military strategy in attack, which gave him the Balkans with Tito as the recognized leader in Yugoslavia. Later we seem to have insisted on Russia entering the Japanese war, when the entrance proved to be unnecessary, and has only resulted in turning over Manchuria to Russia. President Roosevelt apparently felt that if Mr. Stalin received military aid and kind treatment from England and the United States, he would be transformed into an angel of light, bringing freedom to the world. This was the attitude clearly shown in the President's interviews with Forrest Davis, published in "The Saturday Evening Post," referred to as the "Great Design."

This attitude at Teheran, at Yalta and at Potsdam was promoted apparently by the basic New Deal philosophy which influenced the whole Administration. The general attitude, as exemplified in the influence of the late Mr. Harry Hopkins, was a very friendly one toward communism. Many New Dealers would not go along with Mr. Henry Wallace, who felt that communism was merely another form of democracy, perhaps a little better form than our democracy; but there were a lot who did have that attitude.

Others doubted, but yielded to the party philosophy. Remember how very soft they were toward the admission of Communists into government departments? Certainly Communists were there, or President Truman would not finally, two years after V-E Day, have requested $50,000,000 to get rid of them. We can see now what a complete misconception of the whole Russian character and the character of communism was involved, in the concessions made, and in the failure to exact guarantees regarding the postwar world. Those concessions, to anyone who understood the Russians at all, were certain to make Stalin the dominant figure in Europe and give powerful support to the cause of communism and to totalitarianism throughout the world.

The Administration apparently did not even suggest that Lithuania, Latvia and Estonia, under the Atlantic Charter, were entitled to have their sovereign

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A Revised Foreign Policy

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rights and self-government restored.

We recognized the right of the Russian Army to occupy the Balkans, and also Berlin and Vienna, which gives them today their powerful hold in Europe. With feeble protests, we turned over a large part of Germany to Poland in order that Poland might be compensated for territory desired by Russia, thus agreeing, in effect, to territorial changes contrary to the wishes of the peoples concerned, in violation of the second clause of the Atlantic Charter. We actually withdrew our troops from territory we occupied in battle in Germany, occupied by us partly because the Russians were so busy seizing all of Southeastern Europe except Greece.

The results of the New Deal policy are seen today in the occupation by Russia or large sections of Baltic, German and Polish territory, and their effective domination by force of Austria, Hungary, Bulgaria, Rumania, Yugoslavia, and large sections of Manchuria. Of course, it has made it infinitely more difficult to build a world state on a foundation of free nations when so large a section of the world is governed by a foreign oppressor. Any world state must be based to a considerable extent on a maintenance of the status quo if war is to be avoided. If that status quo contains fundamental injustices and oppressions the task of the new organization is almost impossible. It is contradictory to talk about the Security Council preventing aggression when aggression on a major scale has already occurred.

Dealings With Germany

Our dealings with Germany have been equally a repudiation of our ideals and of the Atlantic Charter. I think it is fair to say that our policy has been dominated primarily by vengeance and a desire to punish for the policies which caused the war. That is a very natural feeling which has tended to dominate every nation successful in a major war, but it has never produced any good result. We had in this country after the Civil War the most striking example of its futility and its tragedy.

In effect, we adopted the Morgenthau plan. It was suggested in the Yalta conference, but it was for all practical purposes approved at Potsdam by President Truman in the text released on Aug. 2, 1945.

The policy of the occupation was designed expressly to convince the German people of their criminal responsibility and to reduce them to a level of subsistence only. Production of all important manufactured goods was to be prohibited or limited, with the exception of coal. Payment of reparations in kind was to leave enough to enable the Germans simply to exist without external assistance. Millions of Germans were to be deported from eastern Germany and thrown into the rest of Germany to feed and support. Germans were to be educated in democracy and taught to abhor Hitler—a good idea if it could be done.

The policy at Potsdam was carried out by a directive issued to the Commander in Chief of Occupation in April, 1945, known as JCS 1067. Thereafter, in spite of constant disavowal that we were enforcing the Morgenthau plan, this directive, which was in effect the same thing, remained in force until this year. It finally came to an end on July 15, 1947.

The policy was a repudiation of the Atlantic Charter promise that all nations, including vanquished nations, should have equal treatment from an economic standpoint. It was also utterly futile unless we were going to govern Germany forever. That always was impossible. Ten years from now the Germans are bound to be governing themselves even though foreign troops remain to prevent rearmament.

If the destruction suffered by Germany in the war was not enough to discredit nazism, certainly it would not be more discredited by harsh treatment for a few years by armies of occupation. In fact, attempted education by foreign invaders is more likely to produce the very opposite result from that which is sought. The policy of extreme denazification down to the smallest units can have no possible effect once we have left Germany, and in the meantime deprives the nation of the services of nearly all Germans trained in government in those routine activities of local organization, so necessary to economic recovery.

The result has been to keep the German people so short of food that many of them believe that starvation is our deliberate intention. It has been to deter all economic recovery so that it costs us $600,000,000 a year simply to bring the German diet up to a subsistence level.

I remember several years ago in a committee hearing, I asked Mr. Morgenthau how he thought Europe could be prosperous if a nation of 80,000,000 in the midst of Europe was reduced to an agricultural subsistence. His answer was that other countries around about Germany would quickly develop the necessary industries. I expressed doubt, but he was convinced.

"Utterly Unrealistic"

Of course he was utterly unrealistic. Not only has the policy deprived the rest of Europe of many products which could be manufactured in Germany, but it has deprived them of a market for their own exports. It has, thus, completely upset the economy of Europe and now we are called upon for taxes from our taxpayers to remedy the breakdown.

There is only one way in which Germany can be effectively controlled. That is to control the production of a limited number of essential products. The Vandenberg plan proposes that we remain in Germany indefinitely, but only to prevent rearmament. If that is the ultimate practical plan—and I believe it is—there is no reason why it should not have been adopted from the beginning of the occupation and German recovery promoted, so that its people might move toward the equal economic conditions promised by the Atlantic Charter.

The result of our whole policy, furthermore, has been to destroy the reputation which we had acquired in the world for justice and fair dealing. Until this war the United States had been looked upon in Europe as a disinterested party. But today we are regarded as another imperialistic nation acting in our own selfish interest. A recent poll shows that one-third of the British and a larger percentage of the French believe that America desires to dominate the world.

We have failed to keep our promises to many people yearning to be free. We have failed to keep our promises to the world regarding Germany.

I do not see how we can hope to secure permanent peace in the world except by establishing law between nations and equal justice under law. It may be a long, hard course but I believe that the public opinion of the world can be led along that course, so that the time will come when that public opinion will support the decision of any reasonable impartial tribunal based on justice. Our general attitude has been one of policy and expediency instead of law and fair dealing. Again I believe this attitude derives from the domestic policy of recent years which has proposed to turn over all discretion to deal with any serious problem to administrative boards unrestrained by definite statutes and unrestrained by court review. That domestic policy derided a government of law and glorified a government of men unrestrained by law or justice to individuals.

I believe our most creditable efforts have been that of establishing the United Nations, and the new Inter-American treaty. There we have made a serious attempt to keep our promises. There we have created a forum in which the problems of the world likely to lead to war can be discussed and brought out into the open, and at least partially solved. The Inter-American treaty, credit for which must go to Secretary Marshall and Senator Vandenberg, offers even more hope of future peace. It sets an example which may ultimately be extended to the entire world.

Turned to Force as Basis of Peace

Even in the United Nations Charter, however, and particularly in its first draft, we forgot about justice and turned to force as the basis of peace. All of the emphasis is on the powers of the Security Council to police the world. The Charter is not based primarily on a system of law or the administration of justice. Its plan is like one of setting up vigilantes to punish crime without a criminal code. The Security Council is required to make such decisions in its final use of force as will maintain peace and security, without any express reference to justice. Of course, the two are not synonymous.

Case of Poland Cited

In theory, the Security Council acting in full compliance with the Charter could take territory from one nation to which it justly belonged and give it to another because it felt that such action would produce peace. Thus Mr. Chamberlain agreed to the transfer of Sudetenland to Germany. In theory the Security Council might find that the destruction of an entire nation would tend to a more peaceful world. Poland for instance has always been a bone of contention between other nations. By substituting the maintenance of peace and security by force for law and justice, we authorized the basing of decisions on expediency, and for expediency there are no rules which cannot be changed to fit the facts of the particular case.

It is astonishing that the original draft of the Charter at Dumbarton Oaks contained practically no reference to justice whatsoever. Through Senator Vandenberg's strenuous efforts, numerour references to justice were inserted in the final draft, but I do not believe that they extend to the Security Council in its use of force. The new emphasis on justice will certainly justify us in using our veto power whenever we think it necessary to prevent unjust decisions. By that course I believe we can develop a practice in accord with ideas of law and justice.

In the long run, however, peace in this world can only be effected by a law agreed to by all nations, a court to interpret that law, and a police force to enforce the law. Until that occurs it is hard to see how we can surrender our veto except in limited fields covered by very specific definitions. Yet, as long as the great nations retain their veto power the Security Council cannot prevent a major war.

Economic Steps Criticized

The dealings of the Administration in the foreign economic field have certainly not tended to produce world stability. We hastened into a theoretical plan for an international fund and an international bank costing us $6,000,000,000. We were assured it would bring economic stability to the world. Even assuming its principles were sound, which I have always questioned, it was a complete waste of funds to set it up before we had created a world in which it could effectively operate.

Subsequently we found that the Bretton Woods agreements did nothing whatever to meet the real crisis in Europe, and contrary to the assurances of the Treasury at the time we were considering Bretton Woods, we had to make a direct loan to Great Britain. Now we see that that loan has failed largely of its purpose. In the Bretton Woods agreement, we forced the British Empire to agree to give up various established trade relations which they considered essential for their own economic life. No doubt our planners thought we were benefiting the world, but the British feel we were forcing them to buy American products they did not desire.

In the British loan agreement, we insisted upon sterling being made convertible into dollars. It proved to be the last blow to the British economy. We have created the impression that we are desirous of forcing American economic control over the entire world and particularly imposing on all nations the Hull-Clayton theory of free trade. I don't think the charges are remotely justified, but they come about from an itching desire on the part of the Administration to tell the rest of the world how it shall run its affairs.

As I see it, the Administration was dominated by the "Mr. Fix-it" philosophy of the New Deal. Just as the New Dealers wanted to run the lives of all citizens and improve them whether they wished to be improved or not, so have they tried to use our financial resources to force on the rest of the world the manner in which they shall conduct their foreign exchange, their foreign trade, and even their currency and other domestic affairs. No doubt we have acted in good faith in supporting an international control of international trade, but to Europe it looks like an American control trying to boss their affairs.

Our Foreign Policy a Mess

I maintain, therefore, that outside the actual conduct of the war, we could not have made a worse mess of our foreign policy than we did. The only bright spots are General MacArthur's conduct of the occupation of Japan and the establishment of the United Nations and the recent agreement signed at Rio. True, Senator Vandenberg and the bipartisan policy finally reversed our whole attitude toward Russia to one of firmness, and was responsible for reversing our policy in Germany. But even in these restricted fields the bipartisan foreign policy was up against handicaps previously imposed, which have, up to now, prevented any solution of those problems.

It may be asked, what is the Republican foreign policy? I have said that under a Democratic President its keystone is cooperation. I have tried to point out that foreign policy should not be partisan. Of course, when we reach the time of the Presidential election, it will be incumbent on the Republican party to state the manner in which it will conduct the country's foreign policy, but in the meantime I see no reason why it should do more than declare certain general principles and oppose measures which it considers completely dangerous to the welfare of the country. Even when a Republican President is elected, we must recognize that there is no panacea to solve the present confusion from past error.

But certain general principles can be stated which have succeeded in the past. My own belief is that the guiding principle of any foreign policy should be the maintenance of peace so long as conditions do not threaten the freedom the people of the United States. In my opinion, that has not been the guiding principle of our foreign policy in the last fifteen years. Short of the loss of freedom, war is the greatest destroyer of all ideals. This war has cost us three hundred thousand lives, hundreds of thousands of permanently disabled, and the happiness of many families. It has cost us $250,000,000,000 of debt. It has imposed upon us a current financial budget for interest, veterans, armed forces and foreign aid so heavy as to threaten the successful continuation of a system of free enterprise. It has brought destruction to many parts of the world.

In the end that destruction must injure us also. Successful though we were in all the military phases of the war, we face a condition in the world today not much less threatening than existed in 1940. Even the nation that wins a war, loses the war. That nation must abandon at least temporarily the very freedoms for which the war is fought; and once abandoned we have found that those freedoms are not easy to recover.

A Policy Built Around UN

I believe our foreign policy should be built around the United Nations, changing the whole emphasis of the organization to the establishment of law and equal justice under law. Only then could we consider the abandonment of the veto power. I do not see how we can abandon our own veto power, and thereby give a majority of the Security Council the right over our objection to carry through an unjust attack on the United States or any other nation. There must first be a law written and agreed to by all dealing with the subject on which the veto is waived. That is not impossible. A beginning has been made to writing a definition of aggression at Rio de Janeiro. The American Legion has proposed a number of amendments to the Charter moving in the direction I have indicated.

Of course, we face a situation in the present Russian attitude which makes progress along this line difficult. If it becomes impossible, if Russia in effect withdraws from any real participation in effective action by the United Nations, I believe we should proceed without Russia to perfect a United Nations which will operate in a limited field. We have perfected such an organization with the Latin-American nations, which may serve as an example to the rest of the world. But I am hopeful that in time there may be enough agreement with Russia to permit effective operation of the present United Nations in many fields.

I have not believed that Russia intends, or desires, a conquest by force of arms of additional territory to that occupied during the war. I have not felt—for the present at least—that Russia desires a fighting war, or would give serious consideration to it. I do feel that Russia desires to make communism the accepted form of government, both in occupied territories and throughout the world. I do not believe we should yield to Russia in any way in its plan for spreading the Communist philosophy.

Communistic Aggression

In communism we face a curious form of aggression. But outside the power of the Russian Army limited to Europe and Asia, it is the battle of ideologies. We cannot fight the ideology of communism with soldiers. War in itself creates a condition favorable to totalitarian government, and, therefore, to communism.

In general, the battle must be fought out in each country by the people of that country. Undoubtedly the conditions are more favorable for communism in countries having severe economic hardship, and so in that field we can be helpful with loans and other assistance. But let us not overestimate the power of our money. Certainly, our money cannot rule the peoples of the world. I was willing to try a large-scale use of money in Greece to maintain the status quo during the peace negotiations, but we might as well recognize that the Greek type of experiment is impossible in Italy and France because of the tremendous scale on which money would have to be poured in. It might well produce more hostility to the United States, and more arguments for the Communists.

But one thing is certainly clear. We should meet communism first here in the United States, bring it out into the open and eliminate its influence. If we can't meet it successfully at home, how can we hope to meet it in Europe? Our leaders should speak out in behalf of the American system and get away from the inferiority complex about it we have seen in recent years. The New Dealers really attacked the basic philosophy of American government, its belief in individual and local freedom, in competition and in reward for incentive. They echoed the arguments of Moscow against it, and wanted to move our system well over toward that of Russia. The time has come for leaders of all our parties to point out the merits of the American system, and the principles behind it.

A Policy For Germany

In Germany, we should speed up the present tendency to reverse the Potsdam plan. We should help the Germans develop an economic system which will support them without assistance from this country. We should work out at once, and announce, the limitation and nature of the controls required to prevent the development of another war machine. We should also work out the amount of coal and other current production which can properly be required in the nature of reparations. Within those controls and requirements, the Germans should be allowed to develop their own economy regardless of competition with other nations, and with the same freedom of access to raw materials which the other nations have.

In Japan we should proceed to make peace as rapidly as possible and with controls to insure against the development of armament, a much more simple matter in the case of Japan than Germany. We should permit Japan to support itself like any other nation.

We might as well face the fact also if we are going to keep any nation at a lower standard of living than the rest of the world, it will soon learn to produce more cheaply than other nations and compete with us throughout the world. We might well return to the principles of the Atlantic Charter and recognize that our policies should be directed as far as practicable toward raising the standard of living of every nation, including the conquered countries.

The Marshall Plan

In the economic field, we have had proposed to us the so-called Marshall Plan, which is not really a plan at all, but only a combination of suggestions. The first suggestion is that European nations try to help each other before asking the United States for help. That certainly is a reasonable proposal, but we have heard little of any effective proposals to that end from the conference in Paris. If such self-help can be worked out by a customs union, it should rebound to the development in each country of that production to which it is best suited. I still hope that we can reach an agreement with Russia regarding a unified Germany. If that is not done, then the rest of Germany outside the Russian zone should certainly be integrated into the economy of western Europe.

When it comes to our part in the Marshall Plan, however, there are certain principles which must govern its application. We cannot afford to go on lending money on a global scale. These loans in all human probability will never be repaid. They are gifts to other countries of our labor, and our natural resources, of which we have none too great a supply. They are paid for by heavy taxes on American production and American workers.

I have always felt that we should help the nations whose economy was destroyed by war to get on their feet. We should give them the machinery and the raw materials necessary to set the wheels going. We have to continue to ship food to prevent starvation, and some additional food to tide them over at a reasonable standard of living, until the machinery does move. But I believe our loans should be made to specific countries for specific purposes and only to pay for goods shipped from the United States.

This year we have in our budget some $4,000,000,000 to finance foreign shipments. I would hope that our annual contribution might be gradually less until it is entirely eliminiated in a period of about four years. In the meantime, the International Bank is in operation with resources of $8,000,000,000 or more and can be of further assistance, such assistance incidentally coming almost entirely from the United States.

No Foreign Bounties

In the long run, no nation can live on the bounty of another nation. It can only permanently enjoy a standard of living produced by its own earnings or reasonable hope of future development. I think we overestimate the accomplishments to be secured by a few dollars from outside compared to the international organization and management of any nation by its own leaders. Certainly we wish to help, but an international WPA would fail to solve the problem of world work just as it failed to solve unemployment in the United States. I do not believe that America can save the world with money. We can only help the world to save itself if it wishes to be saved and makes its own utmost effort.

Of course, in this intermediate period, we must maintain a strong Army and Navy, and while the Russian attitude remains what it is we had better retain the atomic bomb. I do not sympathize with those who say that our Army and Navy have fallen to pieces. They are still the most powerful in the world, unless we want to fight the Russian millions in their own back yard.

If we can't maintain adequate armed forces with an expenditure of $10,500,000,000 a year, then we must have a very inefficient management of the Army and Navy. We know that is not so. We want the most expert Army the world has ever seen to meet the contingencies of modern warfare. We want the best research for military purposes, and we want the best organized intelligence service. This Congress has already unified the armed services and has provided a system of promotion in the Army and an intelligence service which should tremendously improve the efficiency of our defense.

American Interests Should Be Preserved

In conclusion, our foreign policy should be the expression of the interests and ideals of the American people. It should express first our determination to maintain peace if at all possible. It should express a determination to join with others in opposing aggression by other nations in order to preserve peace. It should express our interest in an international organization to prevent aggression. It should not interfere with the kind of government other nations wish to have, nor with the economic policy they wish to pursue if it is reasonably fair to us. The United States does not want to be a busybody. We don't want to develop an era of American imperialism. Somehow our people don't like to boss other people, just as they don't like to be bossed—and so they are not good at the job. We can never make a success of imperialism because we are not imperialists.

We must stand up for our system of individual and economic freedom, and point out the dangers of a totalitarian world. If we can show that this country can maintain freedom and the highest standard of living in the world under the American system, it will not be many years before the example set will be followed by every other nation.

Halsey Stuart Group Offers Telephone Bonds

Halsey, Stuart & Co. Inc. and associates offered to the public Oct. 1 $40,000,000 New England Telephone & Telegraph Co., 35 year 3% debentures due Oct. 1, 1982 at 101⅝% and accrued interest. The group won the award of the debentures at competitive sale Sept. 30 on a bid of 100.8091.

The company intends to apply the net proceeds from the sale toward the payment of $43,000,000 borrowed from its parent, American Telephone & Telegraph Co., on demand notes for the purpose of partly meeting construction requirements and to restore to its treasury monies already expended for this purpose. The company presently is engaged in the largest construction program in its history, which is expected to necessitate the obtaining of substantial amounts of additional capital over the next few years.

The company, which furnishes local and toll telephone service in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, on June 30, 1947 had 1,970,097 telephones in service and its subsidiaries had 12,090, making a total of 1,982,187. On that date the company was furnishing local service in 591 exchange areas, of which nine, with a total population of 723,000 are in the City of Boston.

The debentures will be redeemable on at least 30 days' notice at prices scaled from 104⅝% to par in 1977, plus accrued interest in each case.

On consummation of the financing the company's outstanding capitalization will comprise $135,000,000 in funded debt and 1,555,701 shares of capital stock (common) par value $100 per share.

