ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 166 Number 4636 New York, N. Y., Thursday, October 9, 1947 Price 30 Cents a Copy

Abandon Savings Bond Issues!

By RAY B. WESTERFIELD

Professor of Economics, Yale University

Dr. Westerfield argues Savings Bonds compete unfairly with private investment institutions and depress interest rates. Holds Savings Bonds do not furnish risk capital and never finance small business or promote housing, and are unfair and unprofitable to holders. Contends they are a usurpation of functions of private enterprise and a product of New Deal "easy money" policy. Holds U. S. bonds should be tested by market.

In my opinion the time has come for our private savings institutions to defend themselves against government aggression and to stop facilitating it. They are unconsciously or misguidedly sacrificing themselves and helping the state to take over their function. They are doing this at a time when the Western World, having just crushed the fascist form of statism, is struggling with the communistic form. They are letting a thankless government impose on them speciously in the name of thrift and patriotism, debt reduction and deflation.

Dr. R. B. Westerfield

During the depression of the 1930's the doctrine gained acceptance that private thrift was excessive, running far ahead of investment, accumulating in hoards that ought to be spent on consumption, thus causing and perpetuating the depression; that it was necessary for the government to get these hoards by taxation or bond sales and to put them to work through

(Continued on page 41)

American Bankers Association Holds 73rd Annual Convention

Convenes at Atlantic City, Sept. 28 to Oct. 1. Joseph M. Dodge succeeds C. W. Bailey as President; Evans Woollen, Jr., becomes Vice-President, and Frank P. Powers is elected Treasurer. New Division officials chosen. Addresses of Winthrop W. Aldrich; A. L. M. Wiggins, Under Secretary of the Treasury, and others are given herein. Convention approves resolutions favoring both aid to Europe and national debt and tax reductions.

At the conclusion of its sessions in Atlantic City from Sept. 28 to Oct. 1, the 73rd Annual Convention of the American Bankers Association elected Joseph M. Dodge, President, to succeed C. W. Bailey, the retiring President. In his election to the Presidency of the ABA, Mr. Dodge was advanced

Joseph M. Dodge

Evans Woollen, Jr.

Frank P. Powers

from the post of Vice-President which he held during the previous year. He returned in late summer from more than three months of service in Vienna with the rank of Minister, as head of the United States delegation at the conference of the Commission for the Examination of Disagreed Questions of the Austrian Peace Treaty. This was the commission which was created to examine and seek solutions for questions involved in the Austrian Peace Treaty, which the Council of Foreign Ministers was unable to agree upon at the meeting of the Council in Moscow in the early spring.

Mr. Dodge is a native of Detroit and received his education in the public schools of that city. He began his banking career as a messenger in the Central Savings Bank in Detroit in 1909 and rose through the various departments to the post of general bookkeeper. Then he became an auditor with a firm of general accountants, re-

(Continued on page 54)

EDITORIAL

As We See It

A Lame and Impotent Analysis

In what appears at times to be a sort of *apologia pro vita sua*, the Chairman of the Board of Governors of the Federal Reserve System the other day in an address to the National Association of Supervisors of State Banks employed some remarkable reasoning and arrived at still more strange conclusions. The full text of this rather extraordinary outgiving was presented in last Thursday's issue of the "Chronicle." It is well worth the scrutiny of all those who undertake to keep intelligently abreast of what is going on in the country—and, still more perhaps, of all those who find it advisable to try to follow the course of official reasoning.

Had not Mr. Eccles in the past indulged in many intellectual meanderings, we should be tempted to say that the Philistines had now taken him into camp boots and baggage.

At any rate he is now greatly concerned about "inflation." He looks with jaundiced eye upon the possibility that the banks of the country may continue in one degree or another to replace their holdings of governments with ordinary business loans. This, he thinks, might well be disastrous, since if these institutions should presently decline to hold so many of these almost yieldless obligations of the Federal Govern-

(Continued on page 47)

Iron Hand Over Securities Business Oppresses Our Economy

By EMIL SCHRAM*
President, New York Stock Exchange

Contending humanity does not automatically go forever forward, Mr. Schram decries unorthodox methods in dealing with our vast economy. Holds capitalism should not be planned, and unwise planning is already prevalent in nations abroad. Says there is shortage of prviate venture capital, and ascribes this to "iron hand over securities business." Attacks 75% margin requirement and asserts "Federal Reserve Board lacks understanding of our capital markets."

What I have to say relates to the lives and well-being of all of us. There never has been a time when the people of America have been better satisfied with their democratic political system, or with the free institutions of their capitalistic economy.


Emil Schram

Our prosperity and our national integrity stand out in sharpest contrast with the depression and woe of the rest of the world. However, this is not a situation to boast about. We have in abundance those things which the rest of the world sorely lacks. For food, fuel and many of the other material things of life, other nations make a beaten path to our door.

Too often, I fear, we overlook one of the factors which contributes most to our well-being. I refer to the pressing personal incentives which are at the heart of the competitive system of enterprise, more properly called democratic capitalism. Our economic system must reward usefulness to society.

The synthetic philosophy of Karl Marx may teach an artificial doctrine keynoted to the phrase, "Each according to his ability, and to each according to his needs," but our naturally evolved economic system actually operates to reward "each according to his contribution."

Sometimes free enterprise may be unkind to the weak and inefficient, but more often it stirs the lazy and forces the selfish into useful activity.

The apologists for capitalism often have stressed and praised the profit motive. Profit, however, is only one of the incentives which makes free enterprise work. The profit motive is important for it makes the entrepreneur plan and execute; but for every entrepreneur there must be many "privates" in the ranks. These "privates" must have incentives, too. That is why incentive wages, incentive salaries, the incentives of advancement the incentive of a higher standard of living are so important.

If I were to diagnose the slow progress of our unfortunate British friends in bettering their present condition, I would be forced to take note of a misplaced emphasis on consumption rather than on production. There has not been enough to consume in England these last few years. From the standpoint of ideals, it

(Continued on page 58)

*Remarks by Mr. Schram before a dinner meeting of Pittsburgh Chamber of Commerce, Pittsburgh, Pa., Oct. 7, 1947.

What's Happened to the Wolf?

By S. B. LURIE
Paine, Webber, Jackson & Curtis

Mr. Lurie holds the business situation has grown fundamentally weaker, particularly in capital goods and exports spheres. Concludes, however, that business caution does not presuppose securities liquidation, and predicts series of "baby" bull and bear markets. More immediately, a rally of May-July proportions is forecast.

As speculative fear of another post-Labor Day financial panic passes into limbo, one fact stands out: The action of the stock market and the trend of business activity in the past year comforted neither the extreme pessimists nor the perennial optimists. Certainly, the prophets of doom can find little to support their fears with the market today actually higher than it was a year ago and prosperity at least outwardly evident in almost every corner but Wall Street. Conversely, however, the fact that we are approximately at the mid-way point in the trading range which has persisted in this year of indecision means little to the holders of securities in those industries which entered a buyers' market. They have suffered their own private bear market in a period of generally increased earnings and dividends.


Sidney B. Lurie

But what of the outlook now? Will an extraordinary degree of selectivity continue to confound those who mistakenly sought refuge in the loose terms bull or bear market? Or is a really decisive movement in both business and the markets at hand? If so, has the wolf been shot or is he still around the corner?

Industries With New Lease on Life

On the business front, there is no denying the fact that some of the industries which were a cause for concern earlier in the year have taken a new lease on life. As a case in point, the textile industry has largely divorced itself from depression fears—for, following a drastic house-cleaning in the Winter and Spring months, a wave of retail reordering got under way in June. Even the jewelry trade, which was one of the industries hard hit by the end of the national buying spree, recently reported a pick-up in orders. And direct checks with manufacturers in general—who, incidentally, seem worried about the other fellow's business but not their own—suggest that *business activity will be at a high level for the remainder of the year.*

But glittering generalities can be misleading, for they obscure the diversity of trend which has been a feature of this year of confusion, midst plenty. It is probably stretching a point to assume that the failure of "chain reactions" to follow localized soft spots in business means that a permanently high plateau has been achieved. Furthermore, the fact remains—although lost sight of in the past two months—that the fundamental situation today is weaker than it was last Summer or last Spring. A year ago although the end of the consumer goods boom and the national buying spree was in sight, the prospect of continued capital goods prosperity pointed to at least overall business stability. Now, however, the capital goods props to our economy are weakening—with the result that the only question is whether the deterioration will become obvious early or later this Winter, and whether it will constitute merely a "shaking

(Continued on page 53)

INDEX

Articles and News

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, October 9, 1947

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 3, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union, $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year: (Foreign postage extra.)

Note—On account of the fluctutations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds.

Shrinking Profits in Securities Business Step Toward Communism

By JOHN DUTTON

Author sees NASD and SEC mark-up policies making investment banking business less and less attractive. Advocates revising Securities Acts and depriving NASD of monopolistic power to forbid members to give discounts to non-members.

One of the first laws of capitalistic economics is that if you wish to stimulate production you should encourage profit. The more attractive you make profit possibilities in any line of endeavor the more people will go into that type of business and production will be increased. This law of economics has never been refuted or repealed. When it is negated by action of government bureaus, or policies, the effects of this law are at times obscured for a while but the devil will out.

Recently a poll was conducted by certain investment firms in Boston to discover if possible why new men were not coming into the securities business. The answer in brief was that they couldn't make enough money. Only 2% of the new men who stuck it out for a year made as much as even $200 per month average income, and that's not take-home pay but before taxes. The results of this survey indict those who have for years been favoring the attempts of the National Association of Securities Dealers and the Securities and Exchange Commission in their determined efforts to reduce mark-ups in the sale of over-the-counter securities.

Those who have voiced their approval of the attempts of the Securities and Exchange Commission to define conscionable and unconscionable profits, to enforce competitive bidding for new issues, and also back up the Commission's blood brothers in the NASD in that organization's continued efforts to reduce mark-ups to ever smaller and smaller proportions have seen the handwriting on the wall. It is not the smaller dealers throughout the country that have been in the forefront of those who have heaped praise upon the actions of the Securities and Exchange Commission and the NASD. Many larger firms also see the broader implications of restrictive bureaucratic actions.

Most dealers do not put new men to work for the following reasons: They do not feel free to expand a business which overnight can be demolished by the simple act of an overzealous bureaucrat who can come into their office, rip their books out, copy off the names of their customers, go on a fishing trip and end up by throwing the book at them for some infraction of a certain rule or regulation; or a difference of opinion as to mark-ups, or a challenge of the propriety of a statement made in writing or by one of their unschooled agents while conversing with a prospect or customer.

The SEC can say we don't do this but the actual state of affairs existing today in the securities business is that they **might as well do so because the very fact that they have such power always hangs over the heads of those who fear and do not trust them.** No matter how fair the members of the Commission may be they are not trusted. They have teamed up with the NASD too often, and that organization has been steadily narrowing spreads in the securities business and sending emissaries around the country attempting to change trade practice and custom which has been standard procedure ever since we have had an over-the-counter market and dealers in securities.

Right at this time field men of the NASD are making their rounds and visiting dealers trying to get them to confirm securities transactions as agents instead of principals under rules which the NASD thinks should be proper despite the fact this is contrary to trade practice and the probable reason for such procedure is that it will narrow the profit

(Continued under "Securities Salesman's Corner" on page 56)

What's Ahead for Retailing?

By JULES BACKMAN*
Associate Professor of Economics, New York University

Dr. Backman reviews retailing developments during past year and analyzes favorable and unfavorable factors in immediate outlook. Concludes on basis of his analysis that strength rather than weakness is still predominant characteristic of business picture, but warns recent increases in food prices, if maintained, will have general adverse effect. Points out full effect of rising store costs has not yet been felt and retailers will have to be on their toes to maintain satisfactory profit margins.

Before we examine what's ahead for retailing, it probably will be useful to determine what's behind in retailing. What has been the record during the past year and what bearing does this record have upon the future? By way of preface, it should be emphasized that during 1947 all of the general indexes of business—industrial production, carloadings, employment, etc.—have been at their highest level in peacetime history. By every standard we have been going through a period of large scale prosperity. This record has confounded the prophets of doom who have been forecasting depressions at three month intervals since the end of the war. As each date for the anticipated decline arrives, and the forecast proves to have been inaccurate, the date is pushed forward another three or six months. If this process is continued long enough, some day there will be a coincidence between the performance of business and the forecast, and the prophets of doom, whom I like to call the pessimistic pessimists, will proclaim to the world how right they were.

Jules Backman

Turning now to several of the indicators of retail business, we find the following picture.

Sales

In the first eight months of 1947, **department store** sales averaged about 7% above the same period in 1946. In recent weeks, however, total sales have been running a little behind last year. The expansion in the sales of durable goods has helped to maintain high level retail sales. The sharp increase in sales early in 1947 as compared with 1946, reflected in part the fact that prices were substantially higher this year than a year ago. I shall return to this subject later.

Rural sales have been running about 15% ahead of last year, reflecting the sharp increases in farm income above the record levels of 1946. In contrast, sales in New York City **apparel stores** have run ahead of last year in only two months, January and May. In each of the other months, sales have been lower this year despite the rise in prices. Recently, apparel store sales have been averaging some 20% below a year ago. Specialty stores in Massachusetts did 6% less business in the first-half of 1947 than they did in the same period of 1946.

If we take a look at the long-term sales record, we find that the Federal Reserve Board index of department store sales for the year 1946 was 264, as compared with 100 in the years 1935-1939. In July, 1947, this index was about 275. In 1941, generally considered a year of fairly good business activity, department store sales were 133, or less than half as large as they have been averaging in 1947. In other words, the retail business has been very good.

Prices

The latest indexes we have for consumers' prices for clothing and housefurnishings are for June. In that month, the BLS clothing price index was 185.7 (1935-39=100), as compared with 176.5 last December, or an increase of 5.3%. For June last year the index was 157.2. During the first six months of 1947, clothing price index averaged about 19% higher than in the first six months of 1946. The actual rise was probably somewhat less because the official index understated clothing prices in 1946. The rise in prices undoubtedly contributed to the increased dollar sales thus far in 1947. Similarly, housefurnishing prices in June were 182.6 as compared with 177.1 last December, a rise of approximately 3%. As compared with last June, the rise was 17%. For this group of products, the average price in the first half of 1947 averaged about 17% above the comparable period of 1946. Here, too, the actual rise was probably smaller than that shown by the official index. In evaluating the outlook for retail sales in the last three months of 1947, and early in 1948, it is important to keep in mind that the comparisons will be made with a period when prices had already risen substantially. Thus, clothing prices in June were less than 8% above the level prevailing in the last quarter of 1946, while for housefurnishings the difference was only 6%.

Markdowns

During the first half of 1947, markdowns once more became a factor of considerable importance in retailing. According to data compiled by the Controllers' Congress of the NRDGA, markdowns increased as follows in the first-half of 1947 as compared with the first-half of 1946.

While around the turn of the year markdowns undoubtedly reflected to a large extent the attempt to dispose of wartime ersatz materials, in recent months markdowns have once more reflected competitive merchandising. Markdowns in 1947 were at a higher rate than for any corresponding period in the last 12 years.

Gross Margins

The cumulative markon showed very little change from 1946 to 1947 in each of the categories of

	1st half 1946	1st half 1947
	(percent)	
Department and specialty stores under $1,000,000	4.1	8.1
Department stores—$1-2,000,000	3.8	7.1
Department stores—$2-5,000,000	3.9	8.0
Department stores—$5-10,000,000	3.8	7.2
Department stores over $10,000,000	4.4	7.6
Specialty stores over $1,000,000	5.0	5.5
Department and specialty stores over $1,000,000	4.0	7.6

(Continued on page 48)

*An address by Dr. Backman before the Fall Merchant Conference, Chicago, Ill., Sept. 30, 1947.

Europe's Poverty—Facts vs. Fiction

By DR. MAX WINKLER
Bernard, Winkler & Co.

Dr. Winkler asserts large amount of foreigners' resources held in United States refutes the contention that more dollars from us are indispensable for prevention of European collapse.

Western Europe's plea for American financial assistance has been very touching, literally as well as figuratively. The 16 nations, seeking aid under the so-called Marshall Program, have just announced the extent of their requirements: During the next four years (1948-51), a total of $22,440,000,000 will be needed of which $15,810,000,000 will be supplied by the United States and $5,970,000,000 from other American countries. The remaining $660,000,000 represents the needs of "dependent" territories. Western Germany has been included within the group of recipients.

Dr. Max Winkler

On Sept. 19, the U. S. Department of Commerce revealed that all foreign assets in the United States amounted to $14,900,000,000, while gold reserves of **all** foreign countries aggregated $11,400,000,000 — a total of $26,300,000,000. These assets, the Department's analysts contend, are not available to governments needing aid, because they are privately owned and their liquidation might entail sacrifices!

Owing to the marked interest in the status of the 16 countries attention is directed to the extent of their resources which appear to suggest that the talk of an imminent collapse, unless American dollars are at once forthcoming, is perhaps not entirely warranted. Since the Department has not furnished details, the subjoined figures have been taken largely from the Federal Reserve and the U. N. Statistical Bulletins. (Figures in million dollars.)

"Naive" Americans will be tempted to ask why the above assets could not, at least in part, be employed by European countries for what apparently are legitimate needs. The argument that liquidation might entail "sacrifices" will hardly be accepted as valid even by those anxious to extend American aid most liberally.

	Gold Reserve	Balances in U. S.	Portfolio Investments	Direct Investment
Austria	----	.9	3.1	2.0
Belgium	643.0	178.8	34.90	149.7
Denmark	32.0	62.5	9.1	23.0
France	696.0	226.4	186.4	337.7
Greece	28.0(a)	39.7	6.0	29.4
Iceland	.9	*	†	†
Ireland	161.0(b)	*	22.4	7.9
Italy	120.0(c)	218.5	(e)80.9	24.8
Luxembourg	----	22.9	3.6	6.8
Netherlands	190.0	183.3	330.0	438.4
Norway	84.0(c)	105.3	14.3	35.9
Portugal	60.0(d)	54.2	9.9	6.1
Sweden	168.0	165.2	43.0	95.2
Switzerland	1,416.0	392.2	479.6	236.1
Turkey	207.0	55.8	8.4	3.6
United Kingdom	2,587.0	373.6	227.0	785.0
	6,392.9	2,079.3	1,458.6	2,181.6

(†) Figures not available. (*) Included in total for the remainder of Europe, amounting to $197,100,000. (a) As of 1944. (b) Includes gold and sterling funds. (c) as of 1940. (d) As of 1945. (e) Italy's balances in American banks as of March 31, 1947; the postwar peak of $321 million was reached on Jan. 31, 1947. In December 1941, they stood at only $15,400,000.

Now Carter & Whitney

LOS ANGELES, CALIF.—The firm name of National Series Distributors, 215 West Seventh Street, has been changed to Carter & Whitney and the firm is now doing business as a partnership with Rufus Lee Carter and Lewis J. Whitney, Jr., as partners.

The State of Trade and Industry

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

With the close of the war business and industry set about to direct its efforts to peacetime production to meet the challenge of competitive markets that normally obtain in a peacetime economy.

Needless to say these efforts were hampered on the one hand by price-control and rationing due to a shortage of essential raw materials as a consequence of the war, and on the other, by a dearth of skilled labor and industry-wide strikes for higher pay to maintain wage rates at wartime levels. Inter-union disputes and other labor-management problems also barred the way to full production.

The eventual repeal of price-control and rationing measures left much to be desired since government continued to project its deadening influence into the picture. Then too, the black and gray markets that obtained during the war continued to flourish in the days of peace.

The steel industry upon which most other industries depend for the maintenance of their production schedules is a case in point. The scrap metal market and its product which is so essential in the making of steel experienced the effects of such disastrous operations.

As a result of these manipulations, the consequent impact on the durable goods industry proved tremendous. This, together with government purchases of agricultural products for export above domestic market prices and other farm policies put our entire economy out of kilter and produced the inflationary spiral that the nation is now undergoing.

In an analysis showing the principal cause for the sharp rise in prices, The First National Bank of Boston in its September "New England and Letter," points out that as a result of the war and its aftermath some advance and distortion in prices were inevitable and could not have been avoided, but maintains that the situation has been aggravated by a combination of factors which includes among them the financing of the war by too small a proportion of funds obtained by taxation and too large a proportion by bank borrowings which it points out, is definitely inflationary.

The fear on the part of government that large agricultural surpluses in the postwar period would threaten the farm economy led to a campaign of heavy meat consumption and the feeding of several hundred million bushels of grain to livestock. The foregoing, together with the Administration's failure to anticipate Europe's relief needs and provide the necessary storage facilities, played its part in the present acute shortage.

The dread of heavy unemployment following V-J Day induced the Administration to stimulate buying power by encouraging wage increases which in turn opened the way for the present wage-price spiral.

Other factors stressed by the "New England Letter" included the transfer to Russia of the European "breadbasket," leaving Europe no alternative but to turn to the United States for substantial amounts of food and raw materials; the so-called Morgenthau plan which had for its purpose the reduction of Germany to a pastoral state and which has since been discarded, and greater food consumption growing out of a sharp increase in national income.

The government policy of paying more than the market price for farm products for export and giving advance notice of this course of action has encouraged speculation in the grain and commodity markets. Crop failures in Europe and the sharp reduction in our own corn crop due to bad weather conditions have combined, says the news letter, to set in motion powerful inflationary forces.

Reviewing the happenings of the past week on the industrial front it is noted that manufacturing activity reflected a slight increase with industrial output at a higher level than that of the corresponding week of last year.

Employment and payrolls were sustained at peak levels and labor-management relations remained generally propitious.

As in weeks past some types of material and skilled labor remained difficult to obtain and order backlogs in many industries continued substantial.

STEEL OPERATIONS HIGHEST SINCE JUNE 9 WEEK

High British and French Government supply officials swarmed on Washington this week armed with their steel, coal and food requirements. At mid-week they were meeting with Washington experts who had been supplied with complete statistics on American steelmaking capacity and production, according to "The Iron Age," national metalworking weekly.

The job this week is to decide whether or not present reduced European demands under the Marshall Plan can be cut further and then present an acceptable proposal to the steel leaders of American industry. Domestic conditions in this country are so greatly affected by the distribution of available steel supplies, says the magazine, that any improper unbalance would lead to conditions far out of proportion to the actual tonnage involved.

There is a strong feeling in steel circles here that before any American steel is shipped abroad under the Marshall Plan the gov-

(Continued on page 51)

Observations . . . .

By A. WILFRED MAY

DEFLATING PROPHETS

PART ONE*

Through the plethora of current methods of "doping" the stock market's present and future there seems to run a basic fallacy in confusing the detection of a *past* or *present* price trend with supposedly resultant ability to predict its *future course*. This forecasting error, not always realized, applies not only to the popular and much publicized Dow theory, but also to many other "technical" systems, ranging the gamut from the Cycle Theory all the way to the Formula Plan. The main misconception lies in belittling as thin and theoretical the really hard-and-fast line between the present and the future.

A. Wilfred May

The Dow theory is a perfect demonstration of the fact that technical methods are helpful toward evaluating the present status of the market just as a physician evaluates his patient's health as of a given time; but that they do not foretell the future, any more than a thermometer makes a prognosis of illness. A thermometer is not a barometer!

Charting the market's course through its concepts of tops and bottoms, secondary areas, major and minor reversals, break-through points, valid and invalid penetrations, confirmations, primary and secondary advances, patterns, etc., the Dow formula defines what kind of market—bear or bull—is existent at any particular time (usually). As a definition of the *present* this is useful, but as *prediction* it signifies absolutely nothing. It merely is a weather vane showing which way the wind has been and is blowing, that is, whether up or down the financial hill. Actually, it does not thereby give any clue as to how long it will continue to blow that way—not even whether it will continue to blow for another day. Logically, it does not guarantee the wind—that is, the price trend—any more than does the weather vane.

Dow Theory A Logical Absurdity

Stripped of all its surrounding circumlocution and esoteric jargon, the Dow principle is an absolute absurdity as a matter of logic. It commits the same kind of error indulged in by gamblers which the mathematician Steinmetz termed "the maturity of the chances," and which he called "the most mischievous of gambling superstitions." It embraces the psychological fiction—of which the Dow thinking is a converse variation—that when there has been a run in favor of any particular event, the mere occurrence of that run alters the otherwise mathematically correct odds concerning the next repetition of that event. This psychological aberration leads boys tossing coins to base their bets on the idea that a series of successive heads is more than 50% likely to be followed by a tail; and the same is true of most systems for outwitting the mathematical facts of dice or black-and-red on a roulette wheel. The roulette system addict becomes bankrupted by an excessive run of the same color against him.

Dow theorists likewise basically believe that the chances of a succession of identical results are other than even. Their error consists in the assumption that the chances then are *greater*, rather than *less*, than even—in other words, that the trend will probably be extended rather than reversed.

Incidentally, in common with the other technical systems for beating the stock market as well as games of chance, when a prediction turns out wrong, the Dow theorist blames himself for having "mis-read" the chart, and exculpates the sacred system (a masochistic mental somersault).

Cycle Technique

Similiarly exemplifying the temptation unconsciously to glory in hindsight, is the growing popularity of *Cycle Theory*. Thus, a recent blurb for a current amazingly well-selling book significantly says that it "is not a book of crystal gazing. It explores the probabilities of tomorrow by scientifically clocking the trends and cycles of the past. The authors have assembled a wealth of data—have charted it studied it, analyzed it, compared it—and they have reached some fascinating and startling conclusions. . . . Study of economic cycle rhythms provides a series of weather charts for American business which give the businessman a chance to prepare for any kind of business weather."

This surely is only a slight variation from our weather-vane analogy for the Dow technique's assumption of the future for the past.

There are two main categories of such cycles: the *business* cycle which is represented as bringing on its own successive phases through internal conditions within the respective situation; and *rhythmic* cycles which are supposed to follow each other in rigid mathematical

This is the first of three weekly instalments on this topic.

(Continued on page 63)

Copenhagen Bonds Drawn for Redemption

Guaranty Trust Company of New York announces that certain bonds of the City of Copenhagen 4% Loan of 1901 have been drawn for payment on Nov. 15, 1947, in Copenhagen, London, Amsterdam, and New York. A list of the numbers drawn in current and previous redemptions is available at the Trust Department of Guaranty Trust Company.

From Washington Ahead of the News

By CARLISLE BARGERON

As an example of the unreality in which we are living these days, your correspondent cites the flip-flop of the National Labor Relations Board on the ruling of its general counsel, Robert N. Denham, that the executive council of the AFL had to sign the anti-communist affidavits before any of its constituent organizations could receive recognition from the board.

Carlisle Bargeron

Reams of newspaper copy have been written about this as regards its bearing on labor-management relations in this country. It was the perfect example of how far we have become enmeshed in propaganda.

Here was a situation, so we were told, of chaos in labor-management relations. Well, then if we had chaos in labor-management relations, our production would be slowed up, we wouldn't be able to produce for Europe as we should, the Communists would therefore take over Europe and we would have a third war on our hands, and in the Third World War the atomic bomb would destroy civilization and that would be that. It was as simple as that, and it was an awful picture to contemplate.

However, instead of its being all that, it was just a question of whether a government agency should bow to John L. Lewis again. It had no relation to labor-management relations, no relation to chaos in industry, no relation to the Communists dominating Europe and therefore no relation to the Third World War and our definite destruction.

Not in my experience in Washington, I suppose, have I seen more misinformation about any one thing. The headlines generally on Tuesday blared that the board had overruled its general counsel. Only one that I read was truthful. It said the board had bowed to John L. Lewis.

In the first place, the board under the Taft-Hartley Act, cannot override its general counsel. He is the big shot. He is not subordinate to the board. He is the most important set-up in the board.

What the board could do and what it did do was to rule that insofar as its jurisdiction was concerned, which meant to certify unions as the proper bargaining agents, it would disregard Lewis' decision, as an officer of the AFL, that he didn't have to sign the anti-Communist affidavit. But this still meant that Denham, the general counsel, could have said that his ruling stood, and that although the board had accepted certain labor organizations as the proper bargaining units, he would not so accept them. Then they

(Continued on page 56)

Sustaining Prosperity and General Stability

By DR. EMERSON P. SCHMIDT*
Director of Economic Research, United States Chamber of Commerce

After commenting on disruptive forces of rapidly rising prices, Dr. Schmidt holds we are still confronted with further inflationary forces. Asserts even peak production cannot overcome plethora of circulating media, and new wage increases that create inflation spiral are self-defeating. Denies business, of itself, can control prices and lays down 11 point integrated program for fighting inflation and deflation.

In an exchange economy where nearly everyone makes his living by trading his services or products for money, it is of the highest importance that the money unit have a reasonably stable buying power from month to month and year to year.

The Tax of Inflation

Rapidly rising or falling prices may levy a cruel tax on some persons and unjustifiably enrich others. Hard work and production by some persons may go underrewarded, while higher rewards accrue to others without any extra effort. Rapid fluctuations in the value of the dollar make and break fortunes. Property, securities and other evidences of ownership change hands not on the basis of fair, normal exchange for the purposes of promoting higher production, but on the basis of the capricious behavior of the dollar. This enables some to accumulate earnings, and forces others to accumulate debased dollars, subject to still further debasement.

Dr. E. P. Schmidt

General rapidly rising prices give our entire economy an artificial stimulus, creating a false sense of prosperity and full employment, if not over-employment. Widespread complacency may be the prelude to catastrophe. Waste, inefficiencies, unwise and uneconomical investments are covered up—for a while. Commitments are made which will become onerous and burdensome when the free ride is over.

Because of the unequal enrichment based not on clear or measurable merit and effort, bitterness and antagonism develop between employers and employees, and between other groups. The forces of cooperation give way to the divisive forces. The cohesive forces of society are weakened and the people become susceptible to heightened suspicion and fall a prey of panaceas and nostrums.

The real damage will come and will be revealed to the full only when the bubble bursts.

Today we appear still to be confronted with further inflationary forces, even though there is some talk and some evidence of deflation in certain sectors.

Profits—Cause or Effect?

Businessmen are urged to invoke a private OPA, to reduce prices, which if it raises general anticipation of general price cuts might cause buyers to wait, and thereby cause the very depression which those urging the cuts wish to avoid. The high prices are alleged to be due to the high profits of business. Confusion and serious misdiagnosis prevails, even in some government circles.

The blame is shifted; the malady continues. The road to stability is avoided.

After the first world war (1919) a noted economist wrote as follows:

"Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. . . . In the latter stages of the war all the belligerent governments practiced from necessity, or incompetence, what a Bolshevist might have done from design. . . . But further, the governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct on to a class known as 'profiteers' the popular indignation against the more obvious consequences of their vicious methods. These 'profiteers' are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot but get rich quick whether they wish it or desire it or not. By directing hatred against this class, therefore, the European governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices."

This was written by John Maynard Keynes, often regarded as the spiritual father of the New Deal spending programs. He had every sympathy with the masses of mankind. His analysis, therefore, should carry some weight with those who are in a mood to blame American business for the upward drift of prices.

While profits for industry as a whole have been good in the past year and are running at a satisfactory rate now (with some serious exceptions such as airlines and railroads, for example) the total profit for all corporations amounted to less than five cents per dollar of sales in 1946. Thus, sweeping general price cuts out of profit margins could not greatly reduce prices as a whole. In 1946, total net profits of corporate enterprise were only 31% above the 1929 level, **after** allowing for the shrinkage in the purchasing power of the profit dollar, and this in spite of a much larger investment in corporate enterprise and a total volume of business much in excess of the output in 1929.

The great chain food stores sell every dollar's worth of product at a profit of less than two cents. The meat packers year in and year out make only about one cent per dollar of sales.

The official data on corporate earnings are summarized in the accompanying tabulation:

	1929	1939	1946	1st Half Annual Rate 1947	% Change 1946 Over 1929	% Change 1946 Over 1939
*Net corporate income:						
Net profits after taxes (billions of dollars)	$8.4	$5.0	$12.5	17.0	+49	+150
Return on net worth (%)	5.2	3.7	8.2	11.2	+58	+122
Profit per dollar of sales (cents)	6.1	4.1	5.1	N.A.	—16	+24
Real net corporate income (1939 prices):						
Real net profit after taxes (billions of dollars)	6.8	5.0	8.9	10.9	+31	+78
Real return on net worth (%)	4.2	3.7	5.9	7.2	+40	+59
Real profit per dollar of sales (cents)	4.9	4.1	3.6	N.A.	—26	—12

N.A.—Not available. *All data from U. S. Departments of Commerce and Labor. The 1946 and 1947 data are estimates.

Production Not Enough

We need more production, but even peak production cannot overcome a plethora of circulating media. At other times in our nation's history when the inflationary forces were let loose through a multiplication of the money supply, maximum possible production still could not prevent inflation.

Today we have twice our prewar demand deposits and three times our supply of currency; consumer and commercial credit are rising. Liquid asset holdings by business and individuals in the form of currency, time and demand deposits and government savings bonds have jumped from $65 billion in 1939 to $223 billion in December 1946, of which individuals hold $157 billion. Money is looked upon as a perishable commodity—something to be exchanged as soon as possible. If the velocity of money turnover continues to step up, we cannot avoid still higher and higher prices. The wartime "savings" are being put to work their owners having been urged during the war to "save" for those postwar purposes. So long as we have not adjusted the cost-price structure to this enlarged money supply and so long as it keeps on enlarging, we cannot expect the inflationary forces to subside permanently.

This rise in the cost of living has put into the hands of the labor leaders a government-made argument for demanding the self-defeating cost-of-living wage adjustments. It has stimulated strikes which reduced production. It has inflated the value of inventories and thereby increased the risks of business. It has forced business to price its products out of the reach of those people whose incomes have not kept pace with the rising prices.

Can Wage Increases Offset Inflation?

While the upward march of prices reduces the value of the wage and all other dollar incomes, the effort to correct any imbalance by upward wage adjustments must be self-defeating. In fact, the entire theory, so widely accepted today, that wage rates ought to keep pace with the rise in the cost of living, must be self-defeating under current conditions. Surely, if due to scarcities prices are rising, the addition of a dollar a day to the pay envelope of every one simply enables the consumer to bid more fiercely for the limited supply of goods.

If our labor leaders do not show more restraint in the months ahead, the American people will be forced to conclude that full

(Continued on page 46)

*Address delivered by Dr. Schmidt, Oct. 3, 1947, before Institute for Commercial Organization Secretaries, University of Wisconsin, Madison, Wis.

Dollar Problem and World Trade

By ALAN H. TEMPLE*

Vice-President, National City Bank of New York

Terming "dollar shortage" a catch phrase, leading bank economist holds it merely signifies that world has been buying more from U. S. than it can continually pay for. Lays chief cause to inability of foreign nations to produce sufficiently due to wartime destruction of productive capacity and dislocation of labor. Sees further cause in inflation both abroad and at home. Holds U. S. is in position to withstand a serious export decline and explains difficulties to coffee trade arising from dollar shortages.

In literature we have the book-of-the-month, in economics we have the phrase-of-the-month. The phrase of this month is "dollar shortage". It hangs like a cloud over peoples in Western Europe, who see in it the dampening of their hopes for relief from privation and for acceleration of their progress along the road of reconstruction and recovery. It is a black cloud over Asia and a smaller cloud over Latin America. It is a mist in the eyes — and also I think in the minds—of some people in this country who believe that to preserve our own employment and prosperity the dollar shortage must be cured.