Joins Daugherty, Cole

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — Charles B. Frazier has become associated with Daugherty, Cole & Co., 729 Southwest Alder Street. For many years Mr. Frazier was connected with the Equitable Savings & Loan Association of Portland.

Harrison & Frey Open

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—Harrison & Frey, Inc. is engaging in a securities business from offices in the Southern Ohio Bank Building. Officers are Lenford H. Harrison, President; Theodore F. Frey, Secretary-Treasurer; and Louis Keck, Director.

View of Present Stock Market

(Continued from page 8)

tested 2-month correction from the July high, will reverse its recent trend. The threat of the export collapse will have vanished. The die-hard bears will again have to postpone the date of the oncoming depression.

If my premise be accepted, it will mean that continuance of what has been, in effect, a new industry over the past 1½ years, namely, whatever name you choose to give to the industry whose annual expenditures are measured by our $35 billion budget. Superficially, the purpose of at least two-thirds of this budget is to provide the finance mechanism for keeping a strong over-all defense establishment, to keep atomic research active (for its impression on the rest of the world), and to provide aid to our friends. More philosophically, this huge budget should be considered as the financial means to bring peace to the world. That's the new industry—to convince Russia that we mean business. That business, in collaboration with our present ideological allies, comprising 85% of the world's population, is the effort to protect and preserve the ideals of western civilization by all means within our power. We are not on the point of yielding to the spurious democracy of the Soviets (in reality an oligarchic despotism) by default, timidity, and weakness, but mean to survive against all Soviet pretensions. The starting point of our effort is to restore the productive resources of those 16 nations in Europe, and probably Trizonia Germany, devastated by the war, and who are like-minded, or potentially like-minded in their political ideals.

These are the signs of the times as I read them. My interpretation may be wrong. But I would prefer to base my market policy on the above premise rather than on the premise that we will abandon non-communistic Europe and Asia to the wolves. Again I emphasize, by way of repetition, that our policy, as it crystallizes, will prove to the Soviets by polemics, world-wide education, diplomacy and by example, the superiority of our free institutions in achieving production, raising living standards, and human happiness, through its sheer creativeness, in the belief that this policy will attract converts to our side and contract the areas of adherence, mostly under duress, to the Soviet side.

A Thorough-Going Deflation Impossible

If I were given my personal choice, I would prefer to undergo a sharp, fast-moving, cleansing deflation, for the sake of our morals, hardihood and efficiency, and for a restoration of balance in costs, wages, prices and profits. But I don't believe it is at all likely in the early future. The demand for goods is too great. Fiscally, it is impossible.

In fact, I wish to interject with this theorem which will be anathema to the solid bears. It is simply this: The normal postwar "primary" boom may very well be telescoped into the postwar "secondary" boom without any intervening deflation or depression, other than the settling down that has already occurred in the luxury industries, and the elimination of the absurdities of 1946. I do not think this theorem, which I project as a theorem, and not as a prophecy, is so fanciful as it appears at first blush.

(1) There is nothing given in nature to compel exact historical repetitions. We like to use analogies, hoping to make our work easier.

(2) The government now has a higher vested interest in the level of business than ever before. Any realist knows that if a $35 billion budget is an imperative, then tax collections to cover, are impossible except on a sustained high level of business and of high commodity prices. It is pointed out that taxation absorbs about one-third of the national income. One statistician figures that total taxes per capita per annum are more than food costs per capita per annum, namely $316 versus $302.

(3) Remember that forward of the 1920-1921 deflation-depression, there were eight or nine years of great prosperity. There was plenty of demand. The 1921 depression did not occur because demand was exhausted. We were right on the threshold of the biggest expansion in history in at least four big industries: (a) building construction, (b) utility construction, (c) automobiles, and (d) urban and suburban development.

The Reserve Board's Effect

The primary cause of the 1920 deflation was the old-fashioned, stubborn orthodoxy of the then Federal Reserve Board. To preserve the gold standard, to operate within the statutory reserve requirements against note and deposit liabilities, and to prevent a continuation of a boom that was "out-of-hand" and absorbed increasing amounts of bank credit, those old-fashioned gentlemen, brandished the time-honored, and only effective bludgeon against inflation. They deliberately, wantonly and cruelly permitted discount rates to rise from 3½% to 4%, 4½%, 5%, 6% and finally 7%.

Ask yourselves if the present government will trifle with the market value of its billions of government securities, spoil the prospect of collecting $35 billions in taxes, or endanger its reelection by hoisting interest rates in a like manner.

If asked to guess about the probabilities of this theorem working out in practice, I would say slightly more than 50-50.

I do not look for a high degree of confidence in the markets until some of the domestic and international depressants are lifted. For a number of years, and particularly until the Russian menace is overcome, we cannot expect the level of confidence that existed, say, in the '20s. However, I do expect waves of "relatively greater confidence" and "relatively less confidence" over the next several years. Some increase in confidence is due just as soon as the Marshall proposals begin to take form.

There are a number of factors on the helpful side coming up soon or in the next few months: cashing of the G.I. terminal leave bonds, and payment of G.I. state bonuses, the suspension of credit controls on Nov. 1, the practical certainty of some relief on individual income taxes for 1948. In these industries, I see nothing to prevent capacity operations from one to three years: automobile, electric equipment, building construction, farm equipment, special machinery, steel, rayon yarn.

Old Stocks Cheaper than New Issues

I agree that most stocks are cheaper than any other kind of property or service. Old issues are cheaper than new emissions. The outlook for new emissions of common stock is not very bright until and unless the market for established issues rises considerably.

I close by saying that **stocks would sell higher on lower earnings if there were investor confidence — confidence in the ultimate triumph of world tranquillity, and in triumph of free institutions over despotic totalitarianisms.**

Economic Problems Confronting The U.S.A.—An Earnest Warning

(Continued from first page)

to overlook because we associate them with other doctrines which we cannot now accept without much qualification. There are in these matters deep undercurrents at work, natural forces, one can call them, or even the invisible hand, which are operating towards equilibrium. If it were not so, we could not have got on even so well as we have for many decades past. . . . But in the long run these expedients will work better, and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never really get fit again."

Before I proceed in giving my opinion on the nature of the problems confronting our economy, I wish to dwell on the importance of the moral climate for the proper and smooth working of our competitive economy. I am afraid that the word "confidence" is very often used without people fully realizing its meaning. And yet our system cannot function without confidence. Our individual competitive system is based on risk-taking and competition, which means individual planning for the future. No one is willing to forego immediate advantages and assume risks unless he has hope that the future will vindicate his actions.

We can choose to live in a collectivist economy or in an individual competitive economy. The process which makes the one or the other system tick is completely different. The first one relies on the use of the stick and on the distribution of the national product according to political caprice. The individual competitive system rests on profit and the mechanism of free formation of prices on the market. This implies that all factors contributing to the formation of prices are free to establish their level wherever the market forces drive them. Whether we live in a collectivist economy or an individual competitive economy is a matter of political choice for a nation. But if it is the choice of the people to have an individual competitive system, then we must do everything possible not to hamper its smooth functioning. If we create an atmosphere hostile to profits, and antagonistic to business, and we prevent the free determination of prices on the market-place, we should not wonder that the system doesn't work.

Price-Level After Wars

It is vital at this juncture that we should not make the mistake of confusing factors making for unemployment which have their roots in the war period, and causes of unemployment which have their roots in some disequilibrium, mainly between prices and costs, and in the price and wage structure, or some cyclical temporary disequilibrium between the capacity of production and consumption.

We have inherited from the war period a huge money supply and a considerable rise in wages and all costs, without an increase in productivity. We have a much higher price level than in 1939, and price relationships which are dissimilar from the pre-war ones. It is a well-known phenomenon after wars that when we stop inflating the money supply, the general level of prices tends to fall. I submit that we must expect the same phenomenon happening sometime in the not too far distant future. The important question is how are we going to meet this particular problem? The wages have become rigid, or rather, have only an upward flexibility; it is hopeless, therefore, to expect a return to a lower general level of prices without creating widespread unemployment. It seems to me that one of the specific remedies for this particular problem will be, *properly timed*, the devaluation of the dollar and of all other currencies, or to put it otherwise, a rise in the price of gold as provided for in the charter of the International Monetary Fund. I underscore the words "properly time" because timing is paramount in the application of such a measure if it is to be successful. The proper timing will be after the general trend of prices is unmistakably downwards; in this present situation, after a certain deflation of agricultural prices. The downward pull of prices may have, after this war, particularly devastating effects, not only because I surmise that the break-even point of a majority of American companies is very high, and because the wage level in general has risen tremendously without increase in productivity, but also because of the great burden of taxation which permeates the entire economic body. It is therefore extremely important that considerable attention should be attached to the general price level which has resulted from phenomena due to war and our policies (fiscal, monetary, and labor), and to avoid to whatever extent possible the devastating effects of a general readjustment of the level of prices. A devaluation of currencies, *properly timed*, will provide one of the basic remedies for this specific problem resulting from the war. (I am, however, wondering whether it has not become necessary to restore throughout the entire world a free circulation of gold.) Abnormal credit expansion is not a remedy for this problem, as it has conclusively been proven by the 1929-1933 depression. A devaluation will not by itself correct the situation. One way or another we shall have to tackle the wage problem, or rather the question of wages in those industries making up the bulk of costs in construction, automobiles, and durable goods.

The President's Mid-Year Economic Report

Referring to the President's Mid-Year Economic Report, my main strictures on the report are:

(a) Nothing is said about the price level and profits once the inflationary forces will have spent themselves and Europe will have resumed production on a normal scale. This question is paramount for our country on account of the rigidity of wages.

(b) The undercurrent of the report puts too much emphasis on higher wages as an offset to the rise in the cost of living, while it is evident that many wages and incomes cannot follow the rise in wages to workers in privileged industries. This policy is the more dangerous at this juncture because we are going to be confronted within a year or so (or sooner) with a falling trend of prices.

The Importance of the Wage-Structure to A Mass-Consumption Economy

I, for one, am strongly convinced that we do not put enough stress on the current income relationship of various classes of consumers if we are to get a smooth and abundant exchange of goods and services. Hence, we do not put enough stress on the wage *structure* and on the relation between industrial and agricultural prices. Already in the 1920's and particularly in the 1930's, the agriculturist and the lower-paid third of the population were unable to buy the production of the higher-paid workers. The maximization of production in a mass-production, mass-consumption economy like ours depends on the wage *structure* and on the relation between industrial and agricultural prices. I believe that the wages in the industries which make up the bulk of costs in the housing, automobile, and other durable goods industries are too high, relative to the bulk of the wages and other sources of income. The same is true at present of the agricultural prices. My impression is that during the war and until V-J Day there was a trend toward a better income relationship between the various classes of wage earners; but now we seem to repeat the same phenomenon as in the 1920's and in the 1930's, namely, to bring about an unbalanced wage *structure*, which, in my judgment, is detrimental to a mass consumption economy.

If we are to have a mass consumption economy, we must also be careful to have a wage policy which will permit the spread of the increase in productivity, wherever it occurs, to all categories of consumers. But even more harmful for the health of a mass consumption economy is to increase wages where there is no increase in productivity, as has been done in the most recent wage increases. The best way to spread the benefits of the increase in productivity in our economic system, as it works at the present time, is to lower prices wherever there is an increase in productivity. This is also the best way of redistributing national income. I believe that when we talk about distribution of income, we wrongly place emphasis on the maldistribution of income between wages and salaries versus profits and savings. The more I check the relative importance of the figures of profits as compared with those of wages, particularly in the manufacturing industries, the less I am convinced of the validity of the argument that profits have been or are too high. On the other hand, I believe that one of the most effective ways of distributing the national income more equally and fairly is by a balanced wage-structure and by the reduction of prices wherever justified by an increase in productivity. Another essential condition is a proper balance between industrial and agricultural prices.

The Wage-Structure and Investment

The wage-structure affects also investment and therefore the level of employment. High wages in the housing, automobile and other durable goods industries will become an obstacle to investment and even to the sale of durable goods as soon as the most pressing needs left behind by the war have been filled. The extraordinary and important fact is that our wage-structure is unbalanced to the detriment of both investment and mass-consumption. From the viewpoint of mass-consumption any considerable unbalance in the wage-income relationships is detrimental. But from the viewpoint of investment the most harmful unbalance in the wage-structure is to have high wages in the industries which make up the bulk of costs in the housing, automobile, and other durable goods industries. And this is precisely the situation in the U. S. A. ever since the first World War. No wonder that our country is incapable of recovering an economic balance.

What can we do to correct this situation? The geographical and professional mobility of labor being very low we may decide to break the monopolistic power of a few powerful unions. But this is hardly to be expected in a political democracy like ours. Therefore we may have to look for some other way of correcting this situation. However, only competition in a free market is the pertinent solution of this problem. It is absurd to speak about competition in prices when we tolerate fixation of wages by monopolistic means. Any other solution (and there are such solutions) of this problem by means other than competition in a free market will entail new dangers of a political nature.

On A "Multiplier"

Be it mentioned in passing that each time we increase prices at the manufacturing level, the increase is much higher at the retail level. It is not sufficiently realized that there is a sort of "multiplier" between increases in costs at the manufacturers' level and increases in prices at the retail point of sale. This is due not only to the mark-ups by the retailer which are based on the selling prices of the manufacturer, but also to the selling expenses of the manufacturer, which increase automatically with increases in their selling prices. (See book "Does Distribution Cost Too Much" published by the 20th Century Fund.) Nobody is to be blamed for this spread, or so-called "multiplier" between increases in manufacturers' costs and the increase in selling prices. It is a fact due to the process of distribution and I doubt that much can be done about it in our free society. The consequence of this fact, however, is the "multiplied" danger to our economy when we increase wages without increase in productivity.

On "Constants"

At this point I wish to mention my surprise at the fact that notwithstanding the available statistical evidence, little stress is put on certain "constants" in our economy which are the results of the operation of our free market economy. I think, for instance, that the proportion of wages and salaries to the national income is a constant if due allowance is made for a slow progressive rise to be ascribed to technological progress (a fact mentioned by many British economists like Keynes, Pigou, Hawtrey, Robinson, Barna, etc.). Only in periods of abnormal monetary inflation like during the war, or in periods of acute depression like in 1932 and 1933 are there any substantial changes in this percentage and, even then, surprisingly enough, not very much at that. There are many such "constants" in our economy which are simply the results of the free play of the market economy. We may try to influence these "constants," and sometimes we might succeed. Taxation can be successful, but, for instance, trade unions cannot. But if and when we succeed I am questioning whether it is not at the price of destroying our free market economy or if it does not create disequilibriums of a nature which we keep trying to cure by money and credit inflation and/or deficit spending.

On Price-Distortion

Lately practically all official speeches and utterances by economists speak about "necessary readjustments in the price structure" or "distortions of the price structure," but nobody seems to know exactly what is meant by "economic balance within the price structure," or rather I feel that nobody has thought through the implications of this phrase. Are these "distortions," "necessary readjustments" and "unbalances" relative to the price relations of a previous year like, for instance, 1939? If this is the case, why should the price relations of 1939 be considered normal when at that time there was much unemployment and the government needed to have recourse to deficit spending to balance the budget? If we think through this problem of the balance in the price-structure I feel that we would become aware of the full import of the *wage-structure* and of the relationship between industrial wages and agricultural prices. The price-structure is mainly a reflection of the wage-structure and of the relationship between it and the level of agricultural prices. The economic balance in the price structure is extremely important to our mass-consumption mass-production economy for reasons which I have expatiated on before. Therefore, it would be important, although very difficult, to think of price relationships in terms not of what has prevailed in the past, but of what is necessary to assure a high level of economic activity in the future, without monetary inflation or abnormal credit inflation and/or deficit spending.

High-Income and the Wage-Structure

In the "Mid-Year Economic Report" one reads on page 16:

"Our concern today is not whether the consumers could buy as much as they did during the war. It is rather whether they can buy enough to sustain our economy with maximum production."

And from page 5 of the same report I assume that this means an economy with $225 billions of national production at the present level of prices. The great question, however, is how to attain such a goal without abnormal monetary or credit expansion and without huge deficit spending. I submit that if we wish to get an intelligent answer to this problem we would well first answer the following questions:

What was the cause of the 1929 depression?

What was the cause of the 1937 depression?

Why did we have in 1939 9,000,000 unemployed, notwithstanding the abundance of money, high wages in the powerfully unionized industries, plus deficit spending?

If we are incapable of providing answers to these questions on the basis of the wealth of known facts and statistical material we have, we had better give up any hope of ever being able to restore economic equilibrium and to keep our country in a healthy, sturdy condition.

An Earnest Warning

I wish to sound an earnest warning regarding our present-day wage policies, based on the facts which have surrounded the depression of 1929, and even the one of 1937, and the lessons therefrom. It is often asserted by economists like Hansen, Robert Nathan, John H. Williams, Chester Bowles, Sumner Slichter, and others, that we might have avoided the 1929 depression, or at least have alleviated it, if wages had been higher in the 1920's, particularly after 1926. It is based on the theory that in the period of 1923 to 1929 profits were too high and wages too low. It is interesting to note immediately that in such assertions reference is made to "profits" and "wages" in general, as if all profits had been high and all wages had been low. The truth is that from the point of view of a balanced economy, some wages were too high and some wages were too low. There are a few versions of the theory that between 1926 and 1929 profits were too high and wages too low.

One version alleges that consumption was not high enough and that there was too much investment. Another one is that industry could not find an opportunity for productive investment of the profits made during the period 1923 to 1929. There is a third verion of this theory, the most dangerous one because it contains in my view an element of truth. This version is that because some profits were too high they fed speculation on the stock market.

I share the view that the profits made by manufacturing corporations, chiefly of durable and semi-durable goods, during the period 1927 to 1929, having been high, fed speculation and brought about also huge capital gains, a great part of which were diverted to consumption. The doubtful proposition, however, is that the remedy to this situation would have been higher wages in the privileged industries. The question I raise is whether, in those circumstances, the proper policy would not have been to reduce prices and, better yet, to avoid credit expansion, which would have prevented the dilemma from arising.

My theory is that the price level (expressed in gold dollars) which existed in the United States before 1929 (about 50% above 1914) was abnormal and that its maintenance until 1929 was made possible chiefly by the credit expansion indulged in by the Federal Reserve banks with the purpose of maintaining economic activity and indirectly the price level which we inherited from the first World War and its concomitant inflation. The main worry of the Federal Reserve banks at that time was agricultural prices, because after 1924 they began to feel the downward pull of world production and prices. A rise in wages in the period 1926 to 1929 would have had only the effect of increasing the unbalance existing at that time in the income relationship between various classes of wage-earners and between industrial versus farm prices.

Always and invariably, the proponents of the theory that we should have increased wages (which wages?) after 1926, state the following fact in support of their argument: From 1923 to 1929 productivity per man-hour increased 23%, and wage rates in manufacturing only 4%. What the same proponents never mention, however, is the more significant fact that wage rates were increased more than 110% between 1914 and 1919 without any increase in productivity per man-hour. It took 28 years before 1913 for wages to increase about 50%. (*Natura non facit saltum!*)

Economic Equilibrium

In my judgment the rise in wages from 1914 to 1919 without an increase in productivity is the most significant and important single economic fact of that period. From this economic fact a chain of consequences ensued which led to a fundamental disequilibrium in the American economy. The abnormal increase in wage rates made it necessary to increase or maintain high tariffs. High tariffs made it necessary to support agricultural prices which were pulled downwards by the world price level after 1924. To support the price level, and particularly the prices of agricultural products, the Federal Reserve banks indulged in huge credit expansion. This, in turn, fed speculation. The vicious circle was broken by the great depression of 1929.

The abrupt fall in prices from 1929 to 1933 created a serious disequilibrium between costs and prices. After the devaluation of the dollar, which had been made necessary by our preceding monetary and credit expansion and our wage policy, wages in many manufacturing industries were again allowed to rise substantially more than the increase in the price level. We repeated the same mistake in policy in 1936-37, bringing about the recession of 1937. The economic stagnation and unemployment in the United States during the 1930's can be explained in a much more sensible way by our wage policies than by any other theory. The origin of the mistake in wage policy is to be found in the first World War, when wages increased more than 100% without an increase in productivity; this increase was made possible by the "management" of money. During the 1920's and 1930's the high wage policy in the durable goods industries impoverished the agriculturist and the lower-paid third of the population, which were unable to buy the production of the higher-paid workers. Moreover, after 1930 the high wages in the durable goods industries hampered investment and construction on account of the rise in costs.

The most plausible explanation of the severity of the 1929 depression is that readjustments made necessary by the monetary and economic policies during and after the war were superimposed on a fundamental trend toward the level of prices (as expressed in gold dollars) nearer the one we had in 1914 than the one we inherited from the war.