Alan H. Temple

In all this we see the tendency of human nature to simplify and see its problems in terms of catchphrases. I think we also see in some quarters the workings of fetishism. Savages depend on fetishes to help and safeguard them, to protect them from harm and disaster, and consider the fetish more powerful than their own efforts. I wonder if there are not remnants of a primitive fetishism in the mental state with which so many people of the world turn to the dollar today to help and safeguard them and protect them from harm.

The newspaper man is taught that the elements of his story are: what, where, when, why, and how. I once had brief training as a newspaper man, and I propose to discuss this very complex top of dollar shortage in world trade under similar headings.

First, what is the dollar shortage? It is an inability of foreigners to pay us for all the things they would like to buy here. It is a decline in the world holdings of gold and dollar balances to a point where many countries, the United Kingdom, Canada, the liberated countries of Western Europe, and some Latin American countries, are becoming unable to continue their purchases on their recent scale.

During the early summer months of this year, the United States was selling goods to and providing services for foreigners at the rate of $21 billion a year. Our purchases of goods and services were at the rate of only $8 billion a year. The difference is $13 billion. The buyers had to find therefore approximately $1 billion a month to cover their excess purchases.

This cover was provided — I give the figures in annual rates—by donations running at the rate of $2.4 billion, by loans and credits at the rate of about $5.4 billion, and by sales of gold, securities and other assets and drafts on dollar bank balances at the rate of $4.5 billion. As of June, 1947 foreign countries had on record $5.3 billion in bank balances, and $1.4 billion of other short-term assets. They still have around $4 billion in the unspent portion of U. S. Government loans and credits including the unexpended and uncommitted credits of the Export-Import Bank. Excluding Russia, all countries had about $18 billion of gold and dollar reserves. Moreover, there is no doubt that the officially reported figures of dollar holdings understate the totals, perhaps substantially.

However, it is a misapprehension to think that all the gold and dollars available may be used to maintain current purchases. They represent in great degree the monetary reserves of the countries holding them. Bank credit and currency issues have been expanded heavily in those countries and they should retain substantial reserves, because the most necessary element in reconstruction is to build confidence in their currencies. Some countries have more gold and dollars than they need, but they are few. Some countries should have greater reserves to stabilize their currencies.

Dollar shortage therefore is a phrase signifying that the dollars are running out, that the rest of the world has been buying more from the United States than it can continuously pay for. Why is it unable to pay for the goods its people want and need? Basically the world is short of dollars because it does not produce enough goods and services which it could sell to us. This is of course an over-simplification. Other factors enter into the situation, such as the lack of convertibility of the world's principal currencies. Canada and Argentina certainly produce and export far more goods than they did before the war; the fact that even they are getting short of dollars is due to their inability to exchange freely into dollars the pounds and the francs they earn for their exports. Another factor is that in some cases the goods and services which foreign countries have for sale are simply overpriced.

I think it indisputable that if foreign countries were turning out the kind of goods that we need at prices which our people will and can pay that they could sell to us perhaps a third or even a half more than we are now buying from them. If they could accommodate and feed more American tourists I venture to say that they could earn a billion dollars more than they now are earning. In short, they might be selling us say $12 billion of goods and services instead of the current figure of $8 billion.

Why haven't foreign countries enought goods and services to sell? One perfectly understandable reason is the wartime destruction of productive capacity and the dislocation of labor forces. Great political and social upheavals resulting from the war have aggravated the situation. The rise of new nations in Southeastern Asia — India, Parkistan, Burma, and Indonesia—has interfered with the flow of crude rubber, tin, and other products, and may interfere in the future with the flow of burlap, jute and carpet wool. New synthetics reduce markets for old natural products. A simple and concrete example of economic disruption is

(Continued on page 58)

*An address by Mr. Temple before the National Coffee Association, Yosemite Valley, Cal., Oct. 1, 1947.

Federal Reserve Policy and Inflationary Pressures

By OLIVER P. WHEELER*

Vice-President, Federal Reserve Bank of San Francisco

Pacific Coast banker analyzes sources of inflationary pressures, and points to excess currency and bank deposits as principal cause of inflation. Holds because of large ratio of government to private debt, Federal Reserve System is forced to seek control of credit through open market operations and, in order to protect value of government securities, must stand ready to take up such securities offered by banks. Stresses credit expansion possibilities of heavy bank bondholdings, and concludes there is now little Federal Reserve can do in applying traditional controls, so much is left to initiative of banks.

One of Webster's definitions of inflation is "pomposity"; another is "bombast"; another is "great conceit." I hope you won't accuse me of possessing those qualities unduly if I take the speaker's prerogative and choose what I hope you will accept as common ground for our further discussion of inflation. I'm sure that there could be many variations of my version in an audience such as this.

In another place, Webster defines inflation as "undue expansion or increase, as in paper currency, prices, etc." That approaches the point, but is hardly adequate for present purposes. Perhaps we can go back a step or two and arrive at a more satisfactory understanding of the meaning of inflation.

We always think of money in its different forms when we think of inflation. Money, no matter whether it be gold, silver, paper currency or bank deposits, has a number of characteristics, but one of them that we seldom think of has a lot to do with its inflationary potentialities. Money can be used, but not used up, unless it is cancelled by using it to repay bank debts. To be sure the paper currency we use each day wears out. It finds its way back to the Federal Reserve Bank where we punch three holes in each piece, cut it in half, and send the parts in separate shipments back to the Treasury in Washington for destruction. In the normal process, however, this money is immediately replaced with new money or currency in some form. When you write a check to pay a bill your deposit is used up to the amount of the check as far as you are concerned, but bank deposits are not reduced. You have merely transferred a part of your share of them to someone else.

*An address by Mr. Wheeler before the San Francisco Chapter of California Society of Certified Public Accountants, San Francisco, Calif., Oct. 1, 1947.

Productive Process Creates Money

The fact that money can be used but not used up, when coupled with another characteristic of our present economic system furnishes the basic leverage for inflationary pressures on prices. The other characteristic to which I refer is the fact that the productive process creates monetary income as well as goods and services. Monetary income is but the other side of the shield of production. That fact may be illustrated in this way. A factory in operation sells its products and is paid for them. The receipts are monetary income which is disbursed for wages and salaries, materials, depreciation, interest and rent, with the balance going to the owner or owners as profits. These disbursements become the monetary income of the recipients, including the owners, and they equal the value or total price received by the factory for the goods and services it produced. The point is that under our economic system, the creation of goods and services creates the income with which to buy those goods and services at any given price level.

If the system works perfectly the flow of monetary income or purchasing power balances the flow of production and economic stability ensues. When a large part of the productive system is used to produce goods that are withdrawn from normal uses and destroyed in war, the flow of monetary income or purchasing power continues, but the goods are not available to match against the purchasing power. In the absence of so-called artificial or direct controls or of voluntary restraint on the part of income recipients generally this sort of situation creates terrific upward pressures on prices. Money is paid for production, a large part of the goods and services produced are not available to those who received the income for producing them. The money continues in existence, but in a war economy the goods and services never come into existence so far as the normal or civilian part of the economy is concerned. This creates inflationary pressures, but there are still other factors to intensify those pressures.

In war, the government pays for the war material and services, but the process in itself provides no income for the government to use in making the necessary payments. The enemy doesn't pay us for the ammunition fired at his soldiers and the bombs dropped on his cities, neither does he pay for our planes, ships, tanks and other wealth which he destroys. The government can, of course, levy taxes on the civilian economy. If the amount of this levy is sufficient to absorb all civilian income over and above that required to purchase the goods and services available to the civilian economy, the inflationary pressures we were talking about a moment ago are cancelled out so to speak and the government can pay all its war costs. This has never been done, however, and it has always been necessary for the government to borrow half or more of the funds required to meet the costs of war. The source of this borrowing is important.

If you and I and all income-receiving civilians loan the government that part of our income after taxes which is in excess of the value of the goods available for us to use, the remainder will equal the value of production available for civilian use. In effect, this means that we transfer our excess purchasing power to the government for war spending. If, however, we fail to do this we

(Continued on page 50)

Public Utility Securities

Standard Gas & Electric Plans

The long awaited integration plan of Standard Gas & Electric proved to be "twins" last Friday when filed with the SEC. The rival groups in the Board of Directors, while both presumably basing their plans on a single valuation of the company's portfolio, produced different plans for the Commission's perusal. The valuation had been ordered early last Spring, to be prepared within a few weeks by Stone & Webster of New York and J. Samuel Hartt of Chicago. The valuations and the resulting plan were, according to press reports at the time, to be ready for release in the early summer. Apparently they were only completed some weeks ago and have been in the hands of the directors, who have now completed the two tentative plans.

The word "tentative" is used because both are somewhat indefinite, as explained later. One was prepared by four of the directors representing the $4 (second) preferred and common stocks (acting jointly), and the minority plan was submitted by Chairman Leo T. Crowley and William J. Froelich, the two members who had been elected by holders of the prior preference stocks.

The first step in both plans is to pay off the company's bank loans which have been reduced to about $24,750,000. These loans were incurred some time ago in retirement of the company's bonds in cash after a long period of litigation over the method of payment (whether to be in securities or cash). The loans must, of course, be paid off before any allocation of assets can be made to the four classes of stockholders—the $7 and $6 prior preference, the $4 (second) preferred and the common.

The minority plan (which favors the senior preferreds) would retire the loan as soon as possible by selling 750,000 shares of Oklahoma Gas & Electric, currently selling around 35 (some "new money stock" of this company was sold last spring, thus making a market for the remaining stock held by Standard). At the current price, around 35, the stock would be worth about $26,300,000 which, after allowance for selling costs, would about cover the amount of the loan. The majority plan, presumably preferring to await better markets so far as possible, proposes that the loan be paid off by sale of a smaller holding, the 1,100,000 shares of Wisconsin Public Service common stock, and the use of other available cash. There is no minority stock of this company in the hands of the public, but estimating the value at around ten times recent earnings, the value might be in the neighborhood of $15,000,000 (after allowance for selling costs). Since the company has estimated net quick assets of about $10,000,000, this would about eke out the amount required.

The minority plan would then distribute 80% of the remaining assets to the senior preferreds and 20% to the $4 preferred and common (the common would presumably get only a token allowance), if Philadelphia Company is allowed to remain *intact*. But if Philadelphia Company is to be dissolved, the distribution would be 92% and 8%, respectively. The reasons for the wide difference in these two sets of ratios is not made clear in the condensed reports of the plans as published in the Wall Street Journal. Presumably the difference reflects the divergent views of the stockholder groups over the SEC order that Philadelphia Company be broken up. It is understood that Chairman Crowley and the minority group have been fighting this proposal while representatives of the junior issues are less antagonistic to the SEC proposal. Presumably the minority (senior) group used this method of indicating their opposition to the break-up and their contention that Philadelphia Company is economically justified. It seems unlikely that the SEC will agree to the wide differential.

The majority plan would (after retiring the bank loan) allocate the stockholdings in Oklahoma Gas & Electric and Louisville Gas & Electric to the prior preference stocks, with the suggestion that if this is not enough to satisfy senior claims, that "other assets of Standard, including possibly common stock of Philadelphia or underlying assets thereof," might be assigned in addition.

It is obvious that neither plan is complete, and neither seems likely to be adopted. The final plan may represent a working compromise.

One way of appraising the values of the two groups of preferred stocks is as follows: The current portfolio (based on market prices, and in the case of Wisconsin, ten times earnings), is worth about $120,000,000 or $95,000,000 after paying the bank loans. The total claims of the two groups (omitting common stockholders) based on par and dividend arrears only, approximate $90,000,000 for the senior preferreds and $83,000,000 for the junior. If both groups had equal claims on the assets, this would mean a division of about 52-48. However, considering seniority and respective price records, it appears unlikely that the second preferred will receive less than 10% or more than 30% of total assets. Using our valuation of $95,000,000 for available assets, this would work out about as follows:

Estimated Shr. Value	Allocation Formula 90-10	80-20	70-30
*Pr. pref. stks.	$183	$162	$142
†$4 second pfd.	12	25	37

*The assignment to the $7 stock would, of course, be somewhat larger than to the $6. †Less any amount assigned to the 2,163,000 shares of common stock, which will probably be small.

Presumably the SEC will soon order hearings and after these are completed, there may be the usual period of quiet reflection before the SEC announces its findings or decision. It is, of course, quite possible that the whole issue might finally go to the courts unless the SEC is able, by some miracle, to satisfy both groups. In the meantime, attention may be focused on integration plans for Philadelphia Company—which is one lap ahead of the parent company.

Future values for the $4 preferred would, of course, increase sharply if: (1) general market yardsticks improve; or (2) Philadelphia Co.'s break-up value proves higher than the present price around 11 (which seems liberal enough in relation to earnings and dividends).

Morgan Stanley & Co. Underwrites Glens Falls Insurance Stock

Glens Falls Insurance Co. has mailed to holders of its capital stock warrants entitling them to subscribe to 150,000 shares of its $5 par capital stock at $35.50 per share. Morgan Stanley & Co. heads a group of underwriters that will purchase any unsubscribed stock.

The subscription warrants, which expire at 3 p.m. (EST) Oct. 22, 1947, entitle stockholders to subscribe for the stock at the rate of three shares for each ten shares held of record at the close of business Oct. 6, 1947. An increase in the capital stock of the company from 500 000 to 650,000 shares was authorized by stockholders on Sept. 5, 1947.

The underwriters may offer shares of capital stock concurrently with the offering by the company or after the expiration of the warrants.

Glens Falls was organized in 1849 and with its subsidiaries, Glens Falls Indemnity Company and Commerce Insurance Company has facilities for the writing of practically every standard form of insurance except life. During 1946 the Glens Falls Group wrote premiums of about $36,000,000, an increase of 39% over the previous year. 62% of this volume was written by the fire companies and 38% by the casualty company. Premiums continued to jump sharply in 1947 to a six months total of over $22,000,000. Like other insurance companies, the Glens Falls Group has felt it desirable to obtain additional capital in order to be able to accept the increasing volume of business being produced by its agents.

Dealer-Broker Investment Recommendations and Literature

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

Access to Markets of the World — Color - illustrated booklet describing overseas banking service —National City Bank of New York, 55 Wall Street, New York 15, N. Y.

Import and Exchange Regulations in the Principal Countries of the World—Folder—Chase National Bank of the City of New York, Pine Street corner of Nassau, New York 15, N. Y.

Railroad Developments of the Week—Current developments affecting the industry—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Security Charts—Recent issue of 80-page folio of 303 charts containing vital data on leading listed stocks, graphically portraying weekly price ranges, earnings, dividends, business index, relative group action and other important data—free—Securities Research Corp., 141 Milk Street, Boston 9, Mass.—Ask for Folio CFC-106.

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

Trackage Facilities—Information regarding available industrial sites having trackage facilities in the territory served by the Union Pacific—Industrial Department, Union Pacific Railroad, Omaha 2, Neb.

* * *

American Water Works & Electric Co.—Memorandum—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Boston Elevated Railway Co.—Memorandum discussing interesting speculative possibilities — Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Buda Company—Detailed report—Stifel, Nicolaus & Co., Inc., 314 N. Broadway, St. Louis 2, Mo.

Central Public Utility Corp.—Detailed Study and Outlook—Brailsford & Co., 208 South La Salle Street, Chicago 4, Ill.

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

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

Columbia Gas & Electric—Anaylsis—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Glens Falls Insurance Company—Analytical Brochure—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Glenn L. Martin Co.—Special review in current **"Aviation Bulletin"**—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

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.**

Lamson & Sessions—Special report—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available are special reports on **Upson Company, Diebold Inc., Fairbanks Co.,** and **Portsmouth Steel.**

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

Merchants Distilling Corp. — Late data—Faroll & Co., 208 South La Salle Street, Chicago 4, Ill.

Metal & Thermit Corp.—Memorandum — New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

National Gypsum Co.—Appraisal and outlook—Kalb. Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a review of **New York, Susquehanna & Western Railroad;** and a review and outlook on **Bridgeport Brass Co.** based in part on an interview with the management.

H. K. Porter Co., Inc.—Memorandum — Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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

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

Royal Dutch Co. — Analysis — Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

Shatterproof Glass Corp.—Bulletin—Peter Barken, 32 Broadway, New York 4, N. Y.

Sterling Motor Truck Co.—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

U. S. Glass Co.—Analysis available to brokers and dealers—Greene & Co., 37 Wall Street, New York 5, 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. 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.

What to Do About Germany

By LEWIS H. BROWN*

Chairman of Board, Johns-Manville Corporation

Mr. Brown, commenting on his report on what to do to restore Germany economically, maintains key to Western Europe recovery is food and coal for Western Germany. Denounces Morgenthau plan and recommends increasing diet of German workers. Criticizes Britain's failure to export coal to Western Europe and sees need of 10 million tons of British coal in Europe. Advocates setting up organization similar to SHAEF to aid in implementing Marshall Plan and suggests seven-point program of German recovery.

It is a pleasure to discuss with you gentlemen today my recent mission to Germany and to submit to you a plan for reviving Western Europe and Western Germany.

Lewis H. Brown

This question of European recovery is one of the world's most pressing problems. Whether we like it or not we have a big stake in it. In the interests of our own welfare we cannot afford to let Western Europe drift into deeper chaos, confusion and despair.

I do not think the American people as a whole realize the seriousness of the situation and what effect a collapse of Western Europe may have on the destinies of every American. These points have not been brought home to the individual.

You members of the Association of National Advertisers are experienced in reaching the consumer. You know how to appeal to that composite, cross-section of all of us, referred to by the statisticians as Mr. and Mrs. Average American. If you set your abilities to it I am sure that you can rouse the American people from their indifference to affairs abroad and show them that a prosperous Europe is to their benefit while a ruined Europe may have a disastrous effect on their well-being.