Our Present Situation

Haven't we recently repeated the same mistakes as those made between 1914 and 1939? Are we therefore not going to be confronted with the same kind of problems we knew in the 1930's, namely, unemployment and a stagnant economy which we had to support by deficit spending and abnormal monetary expansion? This time agricultural prices may keep in better balance with industrial wages than after 1918. In point of fact, for the time being they are too high, and the lowering of agricultural prices would be beneficial to the entire economy. If gold is to remain the foundation of our money, then we shall probably have to devalue the dollar and most of all of the other currencies once the world price level begins to fall significantly. Just as during the last World War, we have increased considerably our average of wages—about 100% since 1939—without increasing our productivity per man-hour. This war also leaves our country with an extraordinary burden of taxation. When prices begin to pull downwards I am afraid that the burden of taxation and the rigidity of our wages, principally of those wages whose level is most detrimental to an equilibrium of our economy, will confront our country with extremely serious problems for which we had better prepare if we can think of any solution.

If we wish to maintain our liberties, then we must seek solutions to our problems which are conducive to an economic balance. Most importantly we should not undermine the soundness of our currency. Debauchery of money is conducive to social upheavels. The secret of a healthy and sturdy economy lies in a sound monetary system and a balanced economy: balance between cost and prices, balance in the income-relationship of consumers. The more an economy is unbalanced, the more we need artificial purchasing power and the greater the deficit-spending and monetary debauchery, which ineluctably culminate in the loss of our liberties.

Is the Stock Market Really Historically High?

(Continued from first page)

under 100." *We believe that this type of historical analysis is fallacious, and therefore misleading.* This conclusion is based on the following considerations:

(1) Similar reasoning, had it been applied say in 1923 or 1924, would have led to the conclusion that stocks were "historically high" when they reached a level of 105 in each of these two years, inasmuch as the Dow-Jones Industrial Average had sold above 110 during only one of the preceding 26 years (in 1919). Furthermore, up until that time, it could have been said that "No bull market has started when the Dow-Jones Industrial Average was above 67." The 1923 bear market low was 30% above the 67 level, and subsequent events proved that the market was laying the base in 1923 and 1924 for an inflationary rise of record-breaking proportions!

(2) This type of reasoning does not allow for the fact that the assets and basic earning power behind the vast majority of companies *of the type which are included in the Dow-Jones Industrial Average* are now much larger than they were ten years ago, 15 years ago, and 25 years ago. In some instances, because of the plow-back of earnings and amortized war plants, the real tangible assets behind each share of common stock are at least 50% above what they were in 1938, when the Dow-Jones Industrial Average made a low of 99.

(3) An even more important indictment of the "historically high" argument is that it does not allow for changes in the value of the dollar. While there is no close *short-term* correlation between the purchasing power of the dollar and the price of common stocks, there is bound to be a high degree of *long-term* correlation between these two factors. This is true because long-term changes or adjustments in the general price level result in a roughly corresponding increase (or decrease) in total sales for business as a whole, and because major changes in the price level affect the costs of goods which can be produced with plant and equipment built or acquired at the new price level.

Great Advance in Price Level Expected

There is a great deal of evidence at the present time which points to the probability that the general price level will hold at least 60% to 70%, and possibly as much as 80% to 100%, above prewar levels for an indefinite period in the future. This conclusion seems justified for the following reasons:

(1) The general price level, in the last analysis, is determined by costs. The basic elements in costs are wages and taxes, and to these factors must be added a "mark-up" representing profits. Wages are by far the most important of these elements, and together with taxes, *directly or indirectly* account for at least 70% to 80% of total costs.

Wage rates in both union and non-union plants are now running, on the average, about 100% above what they were in 1939. Taking our economy as a whole, there is some question as to whether efficiency since 1939 has improved sufficiently to offset even a small part of this increase in wage rates. Corporate income, payroll, excise and other taxes (which, of course, are a basic element in costs, and must be absorbed in prices) appear certain to hold at two or three times the maximum prewar level for some time to come, inasmuch as our Federal budget is now more than four times that of 1939.

For a number of reasons, there appears to be no prospect of a decline in either wage rates or taxes to below 180% to 200% of prewar levels, during the years immediately ahead. If we are right in this conclusion, this means that costs are not likely to decline sufficiently to permit the price level to fall below, say 160% to 180% of prewar, as compared with the present level of 190% of the 1938-1939 average. *In the event of another general round of wage increases during the election year of 1948, it is possible that costs will be "frozen" at a level substantially above 180% of prewar.*

The Negligible Effect of Profit Decline

In the case of the third element in prices, that of profit margins, it is conceivable that profit margins might decline by about one-third. However, since they only represent between 10% and 12% of sales (after taxes) for industry as a whole, a 33% reduction in profit margins would result only in a 3% or 4% decline in the price level. Technological improvements will help to pull some prices downward, of course, but experience teaches that this factor is not likely to reduce total costs by more than 1½% to 2% per year.

(2) The supply of money often does act as a limiting factor on prices, and theoretically, a shortage of credit could prevent prices from holding very long at say 100% above prewar levels. However, *the supply of money today is about 2½ times the prewar level*, and it is difficult to see how this supply could be reduced even by as much as 20% until or unless the Federal debt is reduced by *at least* $50 billion from the current level. It would seem to follow, therefore, that we can hardly look for any natural downward pressure on prices as a result of limitations in the supply of money.

(3) During the years following World War I, commodity prices rose to 242% of prewar average, even though our Federal debt had been increased by a maximum of only $25 billion over the prewar levels of $1.2 billion. Currently, commodity prices are only about 190% of the 1938-1939 average, even though our national debt has risen by more than $220 billion since 1938.

The price inflation of 1916-1920 was checked in the latter year by a financial squeeze. Quite obviously, a rise in the national debt to $23 billion did not provide the basis for sufficient additional liquid funds to permit prices to hold at a level of 2½ times that prevailing prior to World War I. (Our production during that period had been financed largely by private borrowing, in contrast with the method of financing inventories and plant expansion in World War II.) With our national debt now at ten times the level reached at the peak in 1919, the liquid assets represented by ownership of Government bonds, and bank deposits, have provided a much more potent inflation base than we had following World War I. (According to data compiled by the Federal Reserve Board, bank deposits, currency, and U. S. Government securities held by individuals now total more than $150 billion.)

After the deflation of 1920-1921, commodity prices stabilized at about 140% of the prewar level for nine years, or through 1929. This stabilization at substantially above the prewar price level occurred in the face of a 40% decline in our Federal debt from the peak reached in 1919. It would seem fairly safe to assume that our national debt will not be reduced in the same proportion, and certainly not down to within even $100 billion of the prewar level, at any time within the next seven or eight years.

(4) While it may be a debatable point, it does seem as though the nine-year stabilization of commodity prices at 140% of the prewar level, starting in 1921, had something to do with the fact that the 1923 bear market low, as mentioned above, was 30% above what would have been considered, at that time, a minimum base for any new bull market. If we are willing to assume that commodity prices will hold at only 60% above prewar levels during the next few years, it can be said that the Dow-Jones Industrial Average, at the lows touched in October of 1946 and in May of this year, was selling at the equivalent of the lows touched in March, 1938, when this average dipped to 99.

(5) There is, of course, a school of thought which has been warning of deflation, rather than inflation, ever since V-J Day. These individuals promised us a decline in commodity prices within a few months after the removal of OPA. The theory was that our productive capacity was so very large, that the country would be flooded with goods as soon as controls were removed.

The evidence of the past two years clearly shows that this reasoning was not sound. While we might have a *theoretical* capacity to produce ten million automobiles a year, or ten million homes, our practical capacity is limited by such factors as the supply of skilled labor, the supply of steel, the willingness of people to work, and the availability of transportation facilities. In those industries where it was possible to satisfy the pent-up demand fairly quickly, there have been some downward readjustments in prices. However, even in the case of radios, prices have not, and cannot be expected to decline, to anywhere near prewar levels, inasmuch as the principal cost factors are holding at substantially above those of prewar.

Summary and Conclusion

Inasmuch as the general price level has a very definite bearing on the dollar volume of sales, the cost of new plant and equipment to be used in production, etc., the general price level does have a bearing on the fundamental value and long-term price level of equities. The political and organization strength of labor, together with our tremendously expanded credit base, would seem to ensure the establishment and maintenance of a much higher general price level than that witnessed, on the average, during the 50 years covered by the Dow-Jones Industrial Average. Under the circumstances, it would seem logical to expect that stock prices in the future will fluctuate around a much higher level, in terms of dollars, than they have in the past.

There is a possibility that the general price level will average as much as 80% to 100% above prewar for some time to come. The type of deflation which was witnessed between 1929 and 1932, and which carried commodity prices down to the 1914 level, does not appear to be a real danger over the foreseeable future, in view of the fact that our inflation is now based primarily on public debt, rather than on private or short-term borrowing, and for various political-sociological reasons.

Even if we assume that wages can be forced downward, and that commodity prices over the years immediately ahead will decline to and hold at only about 60% above prewar levels (as compared with a 40% rise from the 1914 levels, between 1921 and 1929), the October, 1946, and May, 1947, lows in the Dow-Jones Industrial Average must be recognized as being the equivalent of about 100 in prewar dollars; if prices are to be adjusted to a new plateau of 100% above prewar, the 1946-1947 "bear market" lows in the Dow-Jones Industrial Average were equivalent to only about 80, or to below the lows touched in any year since 1933. Failure to allow for the possibility that our tremendously expanded credit base may result in our general price level holding at substantially above prewar levels for an indefinite period may prove very costly to followers of many of the so-called formula plans.

Lindow Joining Irving Trust as Economist

Wesley Lindow, assistant director of the division of research and

Wesley Lindow

statistics of the Treasury Department will become associated with the Irving Trust Company as an economist on October 1.

Bond Club of N. J. Field Day

The annual Member-Guest Field Day of the Bond Club of New Jersey will be held on Friday, Oct. 3, 1947 at the Baltusrol Golf Club, Springfield, New Jersey.

Due to limited accommodations, preference will be given reservations in the order of their receipt by the Committee.

Competition will be held in golf and horseshoe pitching with prizes awarded to the winning members and guests.

C. Wallace Smith, Smith, Barney & Co., is Chairman of the Committee making the arrangements and Daniel E. Fitzpatrick is Vice-Chairman.

E. Naumburg, Jr., With Bruns, Nordeman Co.

Bruns, Nordeman & Co., 60 Beaver Street, New York City, members of the New York Stock and Curb Exchanges, announce the association with the firm of Edward Naumburg, Jr., as Manager of its institutional and out-of-town business department. A graduate of Princeton University, Mr. Naumburg has been in the investment business since 1925. Previous associations include Naumburg, Dixon & Co., Stephen J. Strook & Co. and Stern, Lauer & Co.

Joins Eaton Co. Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Henry W. Allers has been added to the staff of Eaton & Co., 400 Montgomery Street. He was previously with Capital Securities Co.

With Pearson, Richards

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Robert Beckley and John J. Edwards have become affiliated with Pearson-Richards & Co., Russ Building.

With Oscar E. Dooly

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Emery Flinn has become associated with Oscar E. Dooly, Ingraham Building. In the past he conducted his own investment business in Miami.

Waldron & Co. Add

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John J. Sullivan has been added to the staff of Waldron & Co., De Young Building.

The State of Trade and Industry

(Continued from page 5)

might be the sole method of preventing future and more serious bottlenecks.

The celebrated 10,000 car a month freight car program which was to have been a fact by October has failed to materialize and during the last three months of this year output of freight cars will fall 2,000 to 3,000 cars a month short of the major goal, the magazine reports.

While both railroad car builders and the steel industry present figures to indicate a blameless record for the freight car program failure, the situation is growing worse with cars being retired at a much faster rate than they are being replaced. This condition has been going on since war days when some authorities refused to consider the freight car problem on a par with ammunition requirements.

Probably no one group can be accurately tagged with sole responsibility for today's freight car shortage, states "The Iron Age." The steel industry has conclusively shown that steel in a total tonnage necessary for the freight car program has been shipped to car builders and they also have shown just as conclusively that they have not received enough steel to produce 10,000 cars a month. The rub is in the distribution of the various steel products to all the car builders participating in the program with unbalance in inventories and component parts, the most serious drawback to successful completion of the 10,000 car a month program.

Steel officials shiver when they consider the possibility that the government may set up an allocation program for freight cars, since during 1946, governmental allocations and directives almost wrecked the normal distribution of steel products and a reimposition of such methods would be likely to repeat that fiasco.

Some steel consumers suspect, but many are not aware of the fact that well-intentioned delivery promises on their steel quotas for the fourth quarter will not be realized. Wholesale cutbacks are to be made by several large steel companies. Huge backlogs and carryovers have so disrupted order books that much of this tonnage must be written off before the year end if any semblance of order is to be obtained in 1948, states "The Iron Age."

The State Department's report on the Marshall Plan indicates, the magazine points out, that over the next four years about two million tons of scrap a year will be purchased in the United States. With scrap a short item already in this country, it takes little imagination to guess what effect its purchase for export will have on eastern scrap markets which during the last two years have served as an important reservoir for midwestern consumption.

Although the State Department has used dollar figures in talking about "crude and semi-finished steel," it looks like the Marshall Plan will call for more than two million tons of ingots and semi-finished steel per year. Shipment of such a large amount of steel represents a further loss of scrap to this country and, the trade paper adds, a corresponding lack of control over the volume of finished steel products in this country.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel capacity of the industry will be 94.4% of capacity for the week beginning Sept. 29, 1947, as compared with 94.1% one week ago, 92.4% one month ago and 90.2% one year ago. This represents an increase of 0.3 point, or 0.3% from the preceding week.

The week's operating rate is equivalent to 1,651,900 tons of steel ingots and castings compared to 1,646,700 tons one week ago, 1,616,900 tons one month ago and 1,589,700 tons one year ago.

ELECTRIC OUTPUT 9.7% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Sept. 27, 1947 was 4,956,415,000 kwh., according to the Edison Electric Institute. This compares with 4,977,141,000 kwh. in the preceding week, and was 9.7% in excess of the 4,517,874,000 kwh. produced in the corresponding week of last year.

RAILROAD FREIGHT LOADINGS CONTINUE UPTREND FOR WEEK AND YEAR

Loadings of revenue freight for the week ended Sept. 20, 1947, totaled 931,072 cars, the Association of American Railroads announced. This was an increase of 8,712 cars, or 0.9% above the preceding week. This represented an increase of 32,020 cars, or 3.6% above the corresponding week in 1946 and an increase of 93,779 cars, or 11.2% above the same week in 1945.

AUTOMOTIVE OUTPUT LOWER DUE TO CADILLAC AND HUDSON SHUTDOWNS

Automotive production the past week declined as a result of the unforeseen closing of Cadillac occasioned by the shortage of car frame steel and the previously announced halting of Hudson lines to permit a changeover to new models. As for the strike at the Carter Carburetor plant, it no longer appears to be a serious threat to production schedules, states Ward's Automotive Reports, since other carburetor manufacturers are stepping up schedules. It adds, that barring further closings because of material difficulties or labor flare-up, the current week's volume should closely approximate last week's.

Production in the United States and Canada during the past week totaled 106,121 units, compared with a revised figure of 109,734 units, a postwar high in the previous week and 85,495 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 77,035 units.

Last week's output comprised 100,489 vehicles made in this country and 5,632 in Canada. The U. S. total included 72,695 cars and 27,794 trucks, while the Dominion figure showed 3,626 cars and 2,006 trucks.

BUSINESS FAILURES AT HIGHEST LEVEL IN SIX-WEEK PERIOD

Rising a little in the week ending Sept. 25, commercial and industrial failures reached the highest level in the last six weeks, reports Dun & Bradstreet, Inc. Seventy-seven concerns failed as compared with 73 in the preceding week. Although there were three times as many businesses failing as in the corresponding week of 1946 when 28 occured, failures this week comprised only a fraction of the total of 264 reported in the same week of prewar 1939.

Failures involving liabilities of $5,000 or more continued to predominate, accounting for 65 of the week's total of 77. Up from 62 last week, in this size group there were three and a half times as numerous as the 18 occurring a year ago. Failures under $5,000 remained low, numbering 12 against 11 in the previous week and 10 in the comparable week of last year.

WHOLESALE FOOD PRICE INDEX FALLS SHARPLY

The downward trend witnessed in wholesale food markets during the past week carried 18 out of the 31 commodities comprising the Dun & Bradstreet wholesale food price index below the level of a week previous, as against only four advances. The index fell sharply to $6.91 as of Sept. 23 from the record high figure of $7.12 recorded on Sept. 16. This represented a drop of 21 cents, or 2.9%, in the week. The latest index compares with $5.15 a year ago, a rise of 34.2%.

DAILY WHOLESALE COMMODITY PRICE INDEX DECLINES SHARPLY IN LATEST WEEK

The persistent rise in the Dun & Bradstreet daily wholesale commodity price index over the past month came to an abrupt halt last week. From the postwar peak of 287.05 recorded on Sept. 16, the index dropped sharply on four succeeding days to 277.24 on Sept. 20 and rallied slightly to close at 278.66 on Sept. 22. This marked a decline of 2.9% for the week, but represented a gain of 21.5% over the comparative 1946 figure of 229.26.

Leading grain markets continued the erratic fluctuations of the previous week as prices tumbled precipitously from their recent peak levels. The decline was variously attributed to fears of restrictive action against speculative trading in grains and foodstuffs, reports that the government had reduced its November grain export allocations, and improved weather conditions for maturing of the new corn crop.

At the low point of last Saturday, wheat was off about 38 cents and corn 32 cents from their recent highs. Government purchases of cash wheat were heavy but had little effect in checking the decline. Flour inquiries increased and volume of sales expanded as a result of the drop in wheat and resultant lower flour prices. Butter prices fell almost six cents per pound in the week under pressure of consumer resistance. Fresh beef, hogs, steers and lambs trended slightly lower. Lard continued to advance, aided by aggressive buying attributed to smaller packers against export sales. Although trending easier at the close, spot cocoa registered a sharp advance for the week due to an extremely tight supply situation.

Cotton markets registered moderate gains early in the week as the result of buying by mills and commission houses, but later turned downward to close with small net losses for the week. The decline was influenced by profit-taking and heavy hedge selling induced by the accelerated movement of the new crop, and by increasing weakness shown in outside markets.

Domestic wools continued in good demand in both the Boston market and in the West. With most of the better lots of fine wools already purchased, buyers turned their attention to lots of fine staple wools which had been unfavorably appraised on a shrinkage basis. Imports of apparel wools continued in small volume.

RETAIL AND WHOLESALE TRADE CONTINUES ABOVE LEVEL OF WEEK AND YEAR AGO

Consumer buying in the past week was slightly above the level of the preceding week and slightly above that of the corresponding week a year ago, states Dun & Bradstreet, Inc., in its review of trade. Discrimination against high-priced goods increased with resistance sporadic but generally strong enough to halt the spiral in some lines. The buying of luxury items decreased and a large proportion of consumer income continues to be spent on foods.

Grocery volume increased substantially with fresh fruits and vegetables in steady call. Frozen and canned foods sold well. The supply of canned seafood, gelatines, and some chocolate items was limited in some areas. Poultry, cheese and inexpensive canned meats were in large demand, while butter, eggs and fresh meats decreased in popularity. The demand for candy and bakery products was considerable. Beers and ales continued to be preferred to high-priced liquors.

Consumer interest in Fall and Winter clothing increased with back-to-school items continuing to attract considerable attention. Women's Fall suits and dresses sold well. This was also true of shoes, hosiery and lingerie. Fur-trimmed and hooded coats proved very popular and new-style Fall hats were favorably received. Men's haberdashery enjoyed good demand and the supply of men's suits was generally adequate. Boys' sport jackets and trousers were heavily purchased.

Draperies and floor coverings sold in large volume with branded major appliances and fine furniture much wanted items. The supply of small electrical appliances was plentiful, but the demand was sluggish. Building materials and supplies, tools and paints remained in large call. The demand for luggage rose slightly along with a moderate rise in sporting goods volume.

Wholesale volume in the week rose moderately above the level of the preceding week and remained well above that of the corresponding week a year ago. Order volume increased as many retailers endeavored to enlarge their inventories. Some retailers tried to obtain faster deliveries of some goods. Price consciousness was heightened and quality continued to be stressed.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 20, 1947, increased by 8% from the like period of last year. This compared with a decrease of 1% in the preceding week. For the four weeks ended Sept. 20, 1947, sales increased by 1% and for the year to date increased by 7%.

A marked increase in retail trade was noted here in New York the past week as compared with the like week of last year. Department stores gains were estimated at about 40% above a year ago when volume at that time suffered as a result of the delivery strike.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Sept. 20, 1947, increased 19% above the same period last year. In using year-ago comparisons for this week allowance should be made for the fact that last year there were work stoppages in the trucking industry. This compared with a decrease of 1% (revised figure) in the preceding week. For the four weeks ended Sept. 20, 1947, sales increased 2% and for the year to date rose by 7%.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market swing between 174 and 180, with no important indication until either figure is penetrated.

If you've got a "whodunit" that needs finishing or there's a call you want to make, better do it now. There'll be nothing in this column this week that will require your attention, or won't wait for a more convenient time. In fact, if you want a fast resume of what this column is all about, I'll give it to you in one word: Nothing.

* * *

Having been forewarned and you still want to read it, you have no one to blame but yourself.

* * *

The purpose of this column is to tell you, or if the SEC is looking, to advise you, or better still, to suggest what stocks to buy and how you can make the neighbors green with envy because you make all that money. This is an admirable purpose. Unfortunately I haven't the foggiest idea what to tell you so you can again start making all that money. I can write things about how much income a certain company made, what its chances are for continued prosperity. I can take a couple of pokes at the Marshall Plan, belabor the Federal Reserve Board for not reducing margins and a few other things, all of which would help fill this white space now staring me in the eye. But after I finished, where would we be? Just because a company made a barrel of money in the past is no reason it will repeat in the future. And buying stocks on past performance is one way of going to the cleaners. The Marshall Plan? The people who read this probably don't care for the Marshall Plan any more than I do, so what would I accomplish. Federal Reserve Board and margins? Well, maybe. But I doubt if the gentlemen who make up the margin policy are waiting for my suggestions with bated breath, or if they even heard of me.

* * *

So that leaves me with nothing but the stock market to write about and while it is acting as it does, what is there one can say about it? Long term outlook? I dunno. I have my hands full worrying about the next week's without trying to second guess next year. Besides what is good for next week is often the very thing that will probably be good for next year.

* * *

D'ya want technical talk? Okay, here 'tis. Stock averages are now back to their lows made in the first week of September, around 174. This is the third time. On an out and out gamble every time the averages get down to that 174 point, stocks should be bought. On a rally to 180 they should be sold. I don't know if you can even make commissions on that kind of a swing. But that is all the market shows at present. It is likely that the 180 obstacle will be overcome and in that hope the proper trading method would call for selling half of whatever you bought. A stop just under the 174 level is also part of the method.

* * *

That's about all for this week. You can see it was hardly worth it.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Are Banks to Be Nationalized?

(Continued from page 2)

achieved the aforementioned top rating is that people consider them essential to the operation of the economy, the backbone of all business. Another interesting item is that 57% of the General Public realizes that the government uses the banks to a great extent today. Non-customers of banks, according to the Survey, attach considerably less importance to financial institutions than do customers.

These results are very much to the good and are, therefore, encouraging.

Now let us see what the reply was to this question: "Are you for or against government ownership of the banks in this country?" 22% favor it!! 15% have no opinion!! One may say this is still a minority—but remember nearly ¼ of the people interviewed in the poll are in favor of ownership by the government and another 15% have no opinion, who might be easily swayed. Hence, there is a potential of 37% against the Democratic principle, against Free Enterprise, as pertaining to banking—which is yours and my livelihood. Remember that the moment an additional 14%, which would make a majority, believes in the nationalization of banks—then it will be too late!

Another significant question was the following: "Do you feel that the government, in making loans, is competing with the banks?" 49% of the electorate said, "No, it is not!" 35% answered in the affirmative, and what I think should not be overlooked is that in this group, 18% said it is all right to compete. A total of 67%, then, have no objection to competition from government.

This encroachment, then, of the government in the lending field apparently is not disturbing to the public and seems to be readily acceptable to it. (Serious enough in itself, but still not as serious from our standpoint as the 22% in favor of nationalization of banks).

How Poll Can Be Explained

How, then, can the voting of the 22% minority in favor of government ownership be explained?

The reason is basic and goes right down to the bottom of present day thinking along social and economic lines. In my introductory remarks, I endeavored to point out the trend or swing which has occurred and is taking place from so-called Free Enterprise, through State Socialism to Collectivism. I also commented on the fact that wars and particularly their aftermath have always created fertile breeding grounds for the conception and furtherance of radical or Bolshevistic ideas.

Now, banking has not necessarily been singled out as the scapegoat this time. In fact, every industry, especially of a quasi-public nature, has likewise come in for its share of Leftist thinking. The acceptance of the Collectivist idea has become more widespread, which in turn has meant a decline in Americanism, a forgetting of the principles for which the founders of this country were willing to sacrifice their lives.

Since 22% is a minority, you might well ask yourselves: "Why be disturbed by a minority?" If on the other hand, you are disturbed by such a figure you might then well say, "So what! Where do we fit into this broad picture? What can we do about it?"

Just this: We must attack the evil at its source. This can be done only through education, through the spreading of sound constructive ideas, through better public and employee relations. The theme of this Convention, "Better Banking Service to Our Communities" could not have been better timed or more aptly chosen.

You will recall in the breakdown of the 22% vote, of the teachers contacted 19% were in favor of government ownership of banks. Keeping this in mind, the following study by the National Industrial Conference Board gives pause for thought: On Jan. 1, 1947, of the 140 million people in this land:

—90 million Americans had no adult experience with the 1929 crisis,

—83 million had no adult experience under a Republican administration,

—63 million had no adult experience with a free market for cars, homes, clothing and other consumer goods.

This is rather a staggering situation, isn't it?

Obviously, something must be done to expose this large percentage of the population to a more intimate knowledge of American History—to what the Declaration of Independence and the Bill of Rights stand for—to the significance of Lincoln's Gettysburg address.

The problem must be attacked through our schools, through the Press, periodicals, and through our National Organizations. I think a good many of us would be shocked if we knew the extent of the radical theories which are being expounded to our sons and daughters in various gatherings and summer conferences. Even one of the staid New England colleges, to my knowledge, is guilty in this respect.

There are a large number of women who belong to their P. T. A.'s, to their local clubs, to the League of Women Voters, and to other such groups. As women bankers, you can be especially effective in strengthening these organizations through your membership.

The "Freedom Train" is an interesting development of the basic approach.

Doesn't this all really come under the heading of Public Relations—Public Relations in the broad sense, covering the country as a whole; and in the individual sense, covering the local community?

Banks should assume as large a part as possible in the affairs of the local community. I am glad to say that honest efforts are being made along these lines but there is plenty of room for improvement. The "Opinion Survey" revealed that, at present, 61% of the General Public can think of nothing the banks do to participate in community affairs. In other studies, it has been shown that business cannot count on receiving public recognition for its good deeds unless it keeps the community **informed** of what it is doing. This would likewise apply to the banking fraternity.

We have "warmed" up a bit, for the Survey showed that three out of five people consider banks as really friendly. 69% said they did not think they would have any difficulty getting in to see the President or a Vice-President. Encouraging signs, to say the least, but we should not rest on these meagre laurels. It is vitally important that those in close contact with the public such as trust personnel, paying and receiving tellers, individuals handling the opening of new accounts, to mention only a few, continue to improve upon their cordial, sympathetic and friendly attitude.

According to the Survey, the public has definite conceptions concerning certain banking functions. There is a general misunderstanding about the need for Service Charges. The low interest rates on Savings Accounts require justification. Of the people having a Savings Account at present, 65% say the interest rate is to low. The public is entitled to an expanation, and it behooves the banks to clarify these points at the earliest opportunity.

Perhaps one of the most serious misunderstandings has to do with the "F. D. I. C." ¾ths of the voters in the Survey know that bank deposits are insured — but 62% of this number believe the government is the F. D. I. C., and will make good when a bank fails. A large percentage believes that taxpayers' money will make up any deficit. With the public thinking that the government is carrying the risks of banking, the idea of government ownership becomes that much more widespread.

Nothing could be more constructive than a comprehensive program, a concerted effort on the part of all of us to clarify these misconceptions. They should be brought out for airing and thoroughly publicized. Broadly speaking, people's actions are determined largely by what they believe. If these beliefs are erroneous, quite naturally their resultant actions are apt to be lacking in forethought and, hence, are unsound. Nowhere is lack of knowledge so dangerous as in the realm of figures and economics. A good deal of our labor unrest, to cite one example, has come about through ignorance of certain simple and basic facts. The question of profit has never been explained, until relatively recently, to employees. The element of secrecy that has prevailed for so many years has created a problem which will take a long time for management to eradicate. As an example, a recent poll of the employees of a large number of corporations showed that more than 40% thought business was making a net profit of 25 to 50 cents out of every dollar of sales, whereas in reality the figure a little over a year ago was only approximately three cents. Not only industry, but also banks have been extremely short-sighted in their employee relationship. This is a subject in itself and I will not elaborate upon it further except to say that if we are to promote good public relations, we must initially strengthen our own house from within.

The picture I have tried to portray is not altogether a happy one. I wish it might be otherwise, but the facts have been glossed over too frequently in the past, and it is time that realism should enter into our thinking. Far too often, the day-to-day problems have caused us to overlook the fundamental elements and basic difficulties which are threatening the structure of our banking system.

You have heard through the results of the Opinion Research Survey what the public thinks of banking. The seriousness of the situation cannot be denied and I think you will agree with me on the several points and steps I have outlined which are needed to combat the problem. Let us not be deterred by the magnitude and scope nor by the social aspects. As Mr. Willkie once remarked, "Only the productive can be strong and only the strong can be free." We should have confidence in the individual incentive. Our Constitution was drawn up so skillfully by the Founders of this nation that it is sufficiently flexible to keep pace with basic changes in the way of living. Congress gives us what has to date been an effective system of checks and balances. The American people in the mass have common sense, and I still believe that when economic forces are permitted to function in a free market without artificial restraints, the end results will be beneficial and lasting.

Each one of us can begin this moment to figure out where best to take constructive steps. The field of public relations concerns all of us and is more important today than ever before. Our success along these lines will mean our salvation. Banking is in a particularly vulnerable spot—government competition has already made large inroads, and controls and regulations are too numerous to set forth. However, we still have our individual liberties and we are not yet government owned. Let us preserve the system of Free Enterprise—let us meet the challenge before it is too late!

With D. H. Ellis & Co.

D. H. Ellis & Co., 52 Wall Street, New York City, members of the New York Stock and Curb Exchanges, announce that Walter S. Spiegelberg is associated with the firm as registered manager.

With Russell, Hoppe Firm

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — Sidney Bazett is with Russell, Hoppe, Stewart & Balfour, Wilcox Building.

Hicks & Price Add to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Wm. B. Denniston has been added to the staff of Hicks & Price, 231 South La Salle Street.

With Pacific Northwest

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE.—Richard D. Hilts has been added to the staff of Pacific Northwest Company, Wilcox Building.

As We See It

(Continued from first page)

ery there presented. It is not strange that the report takes great pains to deny that it is in any sense a "shopping list"—and still less strange that the thoughtful student of its paragraphs should take such a statement *cum grano salis*.

There are aspects of this memorandum which the American people can fail to see or to ignore at their own peril. These conferees quite evidently have their eyes not merely upon restoration in Europe, but upon an ultimate abundance never heretofore known on that continent. When the four years here provided for have run their course the peoples of these countries, then living in some sort of relative economic Utopia, will not even have their current international accounts balanced. We shall have contributed $20 billions or more for repayment or service, of which there is no plan or provision in all that is said. Apparently, these vast sums are conceived of as our "contribution" to the welfare of European peoples in question; a sacrifice on our part to keep them out of their own communistic clutches; a fantastic liberality designed to establish a bastion in our own defense; or a means of keeping ourselves prosperous by supporting or largely helping to support 270,000,000 people beyond our own borders. We say "apparently." The conferees did not even take the trouble to explain on what grounds they laid any claim to this large participation in our wealth and income!

Not a Bread Line

It is not merely a bread line that is being requested or demanded. What, in effect, is being asked is that we finance—without so much of a reference to repayment—a four-year plan for western and parts of central and eastern Europe. It is New Deal-like economic planning on a vast scale that we are asked to underwrite (if underwrite is the right word), and what the blue prints call for is not restoration of Europe, but the creation of a new Europe—and the chief contribution of the beneficiaries is, apparently, to be bigger and better planning and "cooperating."

A few excerpts from the report itself should easily convince all willing to hear the truth. The first stricture is that this is a four-year planned economy that is envisaged for more than 16 European countries with diverse economies, conflicting interests, numerous traditional distrusts and dislikes; that it is the governments of these countries which are to take the initiative and either "encourage" or direct the economic program in each case; that controls and many other measures which stifle individual initiative are a *sine qua non* of any such procedures; that the program as outlined smacks strongly of Keynesian notions and contradictions; and that assurances of reforms, financial, trade and other (though frequently recited), are so vague as to engender little confidence.

In support of this accusation let paragraph number 25 be cited:

> The production expansion, which is envisaged by 1951, is similar, in general scale too that achieved by the United States in the mobilization years 1940 to 1944. . . .
>
> In order to insure that the recovery program is carried out, the 16 participating countries pledge themselves to join together, and invite other European countries to join with them, in working to this end. This pledge is undertaken by each country with respect to its own national program, but it also takes into account similar pledges made by the other participating countries. In particular, each country undertakes to use all its efforts:
>
> I. To develop its production to reach the targets, especially for food and coal;
>
> II. To make the fullest and most effective use of its existing production capacity and all available manpower;
>
> III. To modernize its equipment and transport, so that labor becomes more productive, conditions of work are improved, and standards of living of all peoples of Europe are raised;
>
> IV. To apply all necessary measures leading to the rapid achievement of internal financial monetary and economic stability while maintaining in each country a high level of employment;
>
> V. To cooperate with one another and with like like-minded countries in all possible steps to reduce the tariffs and other barriers to the expansion of trade both between themselves and with the rest of the world, in accordance with the principles of the draft charter for an international trade organization;
>
> VI. To remove progressively the obstacles to the free movement of persons within Europe;
>
> VII. To organize together the means by which common resources can be developed in partnership.

This program would still leave Europe in the red even according to the calculations of this report. We are asked to finance it without even a hint of repayment. Here is what the report says on that point:

> In the last analysis the external means of recovery can in largest measure only come from the United States, which has by its assistance in the last two years already rescued Europe from collapse and chaos. Unfortunately the size of the problem has proved greater than was expected. The disruption caused by the war was more far reaching and the obstacles to recovery more formidable than was realized even six months ago.
>
> This report contains it is believed a realistic appreciation of the situation. In it the participating countries have set out the facts as they see them and on the basis of those facts have formulated a recovery program. Their program is based upon the fullest use of their existing productive capacity. In drawing it up they have sought to reduce their needs from the American continent to the minimum consistent with its achievement. The American people through their Government and their Congress will consider this program to determine whether the means can be found of supplying those needs. On their decision will depend whether Europe can achieve economic stability and thereby be enabled to make her full contribution to the welfare of the world.

All this, obviously, is of a piece with the Atlantic Charter. Plainly we are being "played for suckers." Let us by all means do what we can for those who deserve it, but let's keep our feet on the ground!

Securities Regulation in New York

(Continued from page 13)

past few months the whole-hearted cooperation of Commissioner Wedell of Indiana enabled us to obtain the arrest and arraignment of one of the stockateers who had left our confines for what he supposed to be the more salubrious atmosphere of Indiana.

While there are defects in our statute, which, in time, we hope to remedy, we believe that as a practical proposition it is the type of statute best designed for the peculiar problems of New York State and that, combined with the regulatory machinery of SEC, it governs the center of the securities industry in the best possible method without the strangling effect that a registration statute might well have in New York State.

The Prospectus

The biggest single problem, of course, is the bugaboo of every fraud administrator, namely, the prospectus. As John Hueni pointed out last year, while it is argued that if the investor has received a copy of the prospectus and fails to read it he is in no position to complain, in most cases he doesn't read it and if he does, doesn't understand it.

We have had a glaring example of that in New York. In one of our investigations it was discovered that the prospectus disclosed the corporate issuer to be insolvent, and amended statements filed with the SEC clearly indicated that its financial deficit was steadily increasing. Investigation disclosed, of course, that each investor had been furnished with a copy of the prospectus. Despite the fact that this information would lead any sane person to avoid the issue, more than $380,000 worth of the corporate stock was nevertheless sold. To obtain injunctions or convictions on the basis of false representations in the sale of securities where complaining investors are compelled to testify that they were furnished with a truthful statement of the condition of the issuing company before the purchase, approaches the impossible.

I know that in saying this I seem to furnish an excellent argument for that line of reasoning that has frequently been discussed at our meetings, which justifies a state regulatory commission in denying an organization the right to sell its securities solely because such securities lack merit as an investment. Nevertheless, an observation of the number of issues currently being distributed in the State of New York and with the realization of the number of man-hours which would be necessary to investigate such issues sufficiently to base a conclusion on fair grounds, convinces me that it would be impossible for any governmental agency of the State of New York to assume the responsibility of so vast and farreaching an undertaking.

Of course we do not pretend to know what the answer to the problem raised by the use of the prospectus in this manner is. Surely we cannot expect that the Securities and Exchange Commission should require less than full disclosure. However, the prospectus becomes more involved with each additional disclosure, and as this progresses the investor becomes more confused concerning the merits of the security and more likely to listen to the reassuring words of a suave salesman. Thus, the prospectus is often used as a shield by the unscrupulous stock salesman to protect himself against the accusation of false and fraudulent oral misrepresentation of which he is guilty. As I say, we do not pretend to know the solution of this practical difficulty. It confronts us constantly and I assume that eventually some way will be found by which that which was intended to protect the investor may not be used as a means of defrauding him.

Herbert H. Blizzard Opens in Philadelphia

PHILADELPHIA, PA. — Announcement is made of the formation of Herbert H. Blizzard & Co. with offices at 123 South Board Street, to specialize in inactive and obsolete stocks and bonds. During World War II Herbert H. Blizzard, head of the firm, served as a Lt. Colonel in the United States Army Air Force.

Herbert H. Blizzard

From 1922 to 1932, Mr. Blizzard was a partner in the Philadelphia investment firm of Lilley, Blizzard & Co. In 1932 the original firm of Herbert H. Blizzard & Co. was formed.

In January, 1947, the firm of Hess, Blizzard & Co. was incorporated, from which company Mr. Blizzard just recently resigned as Vice-President to organize his future business activities as his past experience warrants.

Edward J. Dart, formerly with Penington, Colket & Co., is associated with Herbert H. Blizzard & Co. in the trading department.

The new firm will maintain direct telephone connections with New York City.

Kirchofer & Arnold Reorganizes Facilities

RALEIGH, N. C.—A joint announcement has been made by R. C. Kirchofer and G. E. Anderson of the formation of Kirchofer & Arnold Associates, Inc., to handle the retail activities of Kirchofer & Arnold, Incorporated. The change became effective Oct. 1. Anderson becomes Executive Vice President of the newly formed firm while Kirchofer continues as head of Kirchofer & Arnold, Incorporated.

Under the new arrangement Kirchofer & Arnold, Incorporated will specialize in private financing and underwriting. Kirchofer & Arnold Associates, Inc., will deal exclusively in public and institutional distribution of investment securities.

"The purpose of the move," said Kirchofer, "is to broaden and facilitate our joint services. By establishing one business to handle retail sales, and another for wholesale and underwriting activity, each firm can engage in a specialized type of service in its own chosen field. While there are now two separate corporations, both firms will operate on a cooperative basis."

Both firms will continue to occupy the present offices in the Insurance Building, Raleigh. Kirchofer & Arnold, Incorporated, will maintain a New York office, while Kirchofer & Arnold Associates, Inc., will continue the operation of the Charlotte office.