With your indulgence I would like to discuss this point a little further.

Let us speculate on what may happen in the United States on this question of recovery for Western Europe.

Because of the chronic indifference on the part of many of our people to problems abroad there probably will be an unwillingness to be taxed sufficiently and to pay high enough prices to provide the money, food and goods to set Europe substantially on her feet. There may be a refusal to eat less meat, eggs, poultry and butter so that more grain will be available for shipment abroad. There may be a tendency to indulge in spasmodic relief rather than continuous support until the job is done.

If these things happen, there is no doubt in my mind that misery and deterioration will continue in Western Europe. Meanwhile the hard-Socialists countries of Eastern Europe, driven by the Communist Russian whip, will work hard and get on their feet. They will be aided by the fact that Eastern Europe usually has a food surplus while Western Europe usually has a food deficit.

When the Germans in the Russian Zone of Germany eat better than their fellow countrymen in the Western Zones it is highly conceivable that the Communists could win the ideological battle in Germany. To hold down a hostile Germany, if such a situation were to develop, American occupation troops would have to be increased. Communism would move forward, penetrating France and Italy as well as Germany.

We would then have few choices. Either we would have to retire from Europe or base our stay there on an increasing standard of living or an increasing display of strength. Should such a situation arise, the American people, finally awakened at the 11th hour would not permit retirement. There could then only be one outcome! WAR!

The Worst Can Happen

I am not saying that the above things will happen. No one can prophesy today amid the uncertainties of Europe. But there is a decided possibility that these things will happen. It is unrealistic to put on rose-colored spectacles to view the war-shattered, misery-ridden, hungry continent of Europe and imagine the worst cannot happen.

These things are, in fact, extremely likely to happen unless the American people wake up to the immensity of the problems that confront us in Europe and act in time.

Communist Russia, of course, hopes that America will do nothing to forestall the threatened collapse of Western Europe, that England will not dig coal and that France and other countries of Western Europe will not be able to agree among themselves upon a plan of reconstruction.

It is my best judgment that Russia will not go to war at this time. Her policy is one of watchful waiting, ever ready to spring in and take advantage of the chaos and despair that would follow an economic collapse.

If we fail to take appropriate action we will be playing into Russia's hands. If Western Europe fails to recover, her economic collapse will result in a severe depression that would spread throughout the British Empire and the United States.

It is to our own advantage, therefore, to take the necessary precautions to prevent such a catastrophe. It can be prevented through constructive help, through incentives to production with adequate safeguards to be sure that we are not resurrecting the American dole but are simply providing the means to helping Western Europe to help herself.

Here is an immediate problem for you gentlemen to tackle. Get the facts across to every individual in our country. The joint committee of the Association of National Advertisers and the American Association of Advertising Agencies has been cooperating with the Advertising Council of America to formulate a program to resell America to Americans, to promote a public understanding of the American system of free enterprise and its advantages to every economic group.

Free Enterprise Is At Stake

Free enterprise is at stake in Western Europe. Our destinies are linked with Western Europe. If we are to strengthen free enterprise in the United States we must help the countries of a shaky Europe to fortify themselves politically and economically. You gentlemen can play a big part by

(Continued on page 55)

*Address by Mr. Brown before Association of National Advertisers, Atlantic City, N. J., Oct. 8, 1947.

Home Building

By ROGER W. BABSON

Mr. Babson advises waiting a little while longer before starting building a home, not because lower prices can be expected but because quality will improve as pressure for building materials and labor is eased. Sees no change in home mortgage outlook.

Next to specific questions about securities, the people at the present time, seem most interested in problems concerning the residential building outlook. Many are asking whether they should build now or wait! Others want to know whether they should build at all or buy an older-type house. I shall discuss these problems today.

Roger Babson

Specifically, I advise your waiting a little while longer if you can possibly do so. Pressure on building materials and building labor is still very strong. This means that your freedom to insist on quality is still restricted. Those of you who want the best should be in a better position to demand it next year than now.

As far as price is concerned, I do not believe you will save any money by waiting until next year. Your saving will be in quality which, after all, is most important when you are making a 20-, 30-, or 50-year investment. It also is wise to wait until you can get a firm contract price and build under an architect's supervision.

What About Demand?

The years 1939 through 1946 saw a net increase in families of about 9,600,000. During that period, however, there were only 2,600,000 net dwellings added to the total. At the beginning of this year, I therefore estimate an accumulated demand for about 7,000,000 dwelling units. The Bureau of Labor Statistics reports that there were 359,000 units completed in the first half of 1947. During the last half of the year there should be 700,000 more completions. Yet, 1,000,000 more couples will get married in 1947!

Hence, it can be seen that the pressure of demand remains extremely high. This prevents any sharp early decline in the cost of construction. I, however, would predict that during 1948 the price of building will remain close to present levels; but with improved quality of construction and less labor union interference. In fact, I expect building costs to stabilize not far from current levels.

Should I Buy an Old House?

If your need for a house is imminent and pressing, you might consider buying an old house if the location is right. However, if you can wait, I suggest you wait and then build a new and modern home. In buying an old house, be doubly certain that needed repairs are not too extensive as renovation costs are now very expensive. In selecting an old house, be very careful to avoid extremes in size and architecture, as the "out-of-style" types will be the first to crash valuewise when the demand fades.

Bear in mind that the future value of your house will be governed by the price district in which you buy or build. Never build a $15,000 home in a $10,000 price district. If you do, you may be throwing away $5,000 immediately. Generally, depreciation occurs on the house only, and appreciation occurs on the land only; while money spent on personal desires either on a new home or on remodeling an old one must be charged off when reselling. Watch out for restrictions.

Mortgage Outlook

During the months ahead, I do not expect any change in the mortgage money situation. The pressure of savings seeking investment should continue low interest rates and an easy attitude on the part of bank appraisers. The biggest demand for mortgage money will be for multiple dwelling units. High costs of homes force many in the lower-income groups to seek small rentals in apartment dwellings. Hence, the demand for such houses will reach a higher level and there will be more of some types of government housing subsidies.

Our Reporter's Report

Judging by the "spreads" which marked the bidding for Pacific Gas & Electric Co.'s issue of $75,000,000 of new 33-year, first mortgage 2⅞% bonds, on Tuesday, investment bankers finally are becoming a bit more realistic in attempting to calculate what the market will take.

This was an unusually large issue, considering that it was intended to raise new capital. And it is quite a spell since there has been a comparable set of differentials in the bidding.

While the winning bid did not permit reoffering on a 2.90% basis, which appears to be the "breaking point" for insurance company buyers, it did allow repricing at "par" with an indicated yield to the buyer of 2.875%.

But on the basis of reports in dealer circles this yield, though not far removed from the desirable level, found institutional buyers just a bit "cool" in their reception and, perhaps, gave the selling syndicate a bit of a job to do.

The winning bid was 99.55 to the company which had recently amended its registration to raise the coupon rate from 2¾% to 2⅞%. The tender of the next banking group was a full half point under the highest, at 99.05. The third competing syndicate entered a bid of 98.717 which was just short of ⅞ of a point under the winning figure.

In fact, it was reported that, had the last indicated group captured the bonds, they would have been priced for public offering at approximately the level which the company received.

American Water Works Co.

Bankers handling the distribution of 2,698,472 shares of common stock of American Water Works Co. for American Water Works & Electric Co., Inc. under the disintegration schedule, launched public offering of the balance of the stock yesterday.

Under the program, American Water Works shareholders had the right, until the close of business on Monday, to subscribe for 2,343,105 shares of the Water Works stock at $8 a share in the ration of one share for each share of the parent company stock held.

Meanwhile the company was offering an exchange of its shares to public preferred stockholders of Community Water Service Co. and Ohio Cities Water Corp. and to the public common holders of Community. The Exchange offer to the foregoing also expired on Monday.

New Issues Ahead

Among issues slated for award via competitive bids during the coming weeks is the $100,000,000 Pacific Tel. & Tel. 40-year debentures. Bids will be opened on Oct. 21.

Texas Power & Light Co. on Oct. 14, will offer for bids, $8,000,000 of 30-year first mortgage bonds, to raise funds for new construction.

On Monday, Oct. 20, Alabama Power Co. will open bids for $10,000,000 of its 30-year first mortgage bonds, as a partial means of financing its construction program.

Projects New Preferred

In keeping with the recent indications that utility firms are anxious to raise at least a part of their needed new capital through preferred stock, rather than bonds, it is reported that Southern California Edison Co. is considering such a step.

The big Coast utility is understood to contemplate an offering of $25,000,000 of new senior equity, with bankers inclined to look for marketing early in December. Unless the issuer prevails on the Securities and Exchange Commission to waive its rule, this stock would come under competitive bidding.

Banks, not having found the investor too receptive to preferred stocks recently, have not been particularly keen about taking on this type of operation. Over a period of months a few companies have found themselves without bids for such issues.

Illinois Brevities

An investment banking group under the co-management of F. S. Moseley & Co., Glore, Forgan & Co, and Merrill Lynch, Pierce, Fenner & Beane on Oct. 8 publicly offered 218,000 shares of Associates Investment Co. $10 par value common stock at $30.25 a share. Of these shares 18,000 are being sold for the account of certain stockholders and 200,000 represent a new issue.

* * *

Paul H. Davis & Co. headed an underwriting syndicate which offered on Oct. 7 an issue of 40,000 shares of 5% cumulative convertible preferred stock, par $25, of La Plante-Choate Mfg. Co., Inc. The stock was offered at par and the proceeds will be added to working capital.

* * *

The offering of 100,000 shares of capital stock, par $10 of the Continental Casualty Co., with offices in Chicago came to a successful conclusion, according to an announcement made Sept. 18.

Of the total the stockholders subscribed for 94,738 shares at $40 per share and the balance of 5,262 shares was purchased by the underwriting syndicate headed by Glore, Forgan & Co. and William Blair & Co.

* * *

The operation of a publicly owned transportation system in the nation's second largest city began at midnight, Sept. 30, when the Chicago Metropolitan Authority took over the city's elevated and surface lines. Of $105,943,461 received by the Authority Sept. 30 from an investment banking group headed by Harris, Hall & Co. (Inc.), The First Boston Corp. and Blyth & Co., Inc., $75,000,000 was transferred to the Federal District Court to purchase the Chicago Surface Lines and $12,162,500 was similarly transferred to purchase the Chicago Rapid Transit System. The balance will be used as working capital, as a fund to meet costs and adjustments in connection with closing the transaction and to start the proposed modernization program.

The $105,943,461 was presented to Philip Harrington, Chairman of the Transit Authority, by Edward S. Hall, President of Harris, Hall as representative of the banking group in the Federal District Court of Judge Michael L. Igoe. The transfer successfully completed the syndicate's purchase of $105,000,000 of the Authority's revenue bonds plus accrued interest.

It was the sale of these bonds, a Transit Authority spokesman pointed out, that paved the way for the purchase and unification of the Surface and Elevated Lines, thus ending more than 20 years of litigation.

* * *

The Illinois Co. and Mullaney, Ross & Co. on Oct. 1 placed on the market $800,000 first mortgage 4¾% sinking fund bonds of Conlon-Moore Corp. The issue was offered at par and interest.

* * *

An offering of 100,000 shares 5½% cumulative convertible preferred stock, par $10 and 200,000 shares of common stock par $1 was made Sept. 30 by a banking syndicate headed by Brailsford & Co., Shillinglaw, Bolger & Co. and Straus & Blosser. The preferred stock was offered at par and the common at $6 per share.

* * *

Munising Wood Products Co., Inc., Chicago, has registered with the Securities & Exchange Commission 50,000 shares of $10 par 5% cumulative convertible preferred and 100,000 shares of $1 par common stock. The shares, to be publicly offered by underwriters headed by Straus & Blosser and Brailsford & Co., will be sold by stockholders.

* * *

Club Aluminum Products Co. (formerly The Club Aluminum Utensil Co.) for the fiscal year ended June 30, 1947 reported a net profit of $422,764, or about $1.30 per share, after provision for Federal income taxes. Net sales were $9,396,593.

Current assets at the close of the fiscal year amounted to $1,478,679, as against current liabilities of $851,531.

* * *

Paul V. Galvin, President of Motorola Inc., announces that Motorola sales for the third quarter ended Aug. 31, 1947 amounted to $10,928,692, and that net profits after taxes and reserves during the same period were $447,345, equal to 56 cents per common share. This was a decline from the second quarter of this year, due primarily to the fact that the entire plant was closed down during the period of July 3 to July 21 for a general vacation period.

Net sales for the first three-quarters ended Aug. 31, 1947, amounted to $32,060,236, as compared with $15,259,169 in the same period last year. Net earnings totaled $1,827,119, or $2.28 per common share, after taxes and reserves, as compared with $222,409, or 28 cents per common share in the corresponding period in the 1946 fiscal year.

Chase Dinner Honors 25-Year Employees

A dinner in honor of the more than 1,100 employees now on the staff of the Chase National Bank who have served for 25 years or more was held in the grand ballroom of the Waldorf-Astoria Hotel Oct. 8. Hosts and speakers at the affair were Winthrop W. Aldrich, Chairman of the Board of Chase, and Arthur W. McCain, President, and Arthur W. McCann, President.

Of the total 25-year group of 1,106, representing more than 15% of the entire Chase organization, 949 are men and 157 are women. Fifty-seven of the men and five women are located in Chase branches overseas. Invited for the first time last night were 162 staff members attaining 25-year status during 1947, each of whom is presented with a commemorative gift of his or her own selection on the date when the quarter century anniversary is reached.

Our Capital Must Move Abroad!

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Mr. Truslow, noting U. S. excess export trend, stresses using surplus capital to finance increased productivity in rest of world. Looks for heavier marketing of foreign securities, and use of security exchanges to furnish marketability for America's share in foreign enterprise. Predicts renewal of private capital investments abroad following end of government relief expenditures.

If I can hold your attention for a few minutes in competition with the attractions of Florida, I would like you to think about some trends which may affect not just the New York Curb Exchange, but all the other parts of that vast activity which we lump and over-simplify in the phrase the "securities business," and which in fact, will influence the course of our life as a nation ambitious to remain a free people.

Francis A. Truslow

If you will make even a brief review of our trade with the rest of the world and the financial relations which the rest of the world has had with us since the founding of this republic, two facts will confront you.

In the first place, we were able to convert a wilderness into a highly productive land because foreign capital came across the ocean to work here. The record is written clearly in the statistics of our trade. When a nation consistently imports more than it pays for by export, it is living on the capital of other nations. Even if the difference is covered by the offset of gold transfers, liquidation of foreign assets, and dividend payments to foreign owners, the essential economic fact is that a nation pays for its imports of goods through its exports of goods, or it lives on foreign capital. Although there were 14 years scattered through our history prior to 1876 in which our exports paid our way in the world, in each of the other 72 years the world carried us. From 1876 to 1834, we moved in and out of our position of trade debtor to the rest of the world and then emerged as a positive and increasingly pronounced trade creditor. If the yearly swings through which such activities pass are flattened into an average to reveal a trend, our position becomes compellingly clear. The world which financed our development is becoming progressively less able to pay by exports to us for our exports to it.

From these brief observations the second fact emerges. We must finance increased productivity in the rest of the world, or we cannot continue the trend in our export trade which we have enjoyed during the last 50 years. The rate at which our productivity has increased is outrunning the rate at which the productivity of the rest of the world is increasing.

The path of our trade and financial relations with the world has, in my opinion, approached full circle in our economic history. The poverty stricken settlements on the eastern shores of North America have utilized the credit of the world to open up enormous sources of production and to store up enormous reserves of credit. No one who has roamed the world can think that this is the end of the process. It is in fact merely a loop in a spiral which began somewhere in the heart of Asia at the birth of man. No one who has visited the world can believe that our land is the only one abundantly blessed by nature. Through the devices of man's invention other lands, which were unpromising in the days of earlier loops in this economic spiral, have today become pregnant with latent productivity. The deserts of Arabia, the forests of Africa, the wide lands of China, the Andean torrents of Peru, the llanos of Venezuela and the mines and fertility of Brazil and Colombia have acquired accessibility and a new potential of use.

There is no shortage of work for our capital. It can and I believe will work beside the capital of other lands in the development of their productivity as their capital worked with ours in creating

(Continued on page 11)

*From an address by Mr. Truslow before the 30th Convention of the National Association of Securities Administrators, Jacksonville, Fla., Oct. 2, 1947.

Our Capital Must Move Abroad!

(Continued from page 10)

America. Men will interfere with this process and the artificial barricades which men always raise may slow it, but the process will continue just the same.

I believe that you gentlemen and your successors will increasingly have before you applications for the registration of foreign securities. I believe that the members of the New York Curb Exchange, of the Stock Exchange and other Exchanges will increasingly be called upon to furnish marketability for America's share in foreign enterprise. I believe that the investment bankers and securities dealers of America will be increasingly agents for the channeling of American capital into work in other lands. It is not too much to hope that all of you and all of us will greet the plans for foreign investment which come to our desks not as unwanted, exotic and troublesome matters, but as particles of the process I have described to be welcomed, directed and encouraged.

Perhaps these are dreams enough for one session, but I cannot leave them without suggesting their significance beyond the field of economics.

There is probably not a mind among us which is not restless and overshadowed by the violent words on Flushing Meadows and the alternatives they imply. We hate the thought that a new system of slavery is spreading in the world. We abhor the fact that although we have spent our nation's blood and resources to crush the tyranny of Hitler, we now find that the same evil persists and only names and faces have changed. We know that hunger and suffering are growing in the world and that where this is so, people will listen to the false promises by which millions have already been enticed into slavery. We know that our continued freedom depends on our ability to assist other nations to regain their strength and become invulnerable to these false promises.