Anderson, who has been with Kirchofer & Arnold, Inc., since 1934 announced the following officers of Kirchofer & Arnold Associates, Inc., all of whom were formerly associated with Kirchofer & Arnold, Incorporated:

F. W. Reebals, Raleigh, President; G. E. Anderson, Raleigh, Executive Vice President; C. S. Kipp, Charlotte, Vice President; G. H. Rosser, Durham, Vice President; F. G. Hussey, New Bern, Assistant Vice President; J. W. Thompson, Jr., Raleigh, Secretary; J. P. Abernethy, Raleigh, Treasurer; R. K. Creighton, Raleigh, Assistant Secretary, and A. M. Norwood, Raleigh, Assistant Treasurer.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	Oct. 5	94.4	94.1	92.4	90.2
Equivalent to—					
Steel ingots and castings produced (net tons)	Oct. 5	1,651,900	1,646,700	1,616,900	1,589,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Sept. 20	5,199,900	5,217,300	5,152,800	4,775,150
Crude runs to stills—daily average (bbls.)	Sept. 20	5,280,000	5,318,000	5,217,000	4,776,000
Gasoline output (bbls.)	Sept. 20	16,368,000	16,505,000	16,539,000	14,811,000
Kerosine output (bbls.)	Sept. 20	1,993,000	2,156,000	2,091,000	1,897,000
Gas oil and distillate fuel oil output (bbls.)	Sept. 20	6,275,000	6,053,000	5,892,000	5,370,000
Residual fuel oil output (bbls.)	Sept. 20	8,772,000	8,855,000	8,674,000	7,964,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 20	81,987,000	82,509,000	83,915,000	86,846,000
Kerosine (bbls.) at	Sept. 20	22,254,000	21,832,000	19,981,000	20,738,000
Gas oil and distillate fuel oil (bbls.) at	Sept. 20	59,283,000	57,619,000	53,018,000	58,973,000
Residual fuel oil (bbls.) at	Sept. 20	56,934,000	56,168,000	54,688,000	57,768,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 20	931,072	922,360	900,895	899,052
Revenue freight rec'd from connections (number of cars)	Sept. 20	712,453	682,209	682,753	707,260
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Sept. 25	$136,183,000	$90,627,000	$136,943,000	$84,074,000
Private construction	Sept. 25	83,105,000	45,897,000	84,413,000	34,007,000
Public construction	Sept. 25	52,078,000	44,730,000	52,530,000	50,067,000
State and municipal	Sept. 25	43,802,000	33,550,000	32,775,000	30,128,000
Federal	Sept. 25	8,276,000	11,180,000	19,755,000	19,939,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 20	12,240,000	12,600,000	12,000,000	12,624,000
Pennsylvania anthracite (tons)	Sept. 20	1,209,000	1,169,000	1,194,000	1,276,000
Beehive coke (tons)	Sept. 20	135,000	*135,200	133,300	122,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 20	301	*291	243	280
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Sept. 27	4,956,415	4,977,141	4,939,801	4,517,874
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Sept. 25	77	73	64	28
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 23	3.19141c	3.19141c	3.19141c	2.73011c
Pig iron (per gross ton)	Sept. 23	$36.93	$36.93	$37.10	$28.13
Scrap steel (per gross ton)	Sept. 23	$37.75	$37.75	$37.83	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Sept. 24	21.225c	21.225c	†	14.150c
Export refinery at	Sept. 24	21.425c	21.325c	21.425c	16.675c
Straits tin (New York) at	Sept. 24	80.000c	80.000c	80.000c	52.000c
Lead (New York) at	Sept. 24	15.000c	15.000c	15.000c	8.250c
Lead (St. Louis) at	Sept. 24	14.800c	14.800c	14.800c	8.100c
Zinc (East St. Louis) at	Sept. 24	10.500c	10.500c	10.500c	8.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Sept. 30	122.11	122.14	122.49	120.86
Average corporate	Sept. 30	114.85	115.63	117.00	116.61
Aaa	Sept. 30	119.61	120.43	121.88	121.25
Aa	Sept. 30	117.80	118.80	120.02	119.00
A	Sept. 30	114.85	115.43	116.80	116.61
Baa	Sept. 30	107.62	108.16	109.79	110.34
Railroad Group	Sept. 30	109.97	110.88	112.19	112.37
Public Utilities Group	Sept. 30	116.41	117.00	118.40	117.80
Industrials Group	Sept. 30	118.20	119.00	120.43	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Sept. 30	1.50	1.50	1.51	1.66
Average corporate	Sept. 30	2.91	2.87	2.80	2.82
Aaa	Sept. 30	2.67	2.63	2.56	2.59
Aa	Sept. 30	2.76	2.71	2.65	2.70
A	Sept. 30	2.91	2.88	2.81	2.82
Baa	Sept. 30	3.30	3.27	3.18	3.15
Railroad Group	Sept. 30	3.17	3.12	3.05	3.04
Public Utilities Group	Sept. 30	2.83	2.80	2.73	2.76
Industrials Group	Sept. 30	2.74	2.70	2.63	2.66
MOODY'S COMMODITY INDEX	Sept. 30	438.2	426.2	419.9	337.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Sept. 27	231.4	234.0	224.5	183.5
Fats and oils	Sept. 27	234.1	222.0	186.6	189.7
Farm products	Sept. 27	258.6	261.9	255.8	215.3
Cotton	Sept. 27	294.6	303.0	312.7	356.9
Grains	Sept. 27	274.5	284.9	268.9	219.0
Livestock	Sept. 27	256.5	256.9	248.2	192.3
Fuels	Sept. 27	190.6	190.6	186.4	154.2
Miscellaneous commodities	Sept. 27	167.8	168.6	163.4	143.5
Textiles	Sept. 27	214.5	216.3	216.2	207.7
Metals	Sept. 27	159.1	159.1	159.1	124.5
Building materials	Sept. 27	226.5	226.6	230.4	178.6
Chemicals and drugs	Sept. 27	149.6	149.6	149.7	128.2
Fertilizer materials	Sept. 27	134.0	134.0	130.8	120.7
Fertilizers	Sept. 27	135.7	135.7	135.5	125.1
Farm machinery	Sept. 27	127.1	127.1	127.1	116.5
All groups combined	Sept. 27	211.0	212.6	207.8	172.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 20	152,814	180,203	149,464	156,822
Production (tons)	Sept. 20	181,483	186,174	177,712	169,143
Percentage of activity	Sept. 20	101	103	100	100
Unfilled orders (tons) at	Sept. 20	440,769	472,229	438,848	579,500
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Sept. 26	143.3	142.6	139.3	138.0
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Sept. 20	158.1	157.4	153.5	123.8
Farm products	Sept. 20	189.8	187.3	181.4	155.1
Foods	Sept. 20	182.3	180.9	172.3	131.9
Hides and leather products	Sept. 20	185.5	185.2	182.3	139.4
Textile products	Sept. 20	140.7	140.4	140.1	123.7
Fuel and lighting materials	Sept. 20	115.0	114.4	114.1	95.3
Metal and metal products	Sept. 20	150.3	150.4	147.0	114.2
Building materials	Sept. 20	180.9	179.4	179.1	133.9
Chemicals and allied products	Sept. 20	122.2	120.4	117.4	98.4
Housefurnishings goods	Sept. 20	131.9	132.1	131.9	114.7
Miscellaneous commodities	Sept. 20	115.1	117.9	115.6	101.8
Special groups—					
Raw materials	Sept. 20	173.6	171.9	167.7	142.5
Semi-manufactured articles	Sept. 20	150.9	150.4	149.5	116.2
Manufactured products	Sept. 20	152.7	152.5	148.3	117.1
All commodities other than farm products	Sept. 20	151.1	150.9	147.4	116.9
All commodities other than farm products and foods	Sept. 20	138.0	138.1	136.6	112.1

*Revised figure. †No market—previous quotation 21.225c.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of July:			
Total shipments (thousands of pounds)	91,527	91,845	104,954
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of August	6,989,297	*6,570,154	6,924,522
Shipments of steel products, including alloy and stainless (net tons)—Month of July	4,974,566	5,263,711	4,639,610
ASSOCIATION OF AMERICAN RAILROADS—Month of August:			
Freight traffic handled by Class I RRs. (revenue ton-miles)—000's omitted	†55,000,000	52,000,000	55,831,798
BUILDING PERMIT VALUATION—DUN & BRADSTREET, INC.—215 CITIES Month of August:			
Geographical Division—			
New England	$14,611,202	$17,381,893	$11,948,956
Middle Atlantic	62,231,451	52,935,815	43,297,186
South Atlantic	31,430,642	33,776,460	18,075,015
East Central	67,009,238	64,335,748	41,034,755
South Central	35,685,062	37,877,828	23,381,798
West Central	16,898,035	17,122,351	14,787,082
Mountain	9,207,108	7,143,160	5,995,447
Pacific	52,964,820	51,132,595	45,060,070
Total United States	$290,043,558	$281,705,850	$203,580,309
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of August:			
Manufacturing number	99	107	37
Wholesale number	44	40	8
Retail number	102	105	26
Construction number	19	17	11
Commercial service number	23	30	11
Total number	287	299	93
Manufacturing liabilities	$10,426,000	$12,466,000	$2,113,000
Wholesale liabilities	1,978,000	2,144,000	414,000
Retail liabilities	1,668,000	2,280,000	297,000
Construction liabilities	176,000	384,000	516,000
Commercial service liabilities	655,000	19,863,000	459,000
Total liabilities	$14,903,000	$37,137,000	$3,799,000
COAL OUTPUT (BUREAU OF MINES)—			
Bituminous coal and lignite (net tons)—Month of August	51,020,000	39,690,000	*54,686,000
COKE (BUREAU OF MINES)—Month of July:			
Production (net tons)	5,793,777	*5,774,107	5,837,300
Oven coke (net tons)	5,372,665	*5,322,472	5,354,500
Beehive coke (net tons)	421,112	*451,635	482,800
Oven coke stocks at end of month (net tons)	772,920	668,461	708,940
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of July:			
Shipments (short tons)	92,352	*110,446	86,581
Unfilled orders at end of month (short tons)	630,925	*633,467	661,277
COPPER INSTITUTE—For month of August:			
Copper production—			
Crude (tons of 2,000 lbs.)	83,409	*79,135	64,463
Refined (tons of 2,000 lbs.)	88,052	94,605	59,591
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	96,304	109,817	118,381
Export (tons of 2,000 lbs.)	70	664	
Refined copper stocks at end of period (tons of 2,000 lbs.)	76,009	*77,773	94,669
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of July:			
Shipments (short tons)	912,939	1,038,356	840,004
For sale (short tons)	519,137	596,874	487,458
For producers' own use (short tons)	393,802	441,482	352,546
Unfilled orders for sale at end of month (short tons)	2,675,138	2,710,854	2,708,385
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of August: 1935-39 Average=100	†132.7	†132.7	131.6
METAL OUTPUT (BUREAU OF MINES)—Month of July:			
Mine production of recoverable metals in the U. S.—			
Copper (in short tons)	73,177	*70,136	‡50,196
Gold (in fine ounces)	197,148	*165,204	‡125,298
Lead (in short tons)	28,736	*31,406	‡27,706
Silver (in fine ounces)	2,668,715	*2,734,281	‡1,814,853
Zinc (in short tons)	48,140	*60,316	‡47,149
MOTOR VEHICLE FACTORY SALES FROM PLANTS IN U. S. (AUTOMOBILE MANUFACTURERS ASSOCIATION) — Month of August:			
Total number of vehicles	349,424	*379,251	346,209
No. of passenger cars	261,156	*279,631	247,261
No. of motor trucks	86,509	*97,814	97,881
No. of motor coaches	1,757	*1,806	1,067
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Month of July:			
Aluminum (thousands of pounds)	30,197	32,986	31,159
Copper (thousands of pounds)	70,603	84,604	79,379
Magnesium (thousands of pounds)	492	613	682
Zinc (thousands of pounds)	31,313	*33,890	30,015
Lead die (thousands of pounds)	1,013	1,079	987
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of July:			
Shipments (short tons)	116,956	139,031	117,528
For sale (short tons)	85,014	103,888	82,975
For producers' own use (short tons)	31,492	35,143	34,553
Unfilled orders for sale at end of month (short tons)	473,923	445,475	356,799
TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of July:			
Production (number of units)	2,953	3,544	5,966
Shipments (number of units)	3,347	3,813	5,555

*Revised figure. †Preliminary figure. ‡Monthly average in year 1946.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Air Products, Inc., Allentown, Pa.
Sept. 26 filed 150,000 shares ($1 par) common. **Underwriters**—Reynolds & Co., and Laurence M. Marks & Co., both of New York. Price by amendment. **Proceeds**—To repay bank loan and for working capital.

Alabama Power Co., Birmingham, Ala.
Sept. 19 filed $10,000,000 20-year first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Drexel & Co.; Lehman Brothers; Blyth & Co. Inc.; Harriman, Ripley & Co., Goldman, Sachs & Co., Lazard Freres & Co. and Equitable Securities Corp. (jointly); Shields & Co. Expected in October. **Price**—To be determined by competitive bidding. **Proceeds**—To finance part of its expansion program.

Aluminum Industries, Inc., Cincinnati, Ohio
Sept. 17 (letter of notification) 2,295 shares (no par) common. **Price**—$25.50 per share. **Underwriter**—Hallgarten & Co., New York. For additional working capital.

• American Petroleum Co. of Colorado, Inc., Delta, Colo.
Sept. 23 (letter of notification) 50,000 shares ($1 par) common. **Price**—$1 a share. With each share, the purchaser will receive one share of stock as a bonus contributed by H. A. Hackathorn. To be sold through selling agents. To acquire further oil and gas leases.

• American-Visayan Trading Co., Inc., Oakland, Calif.
Sept. 25 (letter of notification) 83 shares ($100 par) 6% preferred and 98 shares ($100 par) common. To be sold at par through officers of the company. For expansion of export-import business.

American Water Works Co., Inc., N. Y. (10/7)
March 30, 1946 filed 2,698,472 shs. of common (par $5). **Underwriters**—W. C. Langley & Co. and The First Boston Corp. **Offering**—Stockholders of record Sept. 26 of American Water Works & Electric Co., Inc., have the right to subscribe on or before Oct. 6 at $8 per share for 2,343,105 shares of stock to the extent of one share for each share held. Rights expire 3 p.m. (EST) Oct. 6 Company is making exchange offers to the public preferred stockholders of Community Water Service Co. and Ohio Cities Water Corp. and to the public common stockholders of Community. For this purpose 343,964 shares are offered in exchange for the preferred stocks and 11,403 shares are being offered for the public common of Community. The 11,403 latter shares are not underwritten. Exchange rights expire 3 p.m. (EST) Oct. 6.

Anchor Post Products, Inc., Flemington, N. J.
Sept. 8 (letter of notification) 45,550 shares ($2 par) common. **Price**—$6 a share. Offered to stockholders of record Sept. 29 in ratio of one new share for each five shares held. Rights expire Oct. 31. No underwriting. For payment of notes and additional working capital.

• Angels Over Broadway, Inc., New York (10/6)
Sept. 26 (letter of notification) 2,000 shares of preferred stock (par $100) and 500 shares of common (par $1). **Price**—Par for each class. **Underwriters**—None. Finance production costs of musical plan known by name of company, working capital.

Associates Investment Co. (10/7)
Sept. 15 filed 223,000 shares ($10 par) common. **Underwriters**—F. S. Moseley & Co., Boston; Glore, Forgan & Co. and Merrill, Lynch, Pierce, Fenner & Beane, New York. Price by amendment. **Proceeds**—Of the total offering, the company is selling 200,000 shares and 23,000 shares by selling stockholders. The proceeds will be added to working capital.

Atlantic Products Corp., Trenton, N. J.
Sept. 23 (letter of notification) 29,568 shares of common stock (par $1). **Price**—$1.75 per share. **Underwriting**—None. To be offered for subscription to common stockholders to the extent of 10% of present holdings in an aggregate of 21,043 shares and to certain key employees in an aggregate of 8,525 shares. Reimburse company for sum paid by it for purchase of said shares.

• Belden Manufacturing Co., Chicago
Sept. 22 (letter of notification) 29,164 shares ($10 par) common. **Price**—$10 a share. To be offered for subscription to stockholders. No underwriting. For general corporate purposes.

Bellefield Co., Pittsburgh, Pa.
Sept. 14 (letter of notification) 30,877 shares (no par) capital stock. To be offered to shareholders at $5 a share. **Underwriter**—Pioneer Land Co., Pittsburgh. For improvement of hotel properties.

• Black Bear Mining Co., Consolidated, Spokane, Wash.
Sept. 25 (letter of notification) 500,000 shares of common. **Price**—12½¢ a share. To be sold through directors of the company. For mining exploration.

Brayton Flying Service, Inc., Robertson, Mo.
March 24 (letter of notification) 50,000 shares ($1 par) 27½ cent cumulative, convertible preferred and 50,000 shares (10c par) common. **Price**—$5 per unit, consisting of one share of each. **Underwriter**—White and Co., St. Louis, Mo. For expansion of operating facilities and for working capital.

Callaway Mills, LaGrange, Ga.
Aug. 28 filed 123,306 shares (no par) common. **Underwriting**—No underwriting. **Offering** — Shares will be offered only to those stockholders who exchanged their holdings of common for preferred in 1945. **Price**—$35 a share. **Proceeds**—For corporate purposes.

• Cal.-Pet. Exploration Co., Los Angeles
Sept. 25 (letter of notification) 299,950 shares ($1 par) common, of which 89,950 shares will be offered publicly at $1 a share and 210,000 shares will be issued for assignments of oil and gas leases. No underwriting. To acquire leases and properties and drilling same for oil.

Camden (N. J.) Fire Insurance Association
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Butcher & Sherrerd, Philadelphia. **Offering**—Shares will be offered to stockholders in the ratio of one new share for each four shares held. Unsubscribed shares will be sold publicly. **Price**—By amendment. **Proceeds**—To increase capital funds.

Carolina Telephone & Telegraph Co., Tarboro, N. C.
Sept. 3 filed 21,250 shares ($100 par) common. **Underwriters**—No underwriting. **Offering**—Offered to common stockholders at par on the basis of two new shares for each five shares held of record Oct. 1, 1947. Rights expire Oct. 31. **Proceeds**—To repay short-term bank loans in connection with the financing of construction program.

• Catalina Minerals Mining Co., Tucson, Ariz.
Sept. 15 (letter of notification) 1,000,000 shares of common (25¢ par). To be sold through Andrew J. Pollan, Secretary-Treasurer of the company. For mining development.

Central Ohio Distributing Co., Columbus, Ohio
Sept. 9 (letter of notification) $150,000 5% sinking fund debentures, due 1959, with stock purchase warrants attached, and 7,500 shares (no par) common. Debentures will be sold at 100% and the common will be sold upon exercise of the warrants at $5 a share until Sept. 1, 1948, $5.50 a share until Sept. 1, 1950, and $6.25 a share until Sept. 1, 1953. **Underwriter**—The Ohio Co., Columbus. For modernization and expansion purposes and to purchase equipment for wholly owned subsidiary and to provide working capital for the subsidiary and the issuer.

• Century Shares Trust, Boston
Sept. 25 filed 200,000 shares of stock. **Underwriter**—Harriman Ripley & Co., Inc. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

• Chain Candy Stores, Inc., Boston
Sept. 23 (letter of notification) $200,000 7% debentures, of which $100,000 will be offered in exchange for outstanding preferred. The balance will be sold in units of from $100 to $1,000. No underwriting. For expansion purposes.

• Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4 50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. **Business**—Public utility.

Cluett, Peabody & Co., Inc., New York (10/9)
Sept. 4 filed 112,974 shares ($100 par) 4% cumul. second preferred. **Underwriters**—Goldman, Sachs & Co., and Lehman Brothers are principal underwriters. **Offering**—Offered to common stockholders of record Sept. 24 at $102 per share on the basis of one share of preferred for each six shares of common held. Rights expire Oct. 8. Unsubscribed shares will be offered publicly. **Proceeds**—To redeem outstanding notes and for working capital.

Coleman-Pettersen Corp., Cleveland, Ohio
Sept. 15 (letter of notification) 2,000 shares ($20 par) 6% cumulative preferred and 4,000 shares (no par) common. **Price**—$30 per unit, consisting of one preferred share and two common shares. No underwriting. For new equipment, retirement of bank loan and working capital.

Colorado Central Power Co., Golden, Colo.
Sept. 8 (letter of notification) 9,872 shares ($10 par) common. **Price**—$30 a share. Company will sell the stock through investment bankers or security dealers and pay a commission of $1.25 a share. Proceeds will be used to repay a $100,000 loan and to reimburse its treasury cash.

Derby Gas & Electric Corp., New York
Sept. 4 filed 43,610 shares (no par) common. **Underwriting**—If a public sale is made the underwriter will be supplied by amendment. **Offering**—The shares will be offered to common stockholders on the basis of one share for each five shares held. Unsubscribed shares may be sold privately or publicly through an underwriter. Price to be supplied by amendment. **Proceeds**—Proceeds from the sale of stock and from the sale of new debentures will be used to make advances to the company's three operating subsidiaries for construction purposes.

• Dodge Manufacturing Corp., Chicago
Sept. 30 filed $1,500,000 15-year sinking fund debentures. **Underwriter**—Central Republic Co.; A. C. Allyn & Co., and H. M. Byllesby & Co., all of Chicago. **Price**—By amendment. **Proceeds**—To redeem outstanding debentures, repay bank loans and to increase general funds. **Business**—Manufacture of power hoists.

• Downtown Athletic Club of N. Y. City, Inc.
Sept. 30 (letter of notification) $150,000 first payment notes. **Price**—Par. **Underwriters**—None. Securities will be sold solely to bona fide members of the Club. To pay off temporary loan made by members on purchase price of premises occupied by Club.

• Duke Power Co., Charlotte, N. C.
Sept. 26 filed 252,512 shares (no par) common. **Underwriter** — There will be no underwriting; however, the Duke Endowment has agreed to purchase all shares not subscribed to by stockholders. **Offering**—For subscription to stockholders on the basis of one share for each four held. **Price**—$82.50 a share. **Proceeds**—To finance construction. **Business**—Public Utility.

• Dumont Electric Corp., New York (10/6)
Sept. 29 (letter of notification) 22,500 shares of common stock (par 10¢). **Price**—$4,375 per share. **Underwriter**—Buckley Brothers, Philadelphia. Proceeds go to selling stockholders.

• Elec-Trick-Toys, Inc., Utica, N. Y. (10/7)
Sept. 30 (letter of notification) 750 shares preferred (par $100) and 750 shares common (par $1). **Price**—Par for each class. **Underwriter**—Mohawk Valley Investing Co., Inc. Operation and development of business.

Electric Steam Sterlizing Co., Inc., N. Y.
Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc.

Empire Projector Corp., New York (10/10)
Aug. 21 (letter of notification) 80,000 shares ($1 par) common on behalf of the company, and 15,000 shares ($1 par) common on behalf of officers and stockholders. The 80,000 shares will be sold at $3 a share. The 15,000 shares will be sold to L. D. Sherman & Co., New York, the principal underwriter, at 60 cents a share. The underwriting discount for 80,000 shares will be 50 cents a share. The company will use its proceeds to increase working capital.

• Ero Manufacturing Co., Chicago
Sept. 30 filed 150,000 shares ($1 par) common. **Underwriter**—Straus & Blosser, Chicago. **Price**—$7 a share. The underwriting commission will be $1 a share. **Proceeds**—Shares are being sold by stockholders who will receive proceeds. **Business**—Manufacture of automobile seat covers.

NEW ISSUE CALENDAR

October 2, 1947
Frailey Industries, Inc. — Class A
Southern Pacific Co.
Noon (EST) — Condit'l Sales Agreement

October 6, 1947
Angels Over Broadway, Inc. — Pref. and Common
Dumont Electric Corp. — Common
Florida Rami Products, Inc. — Common
Payne Cutlery Corp. — Common
Seaboard Air Line RR.
Noon (EST) — Equip. Trust Ctfs.
Standard-Thompson Corp. — Debentures
Wiard Plow Co. — Common

October 7, 1947
American Water Works Co., Inc. — Common
Associates Investment Co. — Common
Chesapeake & Ohio Ry.
Noon (EST) — Equip. Trust Ctfs.
Chicago Burlington & Quincy RR.
Noon (CST) — Condit'l Sales Agreement
Elec-Trick-Toys, Inc. — Pref. and Common
Florin Water Co. — Bonds
La Plant-Choate Mfg. Co. — Preferred
Pacific Gas & Electric Co. — Bonds

October 8, 1947
Western Gold Mines, Inc. — Common

October 9, 1947
Cluett, Peabody & Co. Inc. — Preferred

October 10, 1947
Empire Projector Corp. — Common
Richmond Fredericksburg & Potomac
Noon (EST) — Condit'l Sales Agreement

October 14, 1947
New York Chicago & St. Louis
3 p.m. (EST) — Equip. Trust Ctfs.
Texas Power & Light Co. — Bonds

October 20, 1947
Metropolitan Edison Co. — Bonds

October 21, 1947
Pacific Tel. & Tel. Co. — Debentures

November 3, 1947
Public Service Co. of Indiana, Inc. — Bonds

Federal Electric Products Co.
Feb. 26, filed 150,000 shares ($1 par) common class A. **Underwriter**—E. F. Gillespie & Co., Inc., New York. **Price**—$7.25 a share. The registration states principal stockholder has granted the underwriters an option to purchase 45,000 shares of class B ($1 par) common at $7.25 a share, exercisable for a period of three years. **Proceeds**—Proceeds of approximately $870,000, together with $755,000 of other bonds, will be used to repay the balance of $34,000 of a property mortgage, to pay off loans in the amount of $1,295,000 to Bankers Commercial Corp., New York, and for additional working capital.

● **First Investors Shares Corp., New York**
Sept. 29 filed $2,250,000 of DW Plans, $5,500,000 of DWN Plans, and $2,250,000 of DWP Plans. **Underwriter**—First Investors Shares Corp., New York. **Offering**—The plans are periodic payment plans and fully paid plans for the acquisition of shares of Wellington Fund, a mutual investment fund. **Price**—Various amounts. **Proceeds**—For investment. **Business**—Investment business.

Florida Rami Products, Inc. (10/6-10)
Aug. 1 (letter of notification) 100,000 shares ($1 par) class A common. **Price**—$3 a share. **Underwriter**—Batkin, Jacobs & Co., New York. To purchase new machines and equipment, to pay off some current liabilities and to add to working capital.

Florin Water Co., Harrisburg, Pa. (10/7-8)
Sept. 22 (letter of notification) $67,000 4% 1st closed mtge. ref. bonds, due Oct. 15, 1969. **Price**—99 (excl. of interest from Oct. 15 to date of delivery). **Underwriter**—Warren W. York & Co., Inc. To refund $67,300 1st mtge. 6s.

● **Frailey Industries, Inc., New York (10/2)**
Sept. 26 (letter of notification) 34,500 shares of class A stock (par $1). **Price**—$5 per share. **Underwriter**—Edward R. Parker Co., Inc., New York. Expand sales of products, etc.

● **Gallup (N. M.) Dome, Inc.**
Sept. 23 (letter of notification) 49,000 shares of stock. **Price**—$1 a share. No underwriting. To drill well for oil or gas.

● **Gerity-Michigan Corp., Adrian, Mich.**
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds** — The shares are being sold for the account of James Gerity, Jr., company president. **Business**—Die casting business.

Glens Falls (N. Y.) Insurance Co.
Sept. 18 filed 150,000 shares ($5 par) capital stock. **Underwriter** — Morgan Stanley & Co., New York. **Offering** — The shares will be offered for subscription to stockholders on the basis of three new shares for each 10 shares held of record Oct. 6. Unsubscribed shares will be offered publicly through underwriters. **Price** — By amendment. **Proceeds**—To be added to the company's general funds.

● **Grand Stores Co., San Diego, Calif.**
Sept. 24 (letter of notification) 5,000 shares ($1 par) common on behalf of Charles R. Goff, President. To be sold through registered dealers at market.

Great Eastern Mutual Life Ins. Co., Denver
Sept. 2 (letter of notification) 45,250 shares ($1 par) capital stock. **Price**—$2 a share. To be sold through officers of the company. Of the total 13,250 shares will be sold for cash and 32,000 will be issued in exchange for 32,000 shares of capital stock of Western Agency Co. in order to acquire all of the latter's assets.

Great Western Biscuit Co., Los Angeles
Aug. 11 filed 249,972 shares ($1 par) capital stock. **Underwriter** — Fewel & Co., Los Angeles. **Offering** — Shares will be offered to stockholders at $2 a share in the ratio of one new share for each two now held. Unsubscribed shares will be offered publicly at $2 a share. The underwriters will receive a commission of 25 cents a share. **Proceeds**—For business expansion and to reduce short term indebtedness.

Greenback (Tenn.) Industries, Inc.
Sept. 17 (letter of notification) 25,000 shares ($10 par) preferred and 50,000 shares (10¢ par) common. **Price**—$10 per unit, consisting of one share of preferred and two shares of common. **Underwriter**—L. L. Bailey & Co., Knoxville, Tenn. To pay for equipment and buildings.

Hawaiian-Philippine Co., Manila, P. I.
Sept. 24 filed 500,000 shares 7% cumulative preferred, par 10 Philippines pesos per share (currency basis one neco equivalent to 50 cents). **Underwriting**—No underwriting. **Offering**—For subscription by common stockholders on the basis of one share for each 1¼ shares owned. **Price**—$5 a share. **Proceeds**—For rehabilitation program.

Hickok Manufacturing Co., Inc., Rochester, New York
Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds.

Hi-Dollar Shannon, Inc., Las Vegas, Nev.
Sept. 17 (letter of notification) 400 shares ($100 par) 6% preferred and 2,000 shares ($10 par) common. **Price**—$150 per unit, consisting of one share of preferred and five shares of common. Any underwriters will be supplied by amendment. For operation of business.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations.

Inglewood Gasoline Co., Beverly Hills
July 7 (letter of notification) 100,414.8 shares ($1 par) capital stock. **Price**—$1 a share. To be offered to stockholders. Unsubscribed shares to be offered publicly through Bennett & Co., Hollywood. To purchase equipment, liquidate indebtedness, and for working capital. An amended application may be filed in near future.

● **International Powermatic Corp., Los Angeles**
Sept. 25 (letter of notification) 231,631 shares for acquiring assets of International Research Corp., 250,000 shares to be offered to the public, and 250,000 shares to be issued to International Research Corp. The price to the public is $1 a share. **Underwriter**—Walter C. Hooven, North Hollywood, Calif. For new machine tools and working capital.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 2,132,223 shares ($3.50 par) capital stock. **Proceeds**—For debt retirement, finance new construction and for working capital. Bonds awarded Sept. 24 to Halsey, Stuart & Co. Inc. on bid of 101.90 for a 3½% coupon rate. Stock awarded Sept. 24 on bid of $4.05 per share to Lehman Brothers, Goldman, Sachs & Co. and Wertheim & Co. The SEC on Sept. 25 rejected the bid for the stock. This action blocked the sale of the bonds.

I-T-E Circuit Breaker Co., Philadelphiha
Sept. 15 filed 61,476 shares ($10 par) common. **Underwriter**—No underwriting. **Offering**—The shares will be offered to ($10 par) common stockholders of Railway & Industrial Engineering Co., South Greensburg, Pa., on an exchange basis of 1⅕ shares of I-T-E Common for one share of Railway Common. The offer will be made pursuant to a plan of reorganization.

Jersey Shore (Pa.) Gas & Heating Co.
Sept. 10 (letter of notification) $25,000 first mortgage sinking fund debentures. Price, par. **Underwriter**—Bioren & Co., Philadelphia. To retire present loan of $20,500 and to add to working capital.

Kent-Moore Organization Inc., Detroit
Sept. 10 filed 32,000 shares of common. **Underwriting**—No underwriting. **Price**—$16.50 a share. **Proceeds**—Shares are being sold by two stockholders who will receive proceeds.

Koch Chemical Co., Winona, Minn.
July 22 (letter of notification) 60,000 shares ($1 par) common. **Price**—$5 a share. **Underwriter**—H. P. Carver Corp., Boston. To retire debt and for working capital.

La Plant-Choate Manufacturing Co., Inc., Cedar Rapids, Iowa (10/7)
April 30 filed 40,000 shares ($25 par) 5% cumul. convertible preferred. **Underwriter**—Paul H. Davis & Co., Chicago. **Price**—$25 per share. **Proceeds**—To be added to working capital and will be used in part to reduce current bank loans.

Legend Gold Mines, Ltd., Toronto, Canada
June 27 filed 300,000 shares ($1 par) common treasury stock. **Underwriting** — To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties. **Business**—Mining.

● **Liberty Loan Corp., Chicago**
Sept. 25 filed 100,000 shares ($10 par) 75-cent cumulative convertible preferred, and 100,000 shares of Class A common, reserved for conversion of the preferred. **Underwriter**—Sills, Minton & Co. **Price**—$15 a share. **Proceeds**—To reimburse treasury for cost of redeeming 50-cent preferred. **Business**—Loan business.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

● **Manufacturers Research Corp., Baltimore, Md.**
Sept. 24 (letter of notification) 3,875 shares ($10 par) common. **Price** — $12 a share. No underwriting. To construction and equip experimental laboratory to carry on research for small manufacturers.

Massachusetts Bonding and Insurance Co., Boston
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Geyer & Co., New York. **Offering**—To be offered for subscription to stockholders on the basis of one new share for each four held. Unsubscribed shares will be sold publicly. Price by amendment. **Proceeds**—For expansion of business.

McCormick & Co., Inc., Baltimore, Md.
Aug. 13 (letter of notification) 1,400 shares ($100 par) 5% cumulative preferred. **Price**—$100 a share. No underwriting. For additional working capital.

Metropolitan Edison Co., Reading, Pa. (10/20)
Aug. 29 filed $4,500,000 of first mortgage bonds. **Underwriting** — To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Drexel & Co. **Proceeds**—For payment of bank loans, purchase or construction of new facilities. **Bids**—Expected bids will be advertised Oct. 9, to be opened Oct. 20 at Room 2601, 61 Broadway, New York.

● **Mica Mountain Mines, Inc., Salt Lake City, Utah**
Sept. 25 (letter of notification) 400,000 shares of common. To be sold from 25 cents to 40 cents a share. Officers and directors of the company will act as selling agents. For mining operations.

● **Mineola (Texas) Farmers Market**
Sept. 18 (letter of notification) $7,500 of preorganization certificates, to be sold at face amount. Joe Stallings, of Mineola, Tex., will handle sale of stock. For equipment and erection of shipping or market sheds.

● **Munising Wood Products Co., Inc., Chicago**
Sept. 29 filed 50,000 shares ($10 par) 5% cumulative convertible preferred and 100,000 shares ($1 par) common. **Underwriters** — Straus & Blosser and Brailsford & Co., both of Chicago. **Price** — $10 a preferred share and $6.12½ a common share. **Proceeds** — The securities are being sold by 12 stockholders who will receive proceeds. **Business**—Wood tableware and industrial wood products.

Mutual Finance Co., Tampa, Fla.
Sept. 18 (letter of notification) 2,420 shares ($100 par) 5% cumulative preferred and 2,420 shares (no par) common. **Price**—$105 per unit, consisting of one share of each. To be distributed by A. M. Kidder & Co. as agent. For payment of current obligations.

● **Nassau Discount Corp., New York**
Sept. 25 (letter of notification) $100,000 of 8% debenture bonds. **Price**—$500 per unit. No underwriting. For additional working capital.

Natra-Lyn Corp., Camden, N. J.
Sept. 23 (letter of notification) 10,000 shares of capital stock (par $5). **Price**—$5 per share. Stock shall be sold only by J. Howard Cundiff, Jr., 98 Par. Ave., Collingswood, N. J. For advertising products of corporation, consisting principally of cosmetic preparations.

Pacific Finance Corp. of California, Los Angeles
Sept. 24 filed 19,750 shares ($10 par) common. **Underwriting**—No underwriting. **Offering**—To officers and employees of the company. **Price**—$18 a share. **Proceeds** For general corporate purposes. **Business**—Finance and insurance business.

Pacific Gas & Electric Co. (10/7)
Sept. 10 filed $75,000,000 2⅞% 1st and ref. mortgage bonds, series Q, due Dec. 1, 1980. **Underwriters**—To be determined through competitive bidding. Probable bidders include: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To retire bank loans and to finance in part construction program. **Bids**—Tentatively expected Oct. 7.

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Pacific Telephone & Telegraph Co., San Francisco (10/21)
Sept. 19 filed $100,000,000 40-year debentures. **Underwriting** — To be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. **Price** — To be determined by competitive bidding. **Proceeds**—For construction program. **Bids**—Company will receive bids for the purchase of the bonds up to 11:30 a.m. Oct. 21.

Payne Cutlery Corp., Brooklyn, N. Y. (10/6-10)
Sept. 2 (letter of notification) 14,000 shares of common (par 50c). **Price**—$1.875 per share. Offered on behalf of or for benefit of Greenfield, Lax & Co., Inc., who is named underwriter. Effective Sept. 10.

● **Premium Phosphate Co., Inc., Salt Lake City**
Sept. 22 (letter of notification) 100,000 shares ($1 par) capital stock. **Price**—$1 a share. No underwriting. For plant and equipment and working capital.

● **Progressive Oil and Gas Trust, Colorado Springs, Colo.**
Sept. 26 (letter of notification) 160 certificates of beneficial interests ($100 par), on behalf of the issuer and 100 certificates of beneficial interests on behalf of individual trustees of the company. **Price**—$100 per unit. To be sold through the trustees. The company will use its proceeds to carry on a drilling program.

Prosperity Co., Inc., Syracuse, N. Y.
Sept. 17 (letter of notification) 3,000 shares ($100 par) preferred. **Price**—$100 a share. No underwriting. For general corporate purposes.

● **Providence (R. I.) Washington Insurance Co.**
Sept. 25 filed 100,000 shares ($10 par) capital stock. **Underwriter**—First Boston Corp., New York. **Offering**—For subscription to stockholders on the basis of one new share for each three shares held. Unsubscribed shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—To increase its capital and surplus.

● **Public Service Co. of Indiana, Inc. (11/3)**
Oct. 1 filed $15,000,000 first mortgage bonds, series G, due 1977. **Underwriters**—Names to be supplied by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Glore, Forgan & Co.; Halsey, Stuart & Co. Inc.; Kuhn, Loeb & Co., and Harriman Ripley & Co. (jointly). **Proceeds**—About $4,000,000 will be used to reimburse the treasury for expenditures already made and the remainder will go for additional construction requirements. **Bids**—Expected about Nov. 3.

● **Robertshaw-Fulton Controls Co., Youngwood, Pennsylvania**
Sept. 26 filed 120,000 shs. of 4¾% ($25 par) cumulative preferred and 550,000 shares ($1 par) common; also 300,000 shares of common for conversion of the preferred. **Underwriter**—All but 50,000 shares of the common will be underwritten by Reynolds & Co., New York. The 50,000 shares will be offered to employees and officers of the company. **Offering**—Company is offering the preferred and 50,000 shares of the common and Reynolds Metals Co., Richmond, Va., parent of the registrant, is offering the remaining 500,000 shares of common. Price by amendment. **Proceeds**—To pay obligations. **Business**—Manufacture of devices for automatic control of temperatures and pressures.

Salant & Salant, Inc., New York
March 28 filed 240,000 shares ($2 par) capital stock. Underwriter—Eastman, Dillon & Co., New York. Price by amendment. Proceeds—Shares are being sold by 13 stockholders who will receive proceeds.

● **Save-Rite Drug Stores, Inc., Albuquerque, N. M.**
Sept. 22 (letter of notification) 700 shares of common and 300 shares of 5% preferred. **Price**—$100 per unit. No underwriting. For business operations.

● **Seaboard Finance Co., Los Angeles**
Sept. 29 filed 50,000 shares ($1 par) common. No underwriting. **Offering**—To company's employees. Price by amendment. **Proceeds**—The shares are being sold by W. A. Thompson, President of the company, who will receive proceeds. **Business**—Finance business.

Seattle (Wash.) Gas Co.
Sept. 4 (letter of notification) $300,000 ($50 par) preferred. **Price**—$50 a share. **Underwriter**—Shea & Co., Boston; and Smith, Landeryou & Co., Omaha, Neb. For payment of loan and current obligations.

Silver Creek (N. Y.) Precision Corp.
Sept. 10 (letter of notification) 15,000 shares (40¢ par) common. To be sold at market through brokers and dealers. The shares are being sold by Lawrence Schmitt, President, who will receive proceeds.

South Jersey Gas Co., Newark, N. J.
Sept. 3 filed $4,000,000 30-year first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp. **Proceeds**—To redeem outstanding securities of Atlantic City Gas Co., and Peoples Gas Co., which were merged to form South Jersey Gas Co.

Southeastern Development Corp., Jacksonville, Fla.
July 29 (letter of notification) 8,000 units consisting of one share ($10 par) 6% cumulative preferred and one share ($1 par) common. **Price**—$12.50 per unit. **Underwriter**—Southeastern Securities Corp., Jacksonville. For working capital.

● **Southern Colorado Power Co., Pueblo, Colo.**
Sept. 26 (letter of notification) 29,810 shares (no par) common, to be offered to stockholders at $9.50 a share on the basis of one share for each 15 shares held. Unsubscribed shares will be sold publicly through underwriters headed by Hutchinson & Co., Pueblo, Colo.; Bosworth, Sullivan & Co., and Boettcher & Co., both of Denver. The public offering price will depend on the number of shares offered. For working capital.

Southwest Lumber Mills, Inc., McNary, Ariz.
Aug. 11 (letter of notification) 40,000 shares ($1 par) capital stock. **Price**—$7.50 a share. To be offered to stockholders. Any shares not purchased by stockholders will be bought by Imperial Trust Co., Ltd., of Montreal, Can. To restore working capital.

● **Sparton Tool & Service Co., Houston, Texas**
Sept. 26 filed $1,200,000 of 4% debentures, due 1955, and 230,000 shares ($1 par) common. **Underwriting** — Well Service Securities Co., an affiliate, will be sold a portion of the common for resale to Spartan's officers and employees. **Offering**—Common will be offered in conjunction with the debentures on the basis of 100 shares for each $1,000 debentures purchased. Price by amendment. **Proceeds**—To provide working capital.

Sta-Kleen Bakery Inc., Lynchburg, Va.
Sept. 8 (letter of notification) 1,621 shares ($1 par) common, on behalf of company and 8,000 shares ($1 par) common, on behalf of four stockholders. **Price**—$12 a share. **Underwriter** — Scott Horner & Mason, Inc., Lynchburg, Va. Company will use its proceeds for working capital and expansion purposes.