Because time is short we must use the central authority of our government as our agent to disburse our funds to foreign lands. Such aid can only provide temporary relief, temporary dollars to be spent to buy at once the things we have and they need. Such dollars will be transient voyagers abroad and will not stay as investments in productivity — the permanent cure. They must be followed by the kind of numerous, individual and personally selected and personally guided investments which add to credit the human driving force that transmutes credit into working capital.

For you gentlemen, for our country and for our industry's part in the life of our country, economic isolation must disappear just as surely as our political isolation has ceased to exist. Our capital must move abroad propelled by an economic trend which has been moving capital throughout history. For the preservation of freedom in our own land and in the lands of the outside world, that capital must move from private hands at home to private enterprise abroad.

Our eyes and your eyes must be raised beyond our borders to the work waiting to be done in the world.

Increase Margin Requirements

Grain Exchanges comply with Administration's request that down payments in grain futures trading be 33⅓% of purchase price.

In line with the request of the recommendation of J. M. Mehl, Exchange Division of the Agricultural Department, the principal grain exchanges, following the lead of the Chicago Board of Trade on Oct. 6 increased the minimum margin requirement on futures transactions in grain to 33⅓% of the purchase price. As noted in the "Chronicle" of last week, (Oct. 2, 1947, p. 16) the Chicago Board of Trade, had attempted to meet the widespread demand for increased margins by adopting a sliding scale system, whereby each 10 cent rise in the price of a futures transaction would require an additional 5 cents down payment. However, this action did not satisfy President Truman or the Agricultural Department, so the President announced in his radio address on Oct. 5 that he would direct the Administration, backed up by the administrator of the Commodity grain exchanges to adopt the 33⅓% margin as originally proposed by the Agricultural Department late in September. Accordingly, telegrams were sent to the grain exchanges, reading as follows:

"By direction of the President we request that the governing board of your exchange increase minimum initial margin requirements on all transactions in grain futures on your exchange to not less than 33⅓% of the market price." The telegrams were signed Commodity Exchange Commission and gave the names of the three members: Secretary Anderson, Chairman; Secretary of Commerce W. A. Harriman and Tom C. Clark, Attorney General.

Although the Administration cannot force an increase in margins, or down payments, in grain market speculation, it had power to limit trading in grain futures under the Commodity Exchange Commission Act.

Subsequent to the announcement of the compliance of the Chicago Board of Trade with the President's "order," J. O. McClintock, President of the organization, gave out the following statement:

"We well know that such a move will neither alleviate nor correct the situation for which the President is seeking a remedy, namely, high prices. If the President has been allowed to build his hope that in such a panacea lies the cure for high prices, then he has been sadly misinformed.

"Grain prices are being given undue emphasis as to the part they play in the over-all food price situation. They are being unfairly and illogically used as the whipping boy.

"We believe the people should be told the elemental economics of the situation. Grain prices are only influenced by the laws of supply and demand and the facts are that there just isn't enough grain to meet our own normal domestic needs and at the same time carry out the government's plans for exports to feed the hungry nations of the world.

"It is unfortunate, therefore, that the President has been misled into the mistaken thesis that operating method of a part of the exchanges which he erroneously described as 'gambling' was responsible for price advances.

"The appellation is undeserved by the marketing institutions whose methods and organizations have been a model of efficiency in our distribution system.

"Furthermore the President does not seem to have been informed that prices in the futures markets have been consistently lower than the prices of grain for immediate delivery."

Handicaps to Venture Capital

By JAMES F. BURNS, JR.*
Retiring President, Association of Stock Exchange Firms

Stressing importance of well organized securities industry in U. S. economic growth and expansion, Mr. Burns points out current unprecedented demands for capital formation, estimated at $20 billions annually is not likely to be obtained under present high taxation and arbitrary, dictatorial and discriminatory credit regulations of Federal Reserve Board.

It is indeed a great honor to be invited to talk before such a distinguished gathering of the business leaders of this community—a community which is so typical, and is one of the outstanding results, of the functioning of our American system of free enterprise.


James F. Burns, Jr.

Some of you here this evening represent large industrial corporations with their many thousands of owners. Some of you represent smaller organizations with their relatively few stockholders or partners, and some of you, individually owned and operated businesses. All are essential to the proper economic functioning of a community such as yours. And no one, therefore, knows better than you the part that private capital has played in your successful development and the risks that such capital was willing to accept in order to promote and to participate in your enterprises.

The growth, the expansion of American industry and commerce during the past 150 years could not have been accomplished without the use of venture capital. This capital in the main was not assembled in hit-or-miss fashion. Most of it was assembled through the broad efficient and economical facilities of the securities industry. This industry, consisting of national securities exchanges and their members, underwriters and distributors of securities, and over-the-counter markets, has provided the machinery for the flow of capital to industry from sources everywhere.

Capital expenditures by industry for expansion—for new and better products—for improvement of plants and facilities—are an essential characteristic of a prosperous economy. We do not have to overtax our memory either to remember the dearth of capital formation in the 1930's or to recall that this was one of the principal causes for the extent and depth of that depression period.

Conditions today, however, created by 12 years of depression and 4 years of war, have developed an unprecedented demand for capital formation. Present capital expenditures by industry are substantial, and it has been estimated by eminent economists and statisticians that in the five year period 1947 through 1951 these requirements will approximate $100 billion—or $20 billion each year.

This is an enormous sum. But upon the ability of industry to obtain these funds will depend the prosperity of our country. Upon that ability will also depend the prosperity of this city.

As it has been estimated that two-thirds of these capital requirements will come from undistributed earnings and reserves, it appears that one-third or approximately $6½ billion a year will have to come from private capital sources.

This, too, is an enormous sum. It is about three times the average annual amount that was raised in the prosperous 1925-29 period.

Part of this required capital will be obtained through debt financing, and part must come from equity financing or risk capital. There are prudent limitations of the former, for certainly good business management is not going to increase fixed charges beyond sound proportions. There are deterrents to the fulfilment of the latter which, if not eliminated or ameliorated, may make it difficult if not impossible of achievement. And these deterrents should be of grave concern to each of us here this evening.

It is, I believe, self-evident that all forms of private capital—either for equity investment or for fixed interest or dividend return—must emanate from the savings of the people of our country. If there were no savings and all individual incomes were utilized for the payment of living expenses and taxes, then formation of private capital would be an impossibility and our system of free enterprise which has afforded a rising standard of living for our people would be supplanted by one of nationalization which thus far has only produced poverty.

During the past 15 years a large part of what otherwise would have accumulated as savings of the people of this country has gone by taxation to defray the tremendous increase in our Federal expenditures. Obviously, our taxes today must be higher than they were 15 years ago. We have a long depression to pay for, one which was prolonged by unsound governmental and economic theories and inequitable and punitive taxation which stifled production—and we have a terrible war to pay for—including a major part of the costs of rehabilitation of many nations involved therein. American citizens understand this just as they also understand that taxation should be equitable—that it should exist for necessary revenue and protective purposes only—and that it should not unjustifiably jeopardize incentive or the accumulation of savings.

Prudence and the necessity for preservation of savings require that the risks inherent in venture capital be borne by those who can afford the losses which are inevitable in a progressive economy and the losses which accompany development of new and competitive enterprises.

According to a study prepared by Lionel D. Edie, based upon statistics compiled by the Bureau of Internal Revenue, there are today approximately 85% more individuals having incomes, before taxes, of $10,000 or more than in the period 1925-29. Based upon a $165 billion level for national income payments and with present Federal taxes, it is estimated that the annual income of that group in the immediate period ahead, before taxes, will be approximately 41% larger than it averaged in the 1925-29 period but that, after taxes, it will be approximately 10% lower.

Furthermore, Dr. Edie estimates that after allowance has been made for the increased cost of living, the saving potential of this income group will amount to approximately $1.2 billion on an annual basis. This saving potential is less than one-third of what it averaged in 1925-29, whereas the estimated financial requirements of industry for 1947 through 1951 are about three times as great as in the former period. This saving potential is less than one-fifth of these estimated capital requirements for 1947-51 whereas in 1925-29 it was more than twice as great as the amount of capital funds needed in that period.

The high volume of expenditures which these estimates anticipate would assure our continuing prosperity. The risks which inevitably accompany them must be assumed by someone. Most assuredly, income groups other than those which I have discussed will provide some of the funds directly and under proper safeguards it may some day be possible that part of the mass savings for security purposes be utilized by savings banks and insurance companies as equity capital in limited risk ventures. Nevertheless, as I have said before the larger risks must be assumed by those whose financial strength is sufficient to withstand the losses which always accompany the profits of progress.

In that respect it seems evident to me that the individual income tax rates have impaired to an alarming extent this major source of risk capital.

In addition, our individual income tax rates as well as other features of our income tax structure act as deterrents to incentive in making investments.

This is particularly true in respect to the taxation of corporate earnings. Our present method of taxing net profits first at the corporation level and then again when the profits are distributed in the form of dividends is inequitable for the reason that the corporate tax rate is not correlated to the owners' or shareholders' personal income tax status.

It is unfair because under the present method of taxation there is great discrimination shown against those in the lower income brackets who own shares in our American corporations.

For example, presuming that the entire net earnings of a corporation were distributed, a shareholder in the first individual normal and surtax income bracket would pay a total tax of $486 on his share of $1,000 corporate earnings as compared with a tax of only $171 by an individual whose earnings were the same from an unincorporated business or from such sources as wages, rents, interest, etc. On the other hand, the individual taxpayer whose share of such corporate earnings amounts to $100,000 would pay a tax of $72,086 on those earnings compared with a tax of $63,954 on similar earnings from other sources.

In the first example, duplicate taxation has accounted for an increase of 184%. In the latter example, duplicate taxation has accounted for only a 12.7% increase.

Furthermore, while our government has recognized that permanent price and wage controls have no place in a free enterprise economy in times of peace, it has apparently failed to comprehend that taxes tend to become part of the cost of doing business and are eventually reflected in the prices of goods and services. Hence high corporate taxes are in themselves highly inflationary and play an important part in producing a spiral of increasing costs and increasing prices—with the attendant fear of their eventual collapse and the effect of such collapse upon our economy.

Capital investments are likewise deterred by the application of the arbitrary and discretionary features of the capital gains tax. This tax is arbitrary in that it establishes a definite holding period which determines whether 100% or 50% of the capital accretion is subject to tax—either at a fixed rate or as part of ordinary income. This tax is discretionary in that it is effective only in respect to a successful investment which for one reason or another, necessity or prudence, is converted to cash or other media of investment.

Of course, there are factors other than taxation which are affecting the free flow of venture capital.

There are the arbitrary, dictatorial, and discriminatory regulations of the Federal Reserve Board which restrict to an unjustifiable extent the amount of credit which may be extended on securities listed upon our national securities exchanges.

There is the concern caused by the demands of labor leaders and the disputes between labor and management which have resulted in work stoppages seriously affecting essential production.

There is the grave financial condition of many European countries which may have farreaching effect upon our economy.

However, the point which I wish to make this evening is that the combined eventual effect of these taxes on our economy will inevitably be an unbalanced equilibrium. If our system of free enterprise is to continue—if it is to flourish and progress rather than stagnate and disintegrate—then the tax structure of our Federal Government must be placed upon a sound basis. It must produce the needed revenue for our Government without being punitive or confiscatory—and it must foster—not retard—our economy and industrial progress. Correction cannot be delayed for long and to this end the Association of Stock Exchange Firms is devoting its full energies and abilities.

*Remarks by James F. Burns, Jr., President, Association of Stock Exchange Firms, Before Chamber of Commerce at Pittsburgh, Oct. 7, 1947. Mr. Burns is a partner in Harris, Upham & Co.

President Outlines Food Program

In radio talk he stresses emergency needs and inflationary dangers. Concedes exports and competition for scarce goods elevate prices, but places blame for some of the increase to gambling in commodities. Asserts that 90% of recent corn future accounts were speculative. Says restoration of Western Europe as free, self-supporting democracies is essential requirement of lasting peace.

In a radio talk, Oct. 5, following similar short broadcasts by Secretary of State Marshall, Secretary of Agriculture Anderson, Secretary of Commerce Harriman, and Charles Luckman, Chairman of Citizens' Food Committee, President Harry S. Truman outlined a food saving program for which he appealed for cooperation and support by all segments of population.

President Truman

The text of the President's address follows:

My fellow citizens:

The food-saving program which has just been presented to you has my wholehearted support. I am confident that it will have the support of every American.

The situation in Europe is grim and forbidding as winter approaches. Despite the vigorous efforts of the European people, their crops have suffered so badly from droughts, floods and cold that the tragedy of hunger is a stark reality.

The nations of Western Europe will soon be scraping the bottom of the food barrel. They cannot get through the coming winter and spring without help—generous help—from the United States and from other countries which have food to spare.

I know every American feels in his heart that we must help to prevent starvation and distress among our fellow men in other countries.

But more than this, the food-saving program announced tonight offers an opportunity to each of you to make a contribution to peace. We have dedicated ourselves to the task of securing a just and lasting peace. No matter how long and hard the way, we cannot turn aside from that goal.

An essential requirement of lasting peace in the world is the restoration of the countries of Western Europe as free, self-supporting democracies. There is reason to believe that those countries will accomplish that task if we aid them through this critical winter and help them get back on their feet during the next few years.

They must do most of the job themselves. They cannot do it if thousands of their people starve. We believe that they can—and will—do the job if we extend to them that measure of friendly aid which marks the difference between success and failure.

Their most urgent need is food. If the peace should be lost because Americans failed to share their food with hungry people there would be no more tragic example in all history of a peace needlessly lost.

Danger of Inflation

Another reason for conserving food is to aid in controlling inflationary spirals and in preventing undue price burdens for our people at home. Already many American families with moderate or low incomes are being forced by high prices to lower their standard of living.

Exports have some effect upon domestic prices of grain, but they do not exercise a controlling influence on food prices. Most of the upward pressure on prices is a result of competition among Americans for scarce goods. The success of our food-saving program will help to reduce these inflationary pressures.

Another factor that contributes to high prices of food is gambling in grain. Grain prices naturally respond to the law of supply and demand, but they should not be subject to the greed of speculators who gamble on what may lie ahead in our commodity markets.

There is a place for legitimate trading in futures and for hedging transactions. But 90% of all accounts in a recent corn futures market were found to be speculative. Trading in wheat futures rose 75% in September compared with August. Normal trading in wheat at Chicago should amount to three or four million bushels a day. In this past September, however, trading averaged almost 30 million bushels a day. In a single month, on one exchange, almost half the year's crop was traded.

I am instructing the Commodity Exchange Commission, which consists of the Attorney General and the Secretaries of Agriculture and Commerce, to demand of the grain exchanges that they increase their margin requirements to at least 33⅓%. If the grain exchanges refuse the Government may find it necessary to limit the amount of trading.

I say this because the cost of living in this country must not be a football to be kicked about by gamblers in grain.

The food conservation program proposed by the Citizens Food Committee will be supported by every part of the Federal Government.

Mrs. Truman has today directed that the White House follow all the measures proposed by the Citizens Food Committee. In government restaurants and cafeterias, throughout the country, these same measures will be followed. As Commander in Chief I have ordered that the Army, the Navy and the Air Force shall also comply with this program.

All segments of our population must make their contribution toward saving grain.

Farmers must cooperate by reducing the amount of grain now used to feed their livestock and poultry.

Industry must reduce the volume of grain used so as to make the greatest possible saving. The distillers in this country have on hand huge stocks of distilled spirits and it will be no hardship on them to shut down for a 60-day period. This action alone will feed millions of hungry people.

Quite apart from the responsibilities of farmers and industry you and I—as individual Americans—have our responsibility. You have all heard Mr. Luckman give the immediate consumer program for the people of the United States. It has my complete approval and my full support.

The Program

It is simple and straightforward. It can be understood by all. Learn it—memorize it—keep it always in mind. Here it is:

One: Use no meat on Tuesdays.
Two: Use no poultry or eggs on Thursdays.

Three: Save a slice of bread every day.

Four: Public eating places will serve bread and butter only on request.

I realize that many millions of American housewives have already begun strict conservation measures. I say to those housewives, "Keep up the good work" and save even more when and where you can.

On the other hand, there are also many Americans who are overeating and wasting food. Unless these people cut their consumption in the ways required they will be taking more than a fair share of the supplies available. They will be personally contributing to increased inflation at home and to the desperate scarcity of food overseas.

The battle to save food in the United States is the battle to save our own prosperity and to save the free countries of western Europe. Our self-denial will serve us in good stead in the years to come.

The voluntary program is the best way for us to do the job. We believe that self-control is the best control. From now on we shall be testing at every meal the degree to which each of us is willing to exercise self-control for the good of all.

The program which has been presented to you tonight, if faithfully carried out, will save the grain we need.

Hungry people in other countries look to the United States for help. I know that they will be strengthened and encouraged by this evidence of our friendship.

I know that they will be waiting with hope in their hearts and a fervent prayer on their lips for the response of our people to this program.

We must not fail them.

Irish Free State Bonds Drawn for Redemption

Holders of Irish Free State (Saorstat Eireann) external loan sinking fund 5% gold bonds, due Nov. 1, 1960, are being notified that $16,000 principal amount of these bonds have been drawn by lot for redemption on Nov. 1, 1947, at par. The bonds will be redeemed at the head office of The National City Bank of New York.

Business Man's Bookshelf

Investment Company Shares—Alec Brock Stevenson—Fiduciary Publishers, Inc., New York, N. Y.—paper—$1.00.

Reading List on Business Administration—Fifth revision—Designed for the use of those who wish to accumulate books for study and reference, and for concerns which desire to establish small libraries for staff use—The Amos Tuck School of Business Administration, Dartmouth College, Hanover, N. H.—Paper—50c (special discount of 30% to those ordering 20 copies or more).

Security Charts—Recent issue of 80-page folio of 303 charts containing vital data on leading listed stocks graphically portraying weekly price ranges, earnings, dividends, business index relative group action and other important data—Free—Securities Research Corp., 141 Milk Street, Boston 9, Mass.—Ask for Folio CFC-106.

Report on Germany, A—How to Get Germany eventually off the Backs of the American Taxpayers—Lewis H. Brown, Johns-Manville Corporation, New York, N. Y.—Paper.

Security Dealers of North America — Directory of stock and bond houses in the United States and Canada — Mid-Year 1947 Edition—$9.00.

W. W. Miller Opens

SOUTH BEND, IND.—Welby W. Miller is engaging in the securities business from offices in the National Bank & Trust Building. Mr. Miller recently was with Slayton & Co., Inc., and prior thereto conducted his own investment business in South Bend.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Increased volume on strength and position of averages encouraging for nearby period. Steels indicate new leadership.

At least two encouraging things occurred since the previous column was written. There were a couple of million-share days—and the averages are back to the ticklish 180 level. Another nice thing, which has nothing to do with the market, is that third game of the World Series. The fact that the writer in a moment of disgust got odds of 10 to 1 in the ninth inning of that game, when it was two out and one strike on Lavagetto, and collected, changed his entire market perspective.

* * *

You may well ask what the market has to do with the ball game; and the answer will have to be, nothing. But it's a lot more fun to yell yourself hoarse at some guy trying to run out a base hit than to sit morosely in a brokerage office and look at the tape that won't run out anything no matter how balefully you glare at it.

* * *

In the latter portion of last week's column I wrote that it seemed to me that every time the market got down to around 174 it was a buy and every time it got within hooting distance of 180 it was a sale. So far this opinion has borne fruit. But there are little things one must observe in trading them in a six-point range.

* * *

In buying a stock or stocks, because one doesn't buy the averages, you will have to determine for yourself where either 174 or 180 would carry that particular issue. If, for example, 60 in the stock represents 174 in the averages and 64 is equivalent to 180, then you must be prepared to get out of your position if the stock gets under 60, and take your profit if it gets to 64. There is an additional precaution to take on the up-side: There is always a possibility that the long awaited move won't stop at 180 but go right on through. In order not to lose what may be an advantageous position, it is suggested that only half of a position be liquidated at the equivalent of 180, holding on to the rest until the market does one thing or another.

* * *

This kind of trading will require more than casual attention but in any case I don't think trading is a part-time job. If you can't give it the attention it needs and deserves, you'd be better off to give it up entirely, or let some one you trust, do it for you. There are no halfway measures to trading.

* * *

If the current obstacle is negotiated (180-82) I think the leaders, with the steels in the foreground, will be the ones that will run ahead of the market. Among them will be Bethlehem, U. S. Steel, Youngstown, etc.

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.]

Halsey, Stuart Group Offers C. & O. Equips.

Halsey, Stuart & Co. Inc. and associates on Oct. 7 were awarded $5,300,000 Chesapeake & Ohio Railway Fifth Equipment Trust of 1947 1¾% serial equipment trust certificates, maturing $530,000 annually Oct. 15, 1948 to 1957, inclusive. The certificates, issued under the Philadelphia Plan, were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from 1.10% to 1.90%, according to maturity.

The certificates will be unconditionally guaranteed as to payment of par value and dividends by endorsement by The Chesapeake and Ohio Railway Company.

Proceeds of the issue will be used to provide for not more than 80% of the cost, estimated at $6,745,220, of new standard-gauge railroad equipment, consisting of 1,000 50-ton all-steel box cars and 700 70-ton all-steel hopper cars.

NYSE Governors to Act On High Commissions

At a meeting of the Board of Governors of the New York Stock Exchange on Oct. 3 a constitutional amendment looking to an increase in commission income was submitted to be acted upon by the Board of Governors on Oct. 17. If approved by the Board, it will be submitted to the membership for a vote. The plan which is before the Board of Governors contemplates the calculation of commissions on a money-involved basis and an increase in gross commission income by approximately 20%, which would offset in part the increased costs since March, 1942, when the commission rates were last increased.

Blame for Higher Prices

By CARROLL REECE*
Chairman, Republican National Committee

Republican Party spokesman, contending basic causes of present high prices go back 15 years, lays blame on: (1) New Deal "easy money" policy; (2) Administration's aim to increase production by promoting wage increases while seeking to hold down prices; (3) unwise and unbusinesslike handling of food purchases for foreign relief; (4) Administration's bungling of price controls; and (5) Democratic opposition to reducing government costs. Says if price controls are reestablished, wage controls will be essential.

Probably the most immediately acute problem facing the American people today is the problem of the cost of living. We all know it is too high. There is no argument about that. As I said a year ago, what this country needs today is a good five cent nickel. The question is why is the cost of living too high, and what can be done to remedy the situation?

B. Carroll Reece

The cost of living is more than a political issue. It is a problem upon the correct solution of which may depend the future of our entire economic system and possibly of our very form of government itself. History—including some very recent history—has shown that free governments frequently come to disaster on the rocks of dictatorship or totalitarianism because of unsound financial practices. A bankrupt government is inevitably a weak government. A confused and bewildered government is a weak government. And one of the surest symptoms of bankruptcy and confusion is uncontrolled inflation.

I am sure that all Americans—Republicans and Democrats alike—regret that in every crisis both foreign and domestic, our present Administration exhibits evidence of indecision and confusion, if not bewilderment.

The cold brutal fact is that we have today in the United States a serious degree of inflation, and we are threatened with more; because inflation, like power, feeds on itself. The basic reason for the high cost of living today is inflation. But what is the cause of the inflation?

Inflation Causes

In spite of all the highly technical explanations of our inflation—explanations which, for the most part, consist of attempts to white-wash the Democrat Administration and blame the Republican Congress and the American businessman — the real cause is perfectly simple. Some Administration apologists have been arguing that the termination of price control is the principal cause of high prices existing today. That is like saying that a weak dike was the cause of a flood instead of looking for the source of the water which broke the dike. Here is the cause of our inflation step by step.

Inflation occurs when the supply of goods and services fall behind the supply of money. Stated in another way, the total price of the things on the market is usually the total amount of money that the people are willing to spend. This is true whether or not the government tries to control prices because, as we learned by sad experience very recently, when price control prevents free exchange the goods go underground and free transactions take place in the so-called black market. Thus, price control affects only the manufacturer or the merchants or the consumer who is unwilling or unable to break the law.

Inflation in America was made as inevitable as tomorrow's sunrise by the huge amounts of money added to the total money supply by the Democrat Administration. Because of the New Deal free spending and deficit financing methods, the volume of money in circulation increased from $5,500,000,000 in 1933 and $7,600,000,000 in 1939 to more than $28,000,000,000 today. During the same periods bank deposits and currency outside banks increased from $42,500,000,000 in 1933 and $64,000,000,000 in 1939 to $166,000,000,000 during recent months. This tremendous increase in purchasing power is not the cause of inflation — it is inflation. Had there been a corresponding increase in production of the commodities the people wished to purchase, this increase in the money supply would not have had this inflationary effect.

But there was no such corresponding increase in production. In fact, the overall policy of the Democrat Administration during the more than 14 years it was in complete control of the government was designed to decrease or curtail production. This was done through taxation designed to discourage industry from expanding its production facilities, and by many other devices conceived by our theorizing bureaucrats in Washington. It is not surprising that this policy should have been followed. If you will recall some of the statements made during the early days of the Democrat regime, you will note that it was the avowed intention of the Administration from its very beginning to bring about higher prices. For that purpose it adopted the so-called "economy of scarcity" illustrated by the slaughtering of pigs and the ploughing under of cotton and restricting the acreage of corn and wheat.

Meanwhile the government, in the face of the curtailed production brought about by its own policies, insisted upon pumping more and more dollars into circulation. It did so because every year until a Republican Congress was elected it spent more money than it raised in taxes. It obtained the additional money by printing bonds and placing them in banks or selling them to individuals and receiving dollar credits in exchange. There never has been any serious doubt that this policy would inevitably produce a dangerous degree of inflation. But the Administration resorted to such totalitarian devices as controls in order to defer the day of reckoning. Everyone — except, perhaps, some New Deal economists — knows that if you tie down the safety valve on a steam engine and then build up the fire under the boiler it is only a question of time until you have an explosion. We followed that practice under New Deal direction for many years and now we have had the explosion. The problem confronting us today is what to do in order to minimize the damage done by the explosion. And the most immediate aspect of that problem is the high cost of living.

Excessive Cost of Government

There are many factors involved in the present excessive cost of living, but the one which is immediately pressing—because it is the one upon which a decision can, and must, be made within the next few months—is the excessive cost of government. I wonder how many persons realize that they are paying more today to be governed — some might say misgoverned — than they are paying to eat. It is appalling, but it is true. Our total tax bill is about $50,000,000,000 per year. That includes state and local taxation as well as Federal, but Federal taxation accounts for approximately $40,000,000,000, of the total. According to the official statistics the nation's total food bill for 1946 was about $39,000,000,000. It may be somewhat higher for 1947 but available information indicates that it will still be less than the total tax bill. The housewife in the low income brackets may not realize how much of that total tax bill she and her family are paying. She may overlook that fact that every time she buys a loaf of bread she is paying a share of the taxes of the farmer who raised the wheat, of the merchant who sold it for him, of the miller who ground the flour, and of the baker who baked the bread, as well as of the grocer who sold the loaf to the ultimate consumer. Taxes are reflected in the cost of everything we buy. Make no mistake about that.

At the moment we are confronted with the prospect of a further increase in the cost of government in the form of proposed appropriations to finance widespread relief operations in Europe and other parts of the world. The ultimate decision as to whether or not we shall spend that money, and if so how much we shall spend, will be worked out by the President and the Congress. I am not undertaking to say whether or not we should undertake this world-wide relief campaign, or how much we should spend if we do embark upon it. At the present time various agencies of government, including several Congressional commitees, are making first-hand investigations to determine both the extent of the needs of Europe and the extent of our resources which may be available to relieve distress. I believe a final decison should be deferred until those investigations have been completed and we have available to us the information needed to work out a wise solution.

I do want to point out, however, that if we do embark upon such a relief program as has been rather vaguely proposed without making compensating reductions in the cost of government at home, the net effect inevitably will be to keep prices here on their present high level, and possibly to increase them. It may be that other considerations will justify such a course of action despite the undesirable effect upon our domestic price level. That is something to be decided by the appropriate governmental agencies after complete information is available.

It is not too much to say that complete and trustworthy information is not available today. For more than 14 years Congress has been called upon to take emergency action on the basis of information supplied by Administration sources and in many instances such information has proved to be inaccurate. After all these years of Democrat control

*An address by Mr. Reece before the Women's Republican "Organizing for Victory" Conference, Detroit, Mich., Oct. 3, 1947.

of our foreign relations, the world situation is in the worst mess of all history. Now that a Republican Congress must assume a share of the responsibility for the conduct of our foreign affairs—although under the Constitution the primary responsibility rests with the President—let's be sure we are right before we act.

In this connection, however, there is one phase of the situation upon which I think all loyal Americans will agree. That is that whatever we may spend of our money and our resources to relieve distress in other parts of the world must not be spent in such a manner as to perpetuate in power governments devoted to the promotion of theories and practices alien, or even actively antagonistic, to our own free system. We can feed starving people without supporting bad governments. That thought, I believe, should be kept in mind in working out whatever plan may be finally approved by Congress.

Democratic Party Responsibility

As I have indicated earlier, the basic causes for present-day high prices go back over the past 15 years, and, because the Democrat Party was in complete control of our government during all but the last few months of that period, that party must bear the responsibility for the present situation. This fact, of course, does not relieve the Republican Party of its responsibility now that it has control of Congress for doing everything possible to remedy the situation, but we should always keep in mind who created the situation in the first place. Among the factors which have led inevitably to the present undesirable high price level may be listed the following:

(1) The "easy money" policy of the New Deal Administration over a decade-and-a-half, which put into circulation an amount of currency out of proportion to the goods available for purchase. Most of this money was borrowed and that fact had a tendency to further increase inflationary pressure.

(2) The Administration policy, apparently dictated by political motives, of increasing the cost of production by promoting wage increases while at the same time arguing that this could be done without increasing prices. When an elevator in this building goes up it goes up as a unit. You can not raise the floor without at the same time raising the ceiling. It is true under war-time pressure the Administration made a half-hearted attempt to stabilize wages, but immediately after V-J Day it abandoned that attempt and came out openly for further wage increases which, its spokesmen said, could be made without price increases. In this fantastic procedure the Administration was simply attempting to kid the wage earners by giving them more dollars which bought less. One specific result of this effort was a series of very costly strikes in basic industries aided and abetted by a phony report put out by the Department of Commerce under the then Secretary, Henry A. Wallace, that wages could be increased 25% without any consequent increase in prices. After the workers had lost billions of dollars in wages and the nation had been deprived of more billions of dollars in badly needed production, Mr. Wallace blandly admitted that this report was inaccurate and misleading.

(3) Unwise and un-businesslike handling of the government's food purchases for foreign relief. To cite one specific example, on Jan. 20, 1947, the Commodity Credit Corporation bought more than 19,000,000 bushels of wheat and a few days later the price of wheat had gone up about $1 per bushel. The importance of these ill-timed purchasing operations is indicated when we remember that, according to Mr. Truman's food export report on July 6 of this year, more food was exported during the period from July 1, 1946 to June 30 1947 than during any previous year in our entire history. In his mid-year economic report to Congress Mr. Truman himself admitted that food exports tended to push prices up.

(4) The Administration's unwise handling of the removal of price controls. Remember that at the time controls were removed the Democrats had substantial majorities in both Houses of Congress. In June, 1946, Congress passed the OPA Extension Bill which permitted the continuation of controls until July 1, 1947 and provided an orderly method for the gradual elimination of control. Mr. Truman vetoed that bill and his veto was sustained by the then Democrat Congress. Then Congress passed another OPA Extension Bill, which Mr. Truman said was better than the first one and which Paul Porter, then OPA Administrator, described as workable. Under this second bill controls on meats were re-instituted but the situation rapidly deteriorated and, finally, on Oct. 14 Mr. Truman personally ordered their removal. Then, on Nov. 9, 1946, on his own volition Mr. Truman removed all price controls except on sugar, rice and rents. When he did so he announced publicly that:

"The general control over prices and wages is justifiable only so long as it is an effective instrument against inflation. I am convinced that the time has come when these controls can serve no useful purpose. I am, indeed, convinced that their continuance would do the nation's economy more harm than good."

All of this happened, remember, before the Republican Congress took office in January of this year.

(5) The Administration's bitter last-ditch opposition, to all efforts, on the part of the Republican Congress to reduce the cost of government and thus reduce the cost of living. In this connection, I need mention only a few examples—the frenzied opposition to all Congressional efforts to cut appropriations for our overgrown Federal bureaucracy; Mr. Truman's vetoes of the two tax-reduction bills passed by Congress; and his almost hysterical veto of the labor-management relations bill designed to avoid costly interruptions of production which always cause higher prices. Mr. Truman's vetoes of the tax reduction bills were particularly inflationary because the general effect of a tax cut is to increase the wages of the taxpayer, but, unlike an outright wage increase, it does not increase the costs of the commodities which the worker produces.

What Can Be Done About It?

So much for the causes of the present high price level. Now we come to the question what can be done about it? One thing we can do is what the Congress tried to do during the last session. We can cut government expenditures and we can cut taxes. Maybe we will not be able to do that to a substantial extent until we have a Republican President who is really interested in government economy, but we can keep trying in the meantime and if Mr. Truman interposes his veto power again, the responsibility will be his. And, I wish to emphasize that we can make a net cut in government expenditures without precluding the possibility of a reasonable relief program abroad. We can do so by making substantial and long overdue curtailments in the unnecessary expenditures for the maintenance of useless bureaucrats, but to do a good job on this, Congress must have the cooperation of the Executive. So far, Congress has not had it—and we may have to wait there until 1948 when we elect a Republican.

We can do something about this problem by making sure that whatever relief program may be approved is administered in a businesslike and economical manner.

We can do something about it by encouraging consumers to avoid any purchases which are not absolutely necessary. And we can do something about it if the Administration will give us a good faith enforcement of the labor relations act so that we will not be faced in the future with costly strikes and interruptions of needed production.

Earlier in this address I stated that from its very inception the Democrat Administration operated under a policy designed to discourage increases in the production of the things the people need and want to buy. Let me illustrate how effectively that policy has worked to the detriment of the nation.

The principal reason why the United States has had a higher standard of living than the rest of the world is that we have made greater and more intelligent use of mechanical production methods. Those mechanical aids are what you may call the tools of production. I am not now talking about a hammer or a saw or a hoe, I am talking about the huge and complicated machines in our industrial plants. The use we made of these tools of production explains why an American worker in order to buy a pound of bread need work only six minutes, while a Russian worker must work for an hour and why an American worker can acquire enough dollars to buy a suit of clothes by working only 26 hours, while a Russian worker must work for 250 hours. These mechanical helpers, or tools, actually do about nine-tenths of the work in our productive system and the owners of the tools receive about one-tenth of the product while the workers who operate the tools receive the other nine-tenths.

We, in the United States, resorted to machine production to an extent not paralleled anywhere else in the world because from the beginning of our government our people were encouraged to invest part of their earnings or savings in the tools of production. They did so because they knew that the government would not take away from them what they had invested. This was the only major nation on earth in which they had such assurance.

Hence, from the beginning of our existence as an independent nation up to the advent of the Democrat Administration, each decade saw a steady increase in our national stock of tools. But, during the decade between 1930 and 1940 our stock of tools actually decreased by 20% and, in terms of dollars, that 20% decrease represented about $35 billion. I have described this process of a nation eating up its own facilities of production as economic cannibalism. That is what I mean by saying that the present Administration has discouraged production of the things the people need and that is one of the major causes for the inflation from which we are suffering today. If we are going to check the ruinous onward march of inflation we will have to reverse the policies which have created it and encourage the people to produce more and more of the commodities we need. The only sovereign remedy for high prices is a supply of goods commensurate with the supply of dollars in circulation.

Question of New Price Controls

At the moment there is a widespread campaign designed to bring about the reinstitution of price controls. It is significant that many of the advocates of restoration of price controls are also persons who look with a friendly eye upon a "controlled" economy. So far, we do not know what the President wants. Once he favored price controls. Then by Executive Order he abolished controls. Now, some of his close associates are talking about restoring them. That is an example of the confused thinking in the White House I mentioned heretofore. The Republican Party stands for the maintenance of the free enterprise system which has made this country great. If we go back to a controlled economy at this time it may well be that we will have such a system fastened upon us permanently.

At one stage of our history we fought a bloody war to prove that a nation could not exist half slave and half free. Our free enterprise system cannot continue to function half controlled and half free.

Make no mistake about it, if we re-establish controls on prices we will have to go the whole way. We will also have to establish controls on wages. We will also have to bring back rationing. We tried that system during the war and, even with the favorable influence of wartime psychology, it did not work well. We can all remember how unsatisfactory it was to try to eat ceiling prices instead of steaks.

This nation today is paying the price and the penalty for the most prolonged financial debauch in all history. It will be sometime before the effects have worn off, but the remedy for it is not more of the same unwise policies which caused it in the first place.

The choice is ours. The people by their votes last November registered their decision that there will be no fifth term for the New Deal—and that decision will be emphasized and reiterated in 1948. We will not go back to the system which caused all the trouble; we will insist, even at the price of temporary inconvenience, upon the maintenance of our free enterprise system which has given our people the highest standard of living in all history and made this the greatest and most powerful nation in the world.

Needed: More Uniformity in Blue Sky Laws

By MURRAY HANSON*

General Counsel, Investment Bankers Association of America

Mr. Hanson strongly urges uniformity in State Blue Sky Laws and better integration of such laws with Federal Securities Acts and SEC rulings. Points out difficulties in distribution of "red herring" prospectuses resulting from application of state laws, and advocates overall study of great body of securities laws.

This is a matter which I realize has been the subject of discussion almost annually at your conventions. I am aware also that through the work of your committees with other interested groups, substantial progress has been made on some of the more pressing difficulties which have grown out of lack of uniformity and non-integration of this great body of law. The uniform registration form which was worked out some years back and the uniform financial statement to be filed by brokers and dealers are excellent examples of the results of such cooperative efforts in the past. But with all this, much, much more remains to be done.

Col. Murray Hanson

It seems to me important that we make this problem a matter of top priority for several reasons. In the first place, as just good citizens in these crucial times, I think it behooves all of us connected in any way with any business to do our utmost to make that business function as effectively and efficiently as possible if we are to maintain our way of life in this country and encourage others of like views to continue the struggle for a comparable way of life elsewhere. Short of another war, there certainly could be no greate catastrophe today to the people of this country or to the other remaining free peoples of the world than a depression here. It seems to me obvious, therefore, that if we are to meet our present and likely future commitments abroad, service our huge public debt, maintain our present standard of living and avoid rampant inflation, which could lead only to a "bust" and another depression, we are going to have to seize every opportunity to expand our production, our productive facilities, and to make every segment of our economic system work at maximum efficiency. All of this at first blush may seem somewhat remote to the problem at hand and I am, of course, not foolish enough to believe or suggest that the solution of our problem of uniformity and integration is even a necessary prerequisite to meeting the larger problem with which we are all so vitally concerned, but I do think it has an important bearing on the over-all problem. Certainly if our economy and our productive capacity is to expand as we would have it, there must be a free flow of capital funds to industry, and particularly a free flow of equity capital to both old and new enterprise. As you well know, it is in this latter field of providing for a free flow of equity capital where the lack of uniformity in our state laws and their non-integration with the Federal acts at present makes for the greatest difficulties, delays, and unnecessary duplication of time, effort, and expense. This situation thus does present us with both a challenge and an opportunity to make this very important phase of the business work more efficiently and in turn to make a contribution to the overall problem. I think it behooves each of us, therefore, to do all he can to eliminate every restriction, obstacle, difficulty, duplication and expense which is not absolutely essential to the protection of investors and the general public interest.

Another reason why I think this problem of uniformity, and more particularly of integration, should be given top priority is that it has a direct bearing on the protection all of us would like to see given to investors. Certainly one of the very laudable purposes of the Securities Act of 1933 was to provide the investor, through a statutory prospectus, with full and accurate information on a security before he is legally bound to buy it or before he is "on the hook," as the boys at the Commission put it. Indeed, the aim was also to provide similar information to dealers in the distributing group before they likewise are "on the hook." I think with the possible exception of one state securities act, your state laws of the regulatory type do not specifically embody this objective; but it is certainly not inconsistent with the protective scheme of the regulatory type law and I am sure that most, if not all, of you think this a desirable objective.

For reasons which I need not go into here, as they are familiar to all of you, the '33 Act, as it has worked out in practice, has not in the vast majority of cases afforded this protection to investors and, as you know, we have held a long series of discussions with the Commission to see if there isn't some practicable way of amending the Act to accomplish this objective.

In the interest of getting the red herring prospectus at least to dealers and professional buyers before the offering date, the Commission last year promulgated its Rule 131. We immediately found, however, difficulties and obstacles under the blue sky laws which were, of course, in the main enacted before the '33 Act, and therefore with no thought of this problem in mind. I think you may be interested in the way this situation now shapes up as we construe the various state acts.

In the six states where securities may be sold without having been registered there is, of course, no substantial problem.

In 42 states, however, blue sky laws require some form of notice or registration of non-exempt securities before such securities may be sold in those states. It appears probable that, in at least a few of these 42 states, the distribution of red herrings as contemplated under Rule 131 would be held not to constitute an activity within the meaning of the term "sale" and therefore such distribution would be permissible prior to registration in those states, but even here we run into possible difficulties with the provisions of these laws having to do with advertising.

If we assume, however, that the distribution of red herrings does constitute an activity within the definition of the terms "sell" or "sale," which would certainly be the more prudent construction in most situations, then, of course, the red herring can't be distributed prior to state registration unless the securities involved are in a class which is exempt from registration or are involved in a type of transaction which is exempt.

An analysis of the exemption provisions of the blue sky laws of the 42 states requiring some form of notice or registration turns up the following situation:

Sales to dealers are not exempt in 11 states so in these states Rule 131 is inoperative even as to dealers.

Sales to dealers are exempt in the other 31 states but subject to the condition, in some states, that the dealers to whom sales are made are registered and in other states that the dealers to whom sales are made are actually engaged in buying and selling securities as a business. Even here, however, there are further limitations since the sale, or distribution of the red herring, may be made **by anyone** in 21 states whereas it must be made only by registered dealers in 10 states. To further complicate the picture, the restrictions on the use of advertisements would probably restrict distribution of red herring prospectuses in two states among the 31 where sales to dealers are exempt.

The situation with respect to distributing red herrings under Rule 131 to banks, trust companies, and insurance companies is even more complicated and uncertain, but it hardly seems worth while to give you that picture in detail. And of course if the '33 Act should be amended to permit and encourage the distribution of red herrings to investors prior to the effective date of both Federal and state registration, it would be largely inoperative in a great many states as your state laws now stand. This, I think, is an excellent illustration of the urgent need for greater integration of the state with the Federal regulatory schemes if dealers and investors are to be given the protection contemplated by the '33 Act.

I could with little difficulty, of course, cite many other examples which point up the need for greater uniformity in and integration of this great body of law, but I feel certain that you are just as well aware of the situation, if indeed not more so, than I. I recognize also that the problem is an exceedingly difficult one, and that we shall probably never attain perfection or a solution which is entirely satisfactory to everyone concerned, but I don't think that this should deter us from going forward aggressively with this work.

As I see the situation, our task breaks itself down into two parts. What we need, fundamentally, is an over-all study of this great body of law with a view to the evolution of a new uniform act of the dealer-security registration type, designed to bring about (1) the maximum possible uniformity in the state laws of this type and (2) maximum integration of these laws with the Federal acts. In such a study I would think it important also to work out a uniform act of the fraud type and one of the dealer-registration type so that basically there would be a model law available of whichever of the current types the people in a given state might desire. With such model laws it seems to me that we could then hope for real progress toward the end I think we would all like to achieve. As you doubtless know, many states amended their blue sky laws this year. Indeed, one state adopted an entirely new act, one completely rearranged its existing law, 17 others amended their present acts, and in three other states the legislature considered the adoption of entire new acts. Yet even though, in a number of cases, different states were trying to resolve substantially the same problem, their approach was entirely different. Consequently, we have less, rather than more, uniformity, and, indeed, so long as we do not have model or uniform laws we can't expect otherwise.

I recognize, of course, that this is a long-range project and that it will take time. Indeed it took eight years to work out the Uniform Act which was approved back in 1930, but I am hopeful that if we approach the problem this time in a slightly different way we can get results much sooner.

In the meantime I see no alternative but to proceed as the several states did this year—that is to say, making such amendments as are indicated by experience and changing conditions in the business, to make their respective laws as workable and non-restrictive to legitimate business as is consistent with the protection of the investors in their states and the general public interest. This is a field, of course, in which the IBA, for the past quarter of a century, through the good offices of Arthur Davis, has been endeavoring to be helpful and we want to continue to be.

With respect to the over-all study, looking toward the development of new uniform laws, most of you have doubtless seen that the American Bar Association, at its convention in Cleveland last week, adopted a resolution of its Committee on Securities Laws and Regulations which reads in part as follows:

"Resolved, That the matter of drafting a new uniform or model State Sale of Securities Act be referred to the National Conference of Commissioners on Uniform State Laws for its consideration, with a request that the Conference prepare an act or acts of the type which it may consider most practical to the end that the existing diversity of legal requirements preliminary to the issuance of securities be minimized to the greatest possible extent."

It seems to me that the National Conference of Commissioners on Uniform State Laws is the logical organization to head up such a study, but I am very hopeful that they will do so in collaboration with all interested parties such as your organization, all the organizations represented on the program this morning, the SEC, and any other group which has a substantial interest in this project. Such an over-all approach will, of course, take more time than one confined to fewer groups but it seems to me clear that it holds out greater hope of a workable and acceptable solution in the end. Speaking for the IBA, we shall be more than happy to do anything we can in such an endeavor and I bespeak your hearty cooperation also.

*From an address by Mr. Hanson at the Convention of the National Association of Securities Administrators, Washington, D. C., Oct. 2, 1947.

Extols Job Done by Banks in Agricultural Credit

Chester C. Davis tells American Bankers Association since 1935, banks have never supplied less than 80% of total sound farm production and operating credit.

Speaking at the general session of the 73rd Annual Convention of the American Bankers Association in Atlantic City, N. J. on Oct. 1, Chester C. Davis, President of the Federal Reserve Bank of St. Louis, stated that the American banking system "has rendered greater service to agriculture than the public realizes."


Chester C. Davis

"Since banks have been most active in the short-term, or operating, farm loan field, let's focus our attention for a moment on that type of loan," Mr. Davis stated. "Since 1935, banks have never supplied less than 80% of the total sound farm production and operating credit direct to farmers. The balance has been advanced by units of the FCA which makes loans to farmers and to farmer cooperatives. These FCA units obtain funds largely through Federal Intermediate Credit Bank discounts. The Federal Intermediate Credit Banks in turn obtain funds through the sale of debentures to the investing public. Banks not only have supplied 80% or more of the farm production credit directly to farmers, but in addition, since Dec. 31, 1934, banks have purchased from 73% to 85% of Federal Intermediate Credit Bank debenture issues offered for sale. It is evident, therefore, that the banking system has supplied most of the funds with which competitive agencies have made loans to farmers and farmer cooperatives. All things considered, then, has the banking system done such a bad job in farm finance? I think it has done a very commendable job.

"The banking system has rendered greater service to agriculture than the public realizes.

"More and more bankers are coming to realize that there is nothing in the past repayment record of farm borrowers that would set them apart as a high-risk group, even counting in the experience of the worst farm depression in history. With proper inter-bank organization and adequate staffing, commercial banks can handle the sound farm production loans and a reasonable portion of the farm mortgage loans without government support and subsidy. If country banks individually will organize good farm service departments, and if city banks will adjust some of their activities a little more toward the country bank's needs and viewpoint, there is no real need to fear further inroads of competitive government-sponsored loan agencies.

"Times change, and the business of banking must change, too, to keep up with them. There is little in the future picture to lead one to believe that bank resources will not remain high, and that banks will not continue to be in excellent financial position to serve the sound credit needs of the nation. That includes the farmer, too. To serve him, country bankers, and their city big brothers, too, need to know that end of their job. Reliable farmers are entitled to credit for productive purposes, credit that is tailored to fit their peculiar needs. Banks have the best opportunity to serve that need directly. If they fail to take advantage of it, they will still finance agriculture, but it will be largely through the purchase of low-yield government-supported bonds or debentures.

"The local banker controls most of the financial pipelines in his community. He has its deposited funds at his disposal. Two general courses are open to him. He may concentrate his investments in low-risk, low-yield outside securities. This is the easy way. For a time it may provide sufficient income to satisfy the bank's needs. But it will not set the banker up as a useful citizen or the bank as a source of full public service in the community.

"On the other hand, he may carefully direct excess local capital first into investments that build and encourage the sound economic development of the community. This means sound loans to farmers and local business to create greater efficiency and rising community income."

Two With Herrick, Waddell

(Special to The Financial Chronicle)

KANSAS CITY, MO.—Raymond F. Bentz and Burton P. Smith have been added to the staff of Herrick, Waddell & Co., 1012 Baltimore Avenue.

10% Rail Rate Rise Granted by ICC

Order allows emergency freight rise on all commodities except coal, coke and iron ore. Expected revenue yield is $700 millions.

On Oct. 7, the Interstate Commerce Commission authorized an interim increase of 10% on freight charges for all commodities except coal, coke and iron ore. A special scale of new rates were set up for these commodities. At the same time, the Commission authorized the Southern railroads to increase passenger fares to bring them up to the level of present rates in other parts of the country.

The rate increases are to take the form of additions to the freight bills as figured on the basis of present rates, excluding the 3% Federal transportation tax. This method was suggested by the railroads.

According to the ICC, during the calendar year 1947 there were marked increases in operating costs "wholly beyond the power of the petitioners to prevent." An application for a more general and higher rate is still pending before the Interstate Commerce Commission, the present 10% rate increase having been granted merely as an interim emergency measure. It has been estimated that the additional gross revenue to the railroads from this action will be equal to about $700 millions per annum.

American Interest in European Reconstruction

By WINTHROP W. ALDRICH*
Chairman, Board of Directors, Chase National Bank of New York

Leading American banker, after reviewing background of European conditions, asserts our security as a nation depends largely upon prompt and successful economic reconstruction of Western Europe. In addition to Marshall Plan, suggests creation of "U. S. Corporation for European Reconstruction" to aid and enforce increased production and to check inflationary pressures. Sees German recovery as essential to plan, and wants removal of trade restrictions and elimination of unnecessary national economic controls.

The Problem Stated

This morning, I plan to center my remarks on a problem of the greatest interest and concern to all of us—as bankers, citizens and individuals — the economic reconstruction of Western Europe. Since the end of the war I have made four trips to Western Europe and have traveled in Great Britain, France, Holland, Belgium, Switzerland and Germany. These four trips were in addition to one I made to Great Britain during the war itself. My conclusions are based not only on personal observations but also on conversations with numerous individuals in public and private life in Europe and with many civilian and military representatives of the United States Government both here and abroad.

W. W. Aldrich

With the foregoing background, it is my judgment that our security as a nation depends in large measure upon the prompt and successful economic reconstruction of Western Europe.[1] Tragically enough, the world today is not one world, but two worlds—engaged in economic and diplomatic conflict. During the two years which have elapsed since the cessation of hostilities we have been unable to make peace with Germany and Austria, and Europe remains divided into two separate economic areas by the iron curtain erected by Russia and her satellite nations. Failure to give assistance to the nations of Western Europe now would result inevitably in their economic collapse and this, in turn, would lead to the fall of present governments. The danger then would be that the democracies which still exist in Western Europe would be replaced by dictatorships of the left or the right. Totalitarianism, whether brown, black or red, is hostile to our deepest national and moral convictions. We should do everything that lies within our power to preserve those nations which share with us the traditions of individual liberty and the rights of man.

The preeminent political importance of sustaining democratic systems in Western Europe should not, however, obscure the tremendous economic significance of Western European reconstruction. The peoples of the Western European nations, totalling some 270,000,000 and living in an area about one-half as large as the United States, are skilled and intelligent. They command immense industrial and natural resources. Before the war, Western Europe, including all of Germany, accounted for about 50% of the world's international trade. The further development and expansion of world trade depends upon the restoration of this very important sector of the world economy.

For many decades Western Europe has been one of the principal workshops of the world, importing raw materials and exporting finished products, and even today it is producing a large quantity of goods. Western Europe, in spite of being cut off at present from Eastern Europe, is not "finished." It is the largest concentration of skill and ability outside the United States and, with our help, can again become a large producer of both consumer and capital goods. The higher living standards which would result are the most effective means of demonstrating the superiority of personal freedom and the democratic way of life over the dictated and police-controlled economies of totalitarianism.

Postwar American Aid to Western Europe

Even before the end of the war, it was generally recognized that the United States must extend substantial aid to Western Europe. Aid was needed to furnish inventories of raw materials, to rebuild factories, to provide ships and repair port facilities, to rehabilitate internal transportation, and to provide food until exports became sufficiently large to enable the nations of Western Europe to become self-supporting.

In the report just issued by the sixteen nations which recently met in Paris, it was pointed out that the destruction and dislocation of the Second World War was greater than that of the First. "Agricultural and industrial production was severely reduced, traditional sources of food and raw material supply were cut off, so that when the war was over the devastated countries had to start again almost from the beginning."

At the conclusion of the war the United States was and, in fact, still is the only nation capable of meeting these urgent requirements. Our productive facilities are large and undamaged by enemy action. Our people have been spared the psychological shock of bombing raids, enemy occupation and insufficient food. With these advantages and the further inestimable advantage of the freest economy in the world we alone have the opportunity to exercise constructive leadership in shaping world developments during this critical period.

According to recent compilations of our National Advisory Council on International Monetary and Financial Problems, the postwar financial assistance already made available by the United States Government is about 16 billion dollars. This sum does not include our contribution to the International Monetary Fund or our stake in the International Bank for Reconstruction and Development. Approximately 12.5 billion dollars of the 16 billion dollars made available have been utilized, leaving a balance of 3.5 billions still unused.

About $11.5 billions, or approximately 72% of the total amount of postwar financial assistance made available by the United States, have been granted to European nations. Of this amount, approximately $9.5 billions have been utilized. The bulk of the financial assistance made available to the whole of Europe was extended to the sixteen nations which attended the recent Paris Conference.

This financial assistance from the United States, plus personal gifts, private loans and remittances, plus liquidation by foreigners of their holdings of long- and short-term dollar assets, plus shipments of gold, have paid for our huge commodity export surplus. This export surplus is the measure of the urgent need of the world, and of Western Europe in particular, for the products of American agriculture and industry. It is an indication of our ability to produce and of the inability of Western Europe and other parts of the world thus far to attain adequate production.[2]

The so-called "dollar problem" is primarily a production problem, aggravated by the effect of currency inflation and unsound fiscal policies. It exists because most countries have been unable to produce goods and services in sufficient amount to pay for the products of the farms and industries of the United States and of other nations of the Western Hemisphere which they must obtain in order to live. Dollars have been provided by our government not for the selfish purpose of insuring American prosperity, but to meet the urgent transitional needs of a war-ravaged world.

Recovery Since the End of the War

When viewed against the background of conditions at the end of hostilities, when Western Europe was in a state of almost complete prostration, the economic recovery already attained has been noteworthy. For example, the index of industrial production in France is more than double the level prevailing at V-J Day and 95% of the 1937 rate. The index in The Netherlands is almost three times higher than in August, 1945, and 89% of the level of 1937. The Belgian index is more than twice the level at V-J Day and 87% of 1937. Moreover these nations have placed their transportation systems in working order—a no mean task in itself—and have resumed agricultural production. While creditable recovery has occurred in these nations, the recovery attained lags behind that of the United States, where the index of industrial production stands about 60% above the 1937 level. European recovery, of course, has been retarded by last winter's exceptionally severe weather followed in turn by this summer's prolonged drought. The process of European recovery is still far from complete.

Although total industrial production in the United Kingdom is probably somewhat lower than in the prewar period, nevertheless substantial progress has been made there also since the end of the war. Exports from the United Kingdom now exceed the prewar volume. In certain lines the increase in exports is spectacular, as in the case of cutlery and hardware, vehicles, machinery and electrical goods and apparatus. Exports of coal, which at one time were the backbone of British foreign trade, are negligible, and exports of cottons and woolens are below prewar levels. These data illustrate the change which has occurred in the character of Great Britain's foreign trade — a trend in evidence in the inter-war period when coal and textiles constituted a declining proportion of her total export trade. Great Britain may indeed find it more advantageous to concentrate her efforts on those types of exports which, since the end of the war, have shown the largest gain—high quality merchandise to which a high proportion of value is added by manufacture.

In the immediate future, however, Great Britain could render a most important contribution to European and to her own recovery if she were able to increase coal production to a level which would satisfy domestic requirements and leave a margin for the critical needs of the Western European nations.[3] It will be recalled that Great Britain was able to render such aid in the five years after the end of the First World War when British coal filled the gap of urgent coal needs created by the war damage to the Belgian and French mines and the occupation of the Ruhr.

The reconstruction of Western Europe which has already taken place has been not only of an economic character but psychological and physical as well. War weariness is now passing and psychological attitudes in general are somewhat better. The physical condition of the peoples of the nations occupied by Germany has improved. As we know only too well from historical experience, much time is required to repair the ravages of war. The purpose of the American credits already granted was to give time for recovery, but the two years which these credits have actually been able to finance have proved too short.

Impediments to Full Recovery

Although recovery in Western Europe doubtless has been more substantial than is generally appreciated, it is far from complete, and without additional assistance the crisis at hand will result in a serious relapse.

Many obstacles have conspired to impede full recovery. Among these obstacles first and foremost has been the division of Europe into two antagonistic camps and our inability to make peace. Then there has been the continued economic paralysis of Germany, the persistent and unchecked inflationary pressures, the economic controls associated with planning, and the unexpected drain on the British balance-of-payments.

Secretary Marshall's Proposals

It was against this background of incomplete recovery in Western Europe and rapid exhaustion of dollar resources and credits that Secretary Marshall made his address at Harvard University on June 5, 1947. The rehabilitation of the economic structure of Europe, Secretary Marshall emphasized, will require a much longer time and greater effort than has been anticipated. The reasons cited were the dislocation of the entire fabric of the European economy, the loss of confidence in local currencies, the lack of a peace settlement and the breakdown in the modern system of the division of labor. The remedy, he pointed out, lies in restoring the confidence of the European people in the economic future of their own countries and of Europe as of whole.

In its constructive approach to the urgent economic problems of Western Europe, Secretary Marshall's address embodies the highest qualities of statesmanship. It provides a basis for close economic cooperation among the nations of Western Europe and for an integration of their resources and enterprise in achieving the common goal of economic survival. Their own vigorous participation is laid down as a condition for further American aid.

The nations of Western Europe, including Great Britain, live by trade and cannot live in a state of economic isolation. Trade between themselves and the rest of the world must be large if these nations are to become self-supporting. A close integration of the economies of Western Europe is imperative to increase production, to overcome widespread misery and hardship, and to give hope to peoples with whom we are closely

---

1 By "Western Europe" I mean, for purposes of definition, the sixteen nations represented on the Paris Committee on European Economic Cooperation (Austria, Belgium, Denmark, France, Eire, Greece, Iceland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom) plus the three western zones of Germany.

*An address by Mr. Aldrich before the 73rd Annual Convention of the American Bankers Association, Atlantic City, N. J., Sept. 30, 1947.

2 Our commodity export surplus cannot continue indefinitely in unprecedented amount. Eventually it will disappear and give way to a commodity import surplus. To ease and facilitate this transition, the United States has wisely embarked on a campaign to reduce trade barriers and to formulate a charter for an International Trade Organization.

3 The report of the Paris parley envisages a substantial increase in British coal production.

associated in traditions and outlook. These peoples look to us for help in order to solve their economic problems and to enable them to withstand constant pressures from outside their own borders to try the economic planning of a totalitarian police state.

Two Stages of Secretary Marsall's Proposals

Additional assistance granted by the United States to the nations of Western Europe would of necessity fall into two stages. The first is the urgent need to relieve food and fuel shortages this coming winter. Existing institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development obviously are not the proper vehicles for the financing of relief needs of this character. As has been said, they are not "stop-gap" institutions.

The second stage, lasting for a period of perhaps four years, will be concerned primarily with problems of recovery and reconstruction. Relief appropriations by the Congress would allow time to consider the means, functions, terms and instrumentalities of rehabilitation. To the extent that we are generous in our relief appropriations, a favorable atmosphere will be created for the long-range aspects of Secretary Marshall's program.

U. S. Corporation for European Reconstruction

Since the close of the war the financial assistance extended by the United States Government to various foreign nations has taken the form of Export-Import Bank loans, direct loans, Lend-Lease "pipe-line" and inventory credits, surplus property credits, ship sales credits of the United States Maritime Commission, civilian supplies to occupied areas by the War and Navy Departments, advances by the United States Commercial Company, grants supplied by UNRRA, etc. In addition, there are the operations of the International Monetary Fund and the International Bank for Reconstruction and Development, in both of which the United States has the largest single stake.

You will recall that it was for the purpose of coordinating the foreign loan policies of the United States and of relating these policies to those of the Fund and the Bank, that the National Advisory Council on International Monetary and Financial Problems was established by the Bretton Woods Agreements Act.[4] I believe that the time has now come to carry the idea embodied in the establishment of the National Advisory Council a step further, particularly with respect to additional aid to Western Europe, by establishing a Government corporation to be known, perhaps, as the United States Corporation for European Reconstruction. The purpose of such a Corporation would be that of extending and supervising the additional aid extended to Western European nations; in short, it would be the agency through which we should carry out Secretary Marshall's proposals. If it were established in the near future, it could administer the relief appropriations required to carry Europe through this coming winter as well as the appropriations concerned with longer range reconstruction needs.

The Board of Directors of such a Corporation should be completely non-partisan in character and might consist of five persons of expert competency appointed by the President of the United States with the advice and consent of the Senate. In the development of its policies, which would have to be flexible in character and adapted to changing requirements, the Corporation would quite naturally give consideration to the effect of its own program on the American economy. The program itself should be viewed as a four-year project, with the amount of assistance extended declining over the period.

Within the limits and specifications set by the Congress and subject to periodic Congressional review, wide discretionary powers should be granted to the Corporation in administering the funds appropriated for the recovery and reconstruction of Western Europe. The Corporation should have reasonably liberal authority to determine the type and amount of aid to be allocated to various areas and nations. It should retain the power to extend aid in kind as well as in money and to buy goods in the world's cheapest markets. Its operations should follow as closely as occasion allows the patterns of private enterprise. The Corporation should give continuous review to the economic progress made in Western Europe in order to ascertain that assistance given is constructively used. It should be given the right and obligation to negotiate agreements concerning the measures which the beneficiary nations themselves will take to bring about reconstruction.

Within the United States, the Corporation should maintain close liaison with the National Advisory Council, with the International Monetary Fund and with the International Bank for Reconstruction and Development. In my judgment, the Corporation should not be permitted to extend loans which fall within the province of the International Bank for Reconstruction and Development and which the Bank is prepared to make. You will remember that the International Bank itself cannot extend loans which borrowers are able to obtain on reasonable terms in the private capital markets.

Insofar as possible, the Corporation should endeavor to encourage direct investment by American firms and corporations in the plants and industrial equipment of Western Europe. Direct investment, the "partnership basis of private capital," will, I am sure, take place on a substantial scale if the investment of such American funds is given non-discriminatory treatment and adequate safeguard by foreign law and, above all, if the American investor is convinced that there is a reasonable prospect of continued

(Continued on page 38)

4 The National Advisory Council consists of the Secretary of the Treasury, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank of Washington.

The Outlook for Banking

By MARCUS NADLER*
Professor of Finance, New York University

Asserting banks as a whole are in stronger position than ever before, Dr. Nadler points out bank changes and problems as: (1) trend toward concentration; (2) greater reliance on lending activities and expansion of loans; (3) increase in term loans and mortgage holdings; and (4) conservative dividend policy. Says no material changes in money rates are likely, and warns bank deposits are larger than needed for business, and trend of expansion of personal loans is excessive.


Dr. Marcus Nadler

The activities of the banks during the last two years have reflected economic and financial conditions prevailing in the country. With the termination of the war, the end of deficit financing, and the adoption of the present debt management policy, the holding of government securities by the bank began to decrease, and these were replaced at least in part by loans and by other securities. The constant rise in the cost of living since V-J Day has brought about an increase in the cost of operations of the banks, with the result that their earnings as a whole were somewhat lower during the first half of 1947 than during 1946. The banks throughout the country have become more aggressive in seeking loans and in serving their communities, with the result that the volume of risk assets of the various institutions has increased at a relatively fast rate, which in turn has again brought to the forefront the question of the need of increasing the capital resources of the banks of the country.

The dire predictions, made at home and abroad shortly after the end of hostilities, that the United States would soon witness a serious recession accompanied by a sharp increase in the number of unemployed, did not materialize. On the contrary, the nation is riding on the crest of the greatest wave of prosperity ever witnessed in the economic history of the country. It is rather ironical that those countries which planned to control their own economic environment and which were most pessimistic about the future of the United States and about the system of private enterprise, should themselves experience a serious crisis and ask the United States for assistance running into billions of dollars.

Notwithstanding the great wave of prosperity and the essentially sound outlook for business, there is a great deal of uneasiness all over the country, which is exercising a strong psychological influence on business and on the banks. Internationally, there is lack of cooperation between the western democracies and eastern Europe. The deterioration in political relations between the United States and the Soviet Union has caused a great deal of fear about the possibility of war. The dollar shortage has already caused a decline in the volume of exports, and many people are wondering what the effects of a sharp decrease in exports will be on the economy of the United States. maladjustment in wages and in prices and the realization that a readjustment is bound to take place in the future are causing considerable concern among business and banking circles.

While it cannot be denied that serious economic and political problems will have to be solved in the future, it is comforting to know that the banks as a whole today are in a stronger position than perhaps ever before and are, therefore, capable of contributing their share in meeting any economic readjustment that may take place. Important economic changes are bound to take place, and they will undoubtedly have their effect on the activities of the banks. The purpose of this talk today is to analyze some of these changes and problems that will confront the banks in the future and to draw certain conclusions:

The Trend Toward Concentration

While the number of new business concerns has increased sharply in recent years, there has also been a strong movement toward mergers and consolidations of small and medium-sized concerns. Costs of production have increased materially, and competition is bound to be keener in the future than perhaps ever before. The labor unions are powerful and operate on an industry-wide scale. This at times places the small enterprise at a disadvantage. Increased competition and the effort to reduce the cost of production will lead to an intensification of mass production which requires large capital investments and which small-sized business enterprises are unable to obtain. In order to reduce the high cost of distribution, there are bound to be considerable changes in the methods of distribution, from which the independent retailer may suffer. It is not necessary to inquire whether the concentration of industry and trade is sound or unsound. The fact is that it is progressing and, therefore, must be taken into account.

The merger movement in industry and trade is bound to have its effects on the banks. Small institutions will be absorbed by larger ones and converted into branches. In many cities which still are over-banked, mergers of equal sized institutions are also likely to take place. The increased costs of operating banks plus relatively low rates of interest will further contribute to the merger movement among banks. It is fairly certain that the banks of the country, reflecting the general trend in industry and trade, will become bigger; and this in turn raises a number of questions. The fact should not be overlooked that the strength of American banks rests on the unit banking system and that a rapid reduction in the number of small banking institutions is not desirable. The question of consolidation and merger of banks, therefore, deserves the utmost attention of the banking fraternity. While mergers are desirable in localities where too many banks exist, yet a too rapid absorption of the smaller institutions does not seem wise, particularly at the present time.

Will the Banks Continue to Be Primarily Investing Institutions?

At the end of World War I, lending activities of the commercial banks throughout the country tended to decrease while investing in all kinds of securities was on the increase. This is not likely to be repeated in the future. In the first place, there are reasons to believe that the Treasury will endeavor to reduce the holding of government obligations of the banks, particularly during periods of good business activity. Even though the United States may be called upon to contribute between three and five billion dollars per annum for a period of four or five years in order to assist in the rehabilitation of the western Euro-

*Address by Dr. Nadler before State Bank Division at 73rd Annual Convention of the American Bankers Association, Atlantic City, N. J., Sept. 29, 1947.

pean economies, a cash deficit of the Treasury is not likely. Even though the actual surplus of the Federal Government may be small, the activities of the government-operated trust funds during periods of good business will enable the Treasury to meet the requirements for European assistance and at the same time to reduce the volume of government obligations held by the commercial banks.

The question of taxation versus reduction in the public debt is bound to remain acute for years to come. While it is fully realized that a reduction in the very heavy war taxes is desirable in order to strengthen private initiative and to revive the flow of venture capital into industry and trade, yet if a choice has to be made between reducing taxes and unbalancing the budget, bankers throughout the country should definitely favor not only a balanced budget but also as far as possible reduction in the public debt, even though it may be harmful to many individuals and may continue to handicap the flow of equity capital. It is, however, fairly certain that so long as the forces of inflation are pronounced and commodity prices are rising, the monetary authorities will endeavor through refunding and redemption to reduce holdings of government obligations by the commercial banks in order to curtail the volume of bank deposits created through loans and investments in other than government obligations or at least to prevent a further increase.

The volume of loans is bound to increase. The banks, large and small, will engage to a larger extent than before the war in the financing of the purchase and sale of durable goods. So long as the supply of durable goods is smaller than the demand, however, and particularly so long as the forces of inflation are very pronounced, it is advisable that the banks, now that controls will soon be eliminated, exercise great moderation in the extension of such loans. While an individual institution is of necessity guided to a large extent by its own position and need for earnings, at the same time, banks must realize that they are quasi-public institutions and must, therefore, also bear in mind the welfare of the nation as a whole.

The volume of term loans will increase, and the holding of mortgages by the commercial banks will also continue to grow. Here, too, a word of caution seems to be indicated. A term loan is usually for a period of three to five years. A credit which may be entirely sound at the present time may be less sound three to five years from today. The commercial banks have increased materially the volume of their mortgages. While mortgage loans are sound investments for commercial banks operating with savings deposits, it should be borne in mind that real estate prices are in many instances highly inflated and that there is no relationship between present market prices and economic values. Banks also should bear in mind that there is a definite relationship between their own capital resources and the risk assets which they can assume. FHA mortgages on the whole may be considered as riskless assets. This cannot be said about all other mortgages, particularly if the loan exceeds the economic value of the property and the amortization charges are low.

The decline in government securities held by the banks will be counteracted in part by an increase in the holding of state and municipal obligations. These tax-exempt securities are sound investments for commercial banks provided they are of high grade quality and have a certain maturity distribution. In buying state and municipal bonds, however, the banks must bear