Standard-Thompson Corp., Dayton, O. (10/6)
Aug. 27 filed $1,750,000 5% sinking fund debentures, due 1967, with warrants to purchase 87,500 common shares (par $1). **Underwriters**—Lee Higginson Corp. and P. W. Brooks & Co., Inc., New York. **Offering**—The debentures with common stock warrants attached will be offered publicly. The common shares will be reserved for conversion of debentures.

Sterling Electric Motors, Inc., Los Angeles, California
Sept. 10 (letter of notification) 19,591 shares ($1 par) common. The shares will be issued upon exercise of outstanding warrants. To be added to the corporation's funds.

● **Supervised Shares, Inc., Des Moines, Iowa**
Sept. 25 filed 500,000 shares (25¢ par) common. **Underwriter**—T. C. Henderson & Co., Inc., will act as distributors for the shares. Price based on market. **Proceeds**—For investment. **Business**—Investment business.

Teaco Beverage Co., Nashville, Tenn.
Sept. 8 (letter of notification) 25,000 shares ($10 par) 5% cumulative preferred. **Price**—$10 a share. The purchaser of each share of preferred will receive from the seller one share of $1 par common. No underwriting. The shares are being sold by three officers of the company who will receive proceeds.

Texas Co., New York
Aug. 14 filed 2,248,932 common (par $25) shares. **Underwriters**—No underwriting. **Offering**—Shares are offered at $45 per share for subscription to stockholders of record Sept. 17 on basis of one new for each five shares held. Rights expire Oct. 8. **Proceeds**—To be added to general funds for corporate purposes.

Texas Power & Light Co. (10/14)
Sept. 12 filed $8,000,000 30-year first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Blyth & Co., Inc., Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp., Hemphill, Noyes & Co. and Drexel & Co. (jointly); White, Weld & Co., Lazard Freres & Co. and Harriman Ripley & Co. (jointly). **Proceeds**—To finance construction program. Bids for purchase of bonds expected about Oct. 14.

● **Title Insurance Company of Montana, Seattle**
Sept. 24 (letter of notification) $6,000 shares (no par) common and 3,000 shares (no par) preferred. **Price**—$125 per unit, consisting of one share of each. To be sold through officers of the company. For establishment of title insurance company.

Tri State Linen White Corp., Jackson, Miss.
Sept. 8 (letter of notification) 20,000 shares ($1 par) common and 250 shares ($100 par) preferred. To be sold at par. No underwriting, to be sold through officers of company. For plant expansion and broadening sales territory.

Utah Chemical & Carbon Co.
Dec. 20 filed $700,000 5% 15-year convertible debentures due 1962, and 225,000 shares ($1 par) common. The statement also covers 112,000 shares of common reserved for conversion of the debentures. **Underwriter**—Carver & Co., Inc., Boston. **Price**—Debentures 98; common $3.75 per share. **Proceeds**—For plant construction, purchase of equipment and for working capital. Registration statement became effective June 28.

Vauze Dufault Mines, Ltd., Toronto, Canada
Mar. 31 filed 500,000 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. **Price**—50 cents a share. **Proceeds**—For general operating expenses.

● **Western Gold Mines, Inc., Jersey City, N. J. (10/8)**
Sept. 30 (letter of notification) 33,400 shares of common stock (par 10¢). **Price**—$8.50 per share. **Underwriter**—Frank L. Porter, 52 William St., New York. Preparation of Silver Reef Mine for regular mining operations, erection of mill, working capital.

Wiard Plow Co., Batavia, N. Y. (10/6-8)
Sept. 3 (letter of notification) 100,000 shares of common stock (par $1) with rights to purchase up to 10,000 additional shares. **Price**—$2.90 per share; rights 3¢. **Underwriter**—E. F. Gillespie & Co., Inc., New York. Pay bank loan, acquisition of small implement company and working capital.

● **Wisconsin Investment Co., Milwaukee**
Sept. 29 filed 370,000 shares of common. **Underwriter**—Loewi & Co., Milwaukee. **Offering**—Shares initially will be offered to stockholders and unsubscribed shares will be offered publicly through underwriter. **Price**—Based on market prices. **Proceeds**—For investment. **Business**—Investment business.

● **Wisconsin Public Service Corp., Milwaukee**
Sept. 30 filed $4,000,000 30-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Shields & Co.; Glore, Forgan & Co., and Harriman Ripley & Co. (jointly); W. C. Langley & Co.; The First Boston Corp. **Proceeds**—To repay short-term bank loans. **Business**—Public utility.

Prospective Offerings

Chesapeake & Ohio Ry. (10/7)
Company has issued invitations for bids to be received on or before noon (EST) Oct. 7 at office of H. F. Lohmeyer, Sec.-Tres., Terminal Tower, Cleveland, for $5,300,000 of equipment trust certificates. The certificates will be dated Oct. 15, 1947, and are to mature in equal annual instalments from Oct. 15, 1948, to Oct. 15, 1957. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

Chicago, Burlington & Quincy RR. (10/7)
Company is inviting bids for the lowest interest rate at which bidders will provide the following: Not to exceed $1,252,900 from time to time before Jan. 31, 1948, for financing the acquisition of two new 6000 horsepower Diesel-electric freight locomotives and one new 4500 horsepower Diesel-electric passenger locomotive, and not to exceed $1,517,100 from time to time before Aug. 31, 1948, for financing the acquisition of 14 new stainless steel streamlined passenger train cars. Bids are to be submitted on or before noon (CST) Oct. 7 at Room 205, 547 West Jackson Blvd., Chicago.

● **Chicago & Eastern Illinois RR.**
Sept. 30 company plans to issue invitations shortly for bids to be considered later this month on $3,600,000 in 1-to-15-year equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Erie RR.**
Sept. 22 company applied to ICC for authority to issue $6,850,000 equipment trust certificates. Proceeds are to be used to pay part of the cost of $8,592,000 of new equipment. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Jacksonville Terminal Co.**
Sept. 23 reported company has under consideration the refunding of its $4,000,000 of bonds outstanding which would entail the issuance of a new issue at lower interest rate. The First Boston Corp. has no present intention to act as agent. **Probable bidders**—The First Boston Corp.; Morgan, Stanley & Co.; Halsey, Stuart & Co. Inc.; Dick & Merle Smith.

● **New York Chicago & St. Louis RR. (10/14)**
Company will receive bids up to 3 p.m. (EST) Oct. 14 for the sale of $3,800,000 equipment trust certificates to be dated Nov. 1, 1947, and due annually Nov. 1, 1948-1957. Bids will be received at company's office, 2910 Terminal Tower, Cleveland. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); R. W. Pressprich & Co.

● **Portland General Electric Co.**
Sept. 30 requested SEC authority to sell at competitive bidding $6,000,000 30-year first mortgage bonds, and to

use proceeds to finance expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.

Richmond, Fredericksburg & Potomac RR. (10/10)
Company is inviting bids, to be submitted on or before noon (EST) Oct. 10, for the lowest rate of interest at which bidders will provide $400,000 for financing under a conditional sales agreement certain equipment to be acquired from American Car & Foundry Co.

Seaboard Air Line RR. (10/6)
The company has issued invitations for bids to be received up to noon (EST) Oct. 6 for $4,500,000 of equipment trust certificates to be dated Oct. 15, 1947, and to mature $300,000 annually from Oct. 15, 1948, to Oct. 15, 1962. Bids will be received at office of Willkie, Owen, Farr, Gallagher & Walton, 15 Broad Street, New York. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Shields & Co. and associates.

Southern Pacific Co. (10/2)
Company requests bids for the lowest rate of interest, per annum, at which bidders will provide not more than $1,392,000 for financing, under an agreement of conditional sale to be dated Oct. 1, 1947, the acquisition by it from General Motors Corp. of three new Diesel-electric 6000 h.p. four-unit road freight locomotives, expected to be delivered in October 1947, at an estimated aggregate purchase price of $1,740,996, of which $1,392,000, or 80% of the actual aggregate purchase price, whichever is less, is to be financed. Bids will be received up to noon (EST) Oct. 2 at Room 2117, 165 Broadway, New York.

● **Southwestern Gas & Elec. Co., Shreveport, La.**
Sept. 30 company asked SEC for permission to issue and sell at competitive sale $7,000,000 first mortgage bonds, series B, and use the proceeds to finance its construction program. Probable bidders: Halsey, Stuart & Co. Inc.; White, Weld & Co.; Kidder, Peabody & Co.

● **Standard Oil Co. (Ohio)**
Oct. 21, at a special meeting, stockholders will vote on increasing authorized number of shares of common stock to 5,000,000 from 3,250,000. If approved, company will offer approximately 584,320 shares of common stock to shareholders on the basis of one share of new stock for each five shares of presently outstanding stock. The offering price, subscription terms and offering dates have not yet been determined. Proceeds will be used for capital expenditures and for other corporate purposes. Capital expenditures this year will require approximately $27,000,000. Probable underwriter: F. S. Moseley & Co.

● **Sunray Oil Co.**
Sept. 26 negotiations whereby Sunray would acquire the Getty Group interest in Pacific Western Oil Corp. are reported in an advanced stage. Pacific Western owns 46.71%, or 641,808 shares of Mission Corp. and 577,854 shares of Tide Water Associated Oil Co. stock, or 9.03% of the outstanding shares of the latter. Mission owns 582,657 shares of Skelly Oil Co., or 59.37% of the outstanding shares, and 1,341,493 shares, or 20.97%, of Tide Water Associated. Acquisition of the Getty Group interests would give Sunray at least working control of Mission, which in turn controls Skelly. Acquisition of Getty interest, it is said, would be financed by debenture issue. **Traditional Underwriter**—Eastman, Dillon & Co.

Observations

(Continued from page 5)

for economic cooperation can work, either under or outside the aegis of the United Nations.

The Have-Nots' Fury Over the Atom

Also off-the-beam of the real motivating issue are the frenzied accusations of preparations for atomic and general military warfare continuingly hurled against us by the Stalin-Gromyko-Vishinsky team—exemplified again last week by the blatant charge by the Soviet's visiting angel of peace—that the United States is a culprit resisting every attempt to dismantle the existing stock of atomic bombs and outlaw their future production, and by such typical headlines in the Moscow Press as: "U. S. Hinders Work on Prohibition of Atom Weapons"; "U. S. and Britain Oppose Reduction of Armaments"; "U.S.S.R. Standing for Prohibition of Atom Weapons and International Control." Actually, of course, the American policy unswervingly practiced ever since our representation was first entrusted to Mr. Baruch, has been based on our almost panicky desire to escape from the responsibility imposed by monopoly possession of the weapon. As Britain's Minister of State Hector McNeil has so clearly pointed out, the United States not only stands ready to have her plants inspected, but actually to see them placed under the ownership and management of an international supervisory body. Termed by Mr. McNeil "one of the most remarkable offers in the history of disarmament proposals," its excoriation by the Russians clearly puts them in the position of a man in straitened circumstances who, after being helped with a valuable gift, because of embarrassment over his benefactor's generosity highlighting his own poverty, turns against the donor with "defensive" jealousy-born anger.

* * * *

Likewise a manifestation of underlying anger rather than a significant political incident, is Moscow's refusal of a visa for visiting our Moscow embassy to Assistant Secretary of State Peurifoy, our official supervising the operation of our embassies and legations.

* * * *

The Fundamental Trouble

This behavior-pattern of underlyingly-motivating anger explains the Soviet's persistently disrupting action toward whatever facet of United Nations workability is being eagerly sought after by the great majority of her "allies." *It must be realized that this anger is born of the infuriating frustration felt by her because of her "millionaire cousin's" blocking of her compulsive ambitions for expansion and world domination; and most important of all for our understanding is the realization that tensions will not be decisively relieved unless and until this political root of the aggressor's anger is in some way abandoned.*

Our Reporter's Report

Marketing of New England Telephone & Telegraph Co.'s $40,000,000 of 35-year debentures this week should have proven an eye-opener for the underwriting fraternity in general judging by the results.

According to observers, it was one of the fastest big deals in many months, presumably having been priced to attract the interest of the large institutional buyers.

At any rate with a 2.925% yield indicated for the buyer, and carrying a 3% coupon rate, it evidently had "eye-appeal" which has been lacking in some more recent ventures.

With two big syndicates bidding for the issue, it appeared that both had somewhat revised their views on what the market would take in the case of a new money issue.

The successful group bid the company a price of 100.8091 and specified a 3% interest rate. The runners-up bid 100.40 for the same coupon a spread of only about 0.41 points. This permitted the group to fix a reoffering price of 101⅝ to afford the aforementioned yield.

Bankers received an able assist from the Securities and Exchange Commission, which waiving its more or less customary forty-eight-hour respite, approved the terms within a couple of hours, opening the way for immediate reoffering.

Although much verbal ordering probably was done on Tuesday afternoon, the bankers, waiting on their prospectuses, refrained from actual sale of the debentures until yesterday.

Hard Bargainers

Only a portion of the $75,000,000 of Duquesne Light Co.'s 30-year first mortgage bonds brought out by bankers last week has thus far moved to ultimate buyers, according to gossip in market circles.

The group which bid in this issue at 100.7699 fixed its reoffering price at 101.229 giving the potential buyer an indicated yield of around 2.69% to maturity.

Presumably this was not sufficiently high, even though the bonds are rated triple A, to appeal to the portfolio buyers of insurance companies. At any rate, the latter are reportedly haggling for a basis that involves a differential of around $2 a $1,000 bond, and up to here have been quite adamant.

Current Complaint

At the moment underwriting firms are more than a little bit nettled by the evident lack of interest in preferred stocks. Their complaint is that a great many potential issuers are set in their ideas and are determined on financing of that type.

But the bankers have found repeatedly that the investor is not too keen for senior equities unless they are most attractively set up and, of course, the issuer is naturally concerned with driving the best bargain he can.

The net result is that while the potential in this direction is rated in large figures, the bankers are not disposed to be interested, what with the dearth of investor interest.

Quick Revision

Cutting the cloth to fit the pattern required a bit of fast footwork on the part of bankers who took on Texas Electric Service Co.'s $7,000,000 of first mortgage 30-year bonds.

In competition, bids for this issue ranged all the way from a low of 100.3378 to the winning tender of 101.297 with a total of eight groups having sought the business.

On the basis of reports in the market place the successful group upon feeling out the market for reoffering, made a quick change in its calculations and modified considerably its repricing ideas.

The price to the public was finally set at 101.51 to yield about 2.80%, indicating the meagre spread to the bankers of about 21.3 cents per $100 bond to cover costs.

Pacific Gas & Electric

Next week will bring up the Pacific Gas & Electric Co.'s $75,000,000 of new 35-year 2⅞% first and refunding mortgage bonds for competitive bids.

This is the only large new utility undertaking ahead for the period and on last reports it was indicated that three banking groups would be in the running: one headed by a West Coast firm, another by a Chicago banking house and the third by a New York institution.

Here again the purpose of the issue is to raise new money through the funding of bank loans and to pay for new construction in contemplation or in progress.

Business Man's Bookshelf

Board of Directors and Business Management, The—Melvin T. Copeland and Andrew R. Towl—Division of Research, Harvard Business School, Soldiers Field, Boston 63, Mass.—$3.25.

Concerning U. S. Government Securities—Concise, chronological outline of U. S. Government financing from the foundation of our Government to the end of World War II; deals with all major facts, events, and influences affecting our national obligations and includes official reports, statistics and charts, records of market prices and yields, statements of Treasury policies, and details of all major loans (1905-1945). C. F. Childs & Co., 141 West Jackson Boulevard, Chicago 4, Ill.—cloth—$5.00.

Cycli-Graphs—Pre-publication offer of new 128-page folio of 500 cycli-graphs with monthly price ranges up to date through Sept. 30th—new edition contains individual charts of the 500 largest and most active listed stocks, portraying the cyclical swings for the entire prewar, wartime and postwar period since 1935—$3.00 before Oct. 8, 1947, $4.00 thereafter—ask for Folio CFC-102—Securities Research Corporation, 141 Milk St., Boston 9, Mass.

Foreign Loan Policy of the United States, The—J. B. Condliffe—American Enterprise Association, 4 East 41st Street, New York 17, N. Y.—Paper—50c.

Survey of University and College Endowment Funds—Scudder, Stevens & Clark, 1 Wall Street, New York 5, N. Y.—paper.

Chas. Allen, Jr., Director

Charles Allen, Jr., senior partner of the New York investment

Charles Allen, Jr.

firm of Allen & Company, has been elected a director of United Cigar-Whelan Stores Corporation. Mr. Allen is also chairman of the board of Colorado Fuel & Iron Corporation.

Ky. Utilities Pfd. Offered On Exchange Basis By First Boston Group

The First Boston Corp., Lehman Brothers and Lazard Freres & Co., as dealer managers, head a group of investment banking firms which is making an exchange offer under which a new issue of 130,000 shares of Kentucky Utilities Co. 4¾% cumulative preferred stock, $100 par value, is being offered to holders (other than The Middle West Corp.) of the company's outstanding 6% preferred and 7% junior preferred. The underwriters are offering to holders of the 6% preferred the privilege of exchanging their shares, on or before 3 p.m., Oct. 14, 1947, for shares of new 4¾% preferred on a share-for-share basis; one share of new preferred will be exchanged for two shares of 7% junior preferred, with cash adjustments in each case.

Excluding shares owned by The Middle West Corp., there are outstanding 76,011 shares of 6% preferred and 106,955 shares of 7% junior preferred. Any shares of new preferred not taken in exchange will be offered to the public at a later date, and the proceeds, together with general funds of the company, will be used to retire any remaining shares of old preferred.

Upon completion of this financing the company will have a total funded debt of $29,225,000; the 130,000 shares of preferred now being offered, and 1,530,000 shares of common stock, $10 par value, including 400,000 additional shares which The Middle West Corp. has agreed to purchase at par.

The new preferred stock is redeemable at prices ranging from $104 per share, if redeemed prior to Sept. 1, 1952, to $101 per share if redeemed on or after Sept. 1, 1962.

Postwar Bank Credit Problems

(Continued from page 6)

Readjustment in our domestic situation is overdue, and the sooner it can be brought about, the better it will be for the nation and the world.

Cost of Maintaining the Peace

We spent nearly $350 billion to win the war, and we shall need to spend substantial, although greatly smaller amounts, to keep the peace. Large parts of the world have been devastated and, even in those parts left intact, the customary processes and channels of trade and commerce have been destroyed or upset. People in nearly all nations have vast holdings of money and large deferred demands for the necessities of life, and supplies of nearly everything to meet these demands are inadequate. The money they have, however, cannot be used to make purchases from countries which have goods for sale, and they have little else to offer in exchange. When people are thus upset, they are susceptible to the lure of political panaceas and are likely to generate feelings of hatred toward others more fortunate than they. This state of mind is a threat to stability and peace in the world.

In the two fiscal years from July, 1946 to June, 1948 we have budgeted expenditures of more than $25 billion for the maintenance of our national defense. We have provided altogether since the end of the war foreign grants and credits of approximately $13.5 billion, which is only two-thirds of our military budget for the first two postwar fiscal years. Surely this is a small amount to make available for helping to win the peace, when compared with our vast expenditure of $350 billion used to win the war.

It cannot be denied or ignored that continued large loans and grants to foreign countries are either a heavy current burden upon our taxpayers or a strong inflationary force on our economy, but so are our even larger military expenditures, which are considered by many as necessary for maintaining peace.

We should be fully aware of the costs and risks of providing foreign aid and make adjustments in our policies accordingly. We cannot be lavish in aid to other countries without suffering the consequences of inflation, heavier taxation, or the reimposition of controls. Countries receiving assistance should recognize the burden that is being imposed on our economy, and it is imperative that they take measures to assure the most effective use of their own resources as well as of those received from us. If these requirements are met, it would be shortsighted, as well as highly selfish, for us to deny aid needed to prevent starvation and to reconstruct productive capacity in other countries in order to increase our already large consumption for the purpose of counteracting inflation. The best remedy for inflation is more production, and the greatest unused productive resources now lie outside of this country, but they cannot be effectively operated by starving people devoid of equipment and supplies.

Responsibility of Federal Reserve System

What bearing, you may wonder, does all this have upon our common problems and responsibilities of bank supervision? The Federal Reserve has a close interest in these matters, because we are responsible for providing the reserves that support our entire money and credit system. We must constantly consider whether the existing supply of bank credit is redundant or inadequate. This judgment must be based upon the needs and behavior of the economy. There is not time here to discuss the specific objectives, standards, and various other considerations that provide the basis for these policy decisions. The Board of Governors, the Federal Open Market Committee, composed of the Board and representatives of the Federal Reserve Banks, the operating officials of the Reserve Banks, and the Federal Advisory Council in giving advice, must constantly keep in mind the impact of Federal Reserve policies on the economy.

International affairs are of importance to us because of their general impact on our domestic economy and more directly because the net resultant of all international financial transactions are reflected in gold movements. Gold, together with Federal Reserve Bank credit, supplies the basic reserves of our banking system. The interest and responsibilities of the Reserve System in this field are recognized by the Congress in including the Chairman of the Board of Governors as one of five members of the National Advisory Council. This Council has responsibility for supervising and coordinating the international financial policies of the Federal Government.

Changed Position of Banks

Because of their interests and responsibilities, the Federal Reserve authorities are greatly impressed with the changed position of banks that has resulted from war. These changes will affect the duties and responsibilities of all bank supervisory agencies. The vast volume of deposits and currency not only offers a threat of inflation for the economy as a whole, but it may create serious problems for individual banks. With our system of 14,000 separate banks, shifts of deposits from bank to bank necessitate corresponding shifts of assets or other adjustments. For this reason our banking system requires a high degree of liquidity and these requirements have been enlarged by the great wartime growth and broad distribution of bank deposits.

Another problem confronting bank supervisory agencies is the great existing potential for further expansion of credit. Generally in the past banks could not expand their loans and investments, except when new funds came to them or unless they were willing to borrow. When one bank lost funds, it had to borrow or liquidate assets. While for individual banks that situation still exists, the very large holdings of government securities now held by banks makes it easy for them to shift to other assets that seem more attractive.

When banks sell their government securities, in the absence of any other buyer, the Federal Reserve is obliged to purchase them. Otherwise, the government securities market would decline and might collapse. This would not only greatly increase the cost of carrying the public debt, but would seriously endanger our entire financial structure, in which government now occupies such an important place.

When the Federal Reserve System acquires additional government securities, new reserves are created; these reserves pass to other banks and ultimately may provide the basis for an expansion in credit amounting to six to ten times the reserves made available. This ability of the banking system to bring about the creation of new reserves without borrowing is a new element in the credit situation. With an active demand for loans, it can be a powerful inflationary force. The Board has long recognized this problem, discussed it fully in its Annual Reports to Congress for 1945 and 1946, and presented proposals for its solution. Most of you may be familiar with the substance of these reports; time does not permit a full discussion of them here. Up to date little support has been received for the Board's suggestions, and nothing whatever has been done to put the Board in a position where it could restrain inflationary expansion by the banking system.

Another potential for credit expansion is the large flow of gold that is now coming into this country. This inflow has already amounted to nearly $2 billions this year. Since the middle of the year total loans and investments of commercial banks have been expanding at a rate equivalent to $10 billions a year. If this should continue it would provide an inflationary force more than double the anti-inflationary effect of the prospective surplus in the Federal budget for this fiscal year. It would equal the inflationary impact of the unprecedented surplus of exports over imports in this country's foreign trade during recent months. Under present circumstances, it does not appear possible for the Federal Reserve System to check this credit expansion by selling government securities and thus absorbing bank reserves.

In summary, it may be said that banks have been the beneficiaries of wartime developments. Their assets have increased tremendously and these assets are perhaps more liquid and less subject to depreciation than at any previous time of active business. Bank earnings have grown more rapidly than expenses, so that profits are relatively large, and capital structures have been enlarged. Finally, their large holdings of government securities make it possible for banks to shift readily to any other more attractive assets that may be available.

Banks can also suffer the consequences of unpleasant economic developments, as they have at times in the past. Some of the most disastrous of these developments have occurred during my career as a banker and businessman and during the careers of most of you. Banks are most seriously affected when they have helped to bring about the conditions by undue expansion of credit followed by rapid liquidation.

Although present inflationary developments are largely the result of war finance, in the past two years expansion of private credit has become a factor of increasing importance. Conditions are favorable for a further substantial expansion of private credit that may contribute further to excessive inflation and lead to disastrous consequences for the economy. Such a development would threaten to endanger the healthy position of our banking system.

What Can Supervisors Do?

As I have indicated, the existing general monetary and credit powers of the Federal Reserve are inadequate for preventing such a development. Nor can bank supervision, in view of its limited scope and of the inflationary forces already generated, be expected to prevent further inflation. We can, however, understand the nature of the problem and use our influence to discourage banks from contributing to it. This would help to diminish resulting undesirable effects upon banks. What specifically can be done?

(1) Maintenance of a high degree of liquidity should be encouraged; banks should be discouraged from reducing their large holdings of government securities and cash assets in order to acquire less liquid and more risky assets.

(2) Supervisors should take a critical attitude toward any expansion of loans, unless they contribute directly to increased production and movement of goods. This attitude should apply particularly to consumer credit, real estate loans based on inflated values, loans to carry excessive inventories, and any loans for speculative purposes.

(3) As long as banks maintain their present large holdings of cash and government securities, most of them are adequately capitalized. Banks with low ratios of capital to risk assets, however, should build up their capital. If banks persist in increasing their risk assets, they should be required to enlarge their capital accordingly by retention of earnings. If retained earnings are not sufficient, then additional stock should be sold.

It is important for us to keep in mind that future losses of banks are determined by current policies. While each individual loan of a bank may appear sound taken by itself, the practices of banks in the aggregate may contribute to generally unhealthy conditions. In an unsound economy, banks in general cannot remain sound. Our banks now appear to be in a position to withstand the severe economic storm that is threatening. This is not the time for them to remove their storm shutters or venture out into the gale.

Junius S. Morgan Trustee

Junius Spencer Morgan, Vice-President and director of J. P. Morgan & Co., Inc., has been elected a trustee of Atlantic Mutual Insurance Company and Atlantic Mutual Indemnity Company, according to William D. Winter, Chairman of the board of both companies.

Mr. Morgan went to work for the banking firm of J. P. Morgan & Co. in 1915, shortly after graduation from Harvard University, and in 1919 became a partner. In 1940, when the firm was incorporated, he was elected Vice-President and a director.

Mr. Morgan entered the United States Navy in 1941 and during his last six months in the Service was a Captain in the U. S. Naval Reserve, attached to the Office of Strategic Services. In the First World War he was a Lieutenant on destroyer patrol in the English Channel.

New York Stock Exchange Weekly Firm Changes

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

Anderson Brothers was dissolved on Sept. 30.

Strickland & Widin was dissolved on Sept. 30.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The statement of the **Chase National Bank** for Sept. 30, 1947, was made public today (Oct. 2). The deposits of the bank on that date were $4,541,741,000 compared with $4,445,081,000 on June 30, 1947, and $4,642,025,000 on Sept. 30, 1946.

Total resources on Sept. 30, 1947, amounted to $4,917,683,000 compared with $4,814,277,000 on June 30, 1947, and $5,010,436,000 a year ago; cash in the bank's vault and on deposit with the Federal Reserve Bank and other banks amounted to $1,193,069,000 compared with $1,113,745,000 and $1,117,907,000 on the respective dates; investments in United States Government securities $2,138,600,000 compared with $2,168,563,000 and $2,388,788,000; loans and discounts $1,264,225,000 compared with $1,203,007,000 on June 30, 1947, and $1,087,026,000 on Sept. 30, 1946. Net earnings per share for first nine months of 1947 were $1.85 as compared with $2.40 in the like period of 1946.

CAPITAL FUNDS (000's Omitted)

	Sept. 30, 1947	June 30, 1947	Sept. 30, 1946
Capital	$111,000	$111,000	$111,000
Surplus	154,000	154,000	139,000
Undiv. profits	53,835	52,317	62,102
Total capital funds	$318,835	$317,317	$312,102

* * *

The National City Bank of New York has received approval from the Comptroller of the Currency for the proposed removal of its 51st Street Branch, 9 West 51st Street, to 640 Fifth Avenue. The latter, a corner site at 51st Street and Fifth Avenue, now occupied by the Vanderbilt mansion, will become the home of the largest banking quarters in the Rockefeller Center area. Where the Vanderbilt family once resided in the '80s and '90s, National City Bank will occupy four floors of the new business structure, modern in every respect and architecturally in keeping with the design and decor of Rockefeller Center. Following approval of leases by the boards of directors of the National City Bank and its affiliate, City Bank Farmers Trust Company, it was announced that the two institutions would establish branch facilities in the new building on its completion. Demolition of the old Vanderbilt mansion began Sept. 17. Built in 1881 by the late William H. Vanderbilt, the mansion was the last of seven houses which the Vanderbilt family once maintained on Fifth Avenue. The new business structure will be built by the Metropolitan Life Insurance Co., and that part of the building not used for banking quarters will be occupied by the Crowell-Collier Publishing Co.

* * *

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** announced on Sept. 25 the appointment of W. Donald Jordan as Secretary of the Bank and of Peter J. Brennan as Assistant Manager of the Foreign Department. Mr. Jordan, formerly an Assistant Treasurer, succeeds Stephen L. Jenkinson, who will retire as Secretary on Oct. 1 after 47 years of service. Mr. Jordan entered the employ of the bank in 1930, becoming an Assistant Treasurer in 1945. He has been active in tax circles and is a member of the Tax Executive Institute and the Committee of Banking Institutions on Taxation. Mr. Brennan originally entered the Bank in 1932; during World War II he spent four years in the U. S. Navy, where he attained the rank of Lieutenant Commander. Following his discharge from the Navy in 1946, he spent a year in the Argentine and will assist in handling the Bank's business in Latin America.

* * *

E. Chester Gersten, President of **The Public National Bank and Trust Co. of New York,** announced on Sept. 25 that Harold C. Fay, formerly Assistant Trust Officer, was elected a Vice-President. Joseph J. Devine, of the Personnel Department, was appointed an Assistant Cashier. Mr. Gersten also announced the election of two directors as follows:

Rowland R. McElvare, Senior Vice-President and Trustee of The Bank for Savings in the City of New York,—the oldest mutual saving banks in the state — and Mr. Edgar L. Rossin, Vice-President and Director of the Miami Copper Company; he is also associated with several other mining enterprises.

* * *

Leroy A. Van Bomel, President of National Dairy Products Corporation, was elected to the board of directors of **Manufacturers Trust Company of New York** at a recent meeting. Mr. Van Bomel started his business career in 1909 with what is now known as the Sheffield Farms Company and was elected to the Presidency of that company in 1928, succeeding his father, the late Isaac A. Van Bomel. He has been President and Chairman of the Executive Committee of National Dairy Products Corporation since 1941.

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The Board of Trustees of **United States Trust Company of New York** on Sept. 25 appointed Paul Campbell Assistant Vice-President. He formerly was Assistant Secretary. The board also named Russell H. Minton Assistant Secretary.

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C. W. Green has been elected Vice-President and Director of Public Relations of **The Franklin Square National Bank of Franklin Square, Long Island,** it was announced on Sept. 26 by Arthur T. Roth, President. In his announcement Mr. Roth said, "Mr. Green in returning to our bank where he formerly served as Director of Public Relations will be in charge of all advertising, public relations and business development programs for the bank." Since February, 1946, Mr. Green has served as Director of the Public Relations Council of the American Bankers' Association with headquarters in New York. Prior to that he was on leave from the bank for 2 years as New York State Regional Manager of the Committee for Economic Development.

* * *

Roy F. Gammon, Vice-President and Director of the **Peoples National Bank of Farmington, Maine** died on Sept. 20. Mr. Gammon, who was 67 years of age, was also formerly Treasurer of the Atkinson Furniture Company of Boston.

* * *

At the recent election of officers of the **Savings Banks Association of Connecticut,** at Manchester, Vt. Carl V. Freese, President of the Connecticut Savings Bank of New Haven, was elected to the Presidency of the association, Harold P. Splain, President of the Savings Bank of Danbury was elected Vice-President, it is learned from the Hartford "Daily Courant."

The Befuddled Foreign Exchange Situation

(Continued from page 4)

ibility of current sterling transactions as originally required under the Anglo-American loan agreement. However, with the suspension of convertibility, it looks as though this thought will not become a fact for some time.

The International Monetary Fund was also supposed to be a medium through which the free convertibility of currencies would be made more easily possible. Due to the many unforeseen political difficulties which have arisen since the end of World War II and the innumerable economic dislocations which have occurred, to the surprise of almost every one, the full functioning of the Fund has been materially retarded, and whatever its benefits may be in the future will probably not be apparent for some time.

During the war most importers became accustomed to buy everything abroad on a United States dollar basis, in some cases not wishing to be bothered with the thought of following foreign currency quotations. In other cases, the foreign sellers insist upon quoting in dollars as this methed might provide a profit medium in the event of devaluation of their own currency.

This procedure has satisfied most American importers and probably will continue to satisfy them during a period of stable or rising prices for imported materials, but the day may again come when you will be obliged to again become students of the foreign exchange markets.

The economic condition prevailing in many countries of the world today make it quite evident that the currency of some countries is overvalued and at some future time adjustments must be made. When these adjustments are made, the importer who has bought on a foreign currency basis and provided himself with a hedge against devaluation will be the one who has protected himself against loss and can quote the most attractive selling prices to his customers.

While at present I do not have any reason to believe that any devaluations are imminent, yet in the rapidly changing world picture which we are witnessing today, the unforeseen today may be all too apparent tomorrow.

Therefore, I think it well to keep this phase of international business constantly in mind.

Washington ... And You

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

There is too much of the lullaby to the word "plan" of the Marshall Plan. It implies that sometime there will be a plan. That "sometime" will be after the various Administration committees and Congress have threshed it around.

* * *

Theoretically after the "plan" has been approved by Congress, industry and business will know what's ahead in the foreign aid picture for four years. Then business can reasonably guage the variegated effects of the program in planning its own production, distribution, plant expansion—in fact all business policy.

* * *

There will come NO Monday morning sometime next year when, the "plan" being approved by Congress, business can then relax and say, "Now we know what's ahead in this field, anyway."

* * *

And why? Because the wise boys here point out, the Marshall "plan" is the beginning of warfare. It is economic warfare. So far the U. S. has attempted to contain Russia by "diplomatic warfare." It hasn't worked. This is why top officials have come out for economic warfare. They hope economic war will be enough. But economic war it is.

* * *

Any kind of a war, even an economic war, is an uncertain and developing thing. Remember the first lend-lease program? It was designed to avoid military war. There is one sharp difference to note in resurrecting the history of lend-lease. Officials currently have much less of the tongue-in-cheek attitude in thinking economic warfare alone will win—this time.

* * *

The trouble with any fight is that there is the other guy to contend with. The other guy isn't interested in letting you win. Quite the opposite. One can lay it on the line that the other guy in this case will not be an objective spectator. He will do all he can to counter U. S. moves. And like any party of the second part in a scrap, he may be expected to lead with a few haymakers of his own.

* * *

One cannot guess so far ahead what the other guy will do in the instant case. But let's imagine that he pulls a three weeks general strike in France. The results would create incalculable mischief. They probably would knock the Marshall "plan" lopsided. They might force the disbursing of billions for currency stabilization. At least they could knock the most careful export schedule cock-eyed.

* * *

Thus the Marshall "plan" is like Staff Plan No. 1 in a projected military operation. Even while the logistics of the projected operation are being organized and troops moved about, in comes new intelligence. Or the enemy makes some new move. Inevitably Staff Plan No. 2, an alteration of No. 1, comes into being. Staff planning for military warfare is subject to constant change. There is no reason why economic warfare should be different.

* * *

So it behooves an industrial or business organization to learn to live with the additional uncertainty of growth, possibly contraction, but surely with the prospect of frequent change in emphasis and direction of foreign aid.

* * *

The Administration, they note, consistently refused to acknowledge the prospect for increased revenues during the latter stages of the late tax bill. Then Congress went home. Subsequently, Mr. Truman boosted revenue estimates $4 billion. He is still too low, they assert. The surplus for the present year now looks to them more like $8 billions. All in all, prospects are that foreign aid can be carried forward and still leave a surplus, they believe.

* * *

Personal income tax reduction will get the promised early go. This means that overall revenue revision will have to stand in line—get considered afterward. Experts for the Congress have been studying possible business tax relief— redouble taxation of corporation income, depreciation allowances, a score of things. A revenue revision bill will not hit the Congressional stage, however, until about the middle of the play. This probably will be too late. Politics in a national election year almost guarantees an early adjournment.

* * *

So the prospects do not now look good for business tax relief in 1948.

* * *

There is only one valid reason seen by politicos for any early special session—stop-gap aid to Europe.

* * *

Actually the Marshall "plan" will not be dressed up for presentation to Congress before Nov. 1. That is the earliest. Even then the presentation will be only preliminary. The earliest the Harriman committee can translate the "plan" into locomotives, railroad cars, steel shapes, oil refinery, bulldozers, etc., is Nov. 1. And that date may not be met. So far the Marshall "plan" is mainly an idea and a set of figures in dollars.

* * *

What is rated here as a better bet is the possibility of a "special session" which in effect will be an advance of the regular session from January to some date in December. Even if the Administration is ready to give forth by Nov. 1, it will take Congressional committees another month to hold hearings, draft legislation. Dec. 1 is about the earliest the whole Congress could act.

* * *

Watch for these items to be disputed re the consideration of foreign aid: (1) How shall it be administered, by a sort of "lend-lease" administration, by various existing Federal agencies dividing up the responsibility? (2) What form will the financing take? Loans? With or without strings? Executive agreements within defined limits? Both — like including an increase in the British loan? (3) How much rope will Europeans get to sell finished products manufactured with donated U. S. materials?

It will be a long time before the Treasury starts thinking about selling a long-term issue of marketable bonds. Now that the non-markets are on sale, they push back to some indefinite time next year the possibility of speculating on prospects for a market issue, except, of course for refinancing. The sale of the non-markets will be reopened from time to time. The subscription basis probably will be changed with the next sale.

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One percent is about the best one will be able to get on one-year government money for some time.

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Railroads will get their emergency 10% rate boost. But they will get it at the cost of most deliberate consideration of their pending request for an average hike of 27%. The latter is not expected to be acted upon this year. It may be well into 1948 before the Interstate Commerce Commission acts.

* * *

Republican leaders are having almost as much luck drumming up an interest in revision of the farm laws as doctors have getting most people to have medical examinations when they are well. The committee hopes to re-draft farm aid laws to place less emphasis upon support of the cash crops and more upon encouraging "nutritious" products. Its idea also is to reduce the level of government subsidy and intervention. It is hoped to do this while farmers are prosperous. If they wait until farm prices some day come down, then all the heat will be in favor of subsidies and supports. But most members refuse to worry about the farm problem — until there is again a farm problem.

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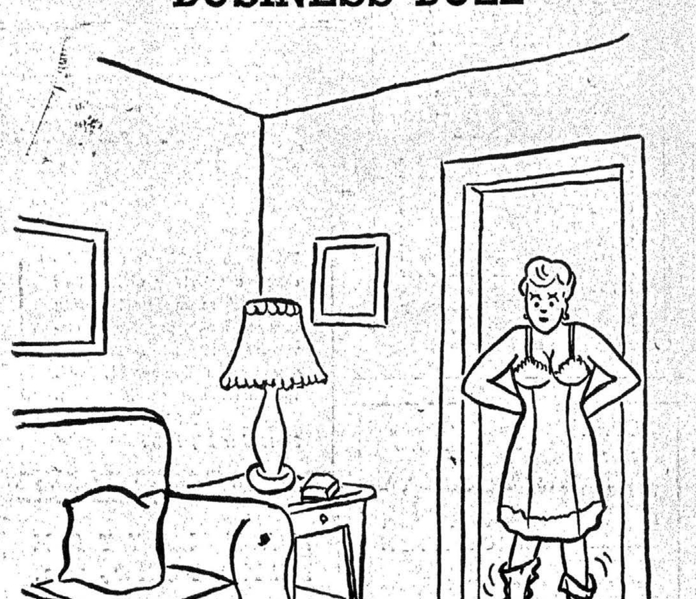
Right now the Administration hollers for higher margins on grains sold on the commodity exchanges. They can't get higher margins without Congressional consent. Higher margins to restrain rising prices are of little interest to farm section Congressmen. If a market collapses then, of course, it is a "bad" market and almost any political - economic punishment goes.

BUSINESS BUZZ



"These Garters Are the Nuts"

We Are Wasteful, but They - - - .

"Without further action, we would be able to carry through a large export program; but, as a result of sharply reduced corn production and continued high domestic demand for grain, exports would not equal last year's total shipments — even though world needs are greater.

President Truman

"The United States cannot rest on this export prospect. To ship more abroad without adjustments in domestic demand, however, would aggravate our own price situation.

* * *

"There is one immediate and personal thing each of us can do. We can start now to conserve by being more selective in foods we buy, particularly livestock products whose production requires large quantities of grain. Such action on our part will do two things. We will save on our family budget and we will help others who are in desperate needs. I am confident that the American people, realizing the extreme seriousness of the situation, will cooperate fully."

—PRESIDENT TRUMAN.

We are a wasteful people, wasteful as regards foods as well as many other things. It would be well if we did what we can to correct the situation.

We should all do more and do so much more readily, or so we think, if it were clearer that all those now crying for help were doing all they could to meet their own needs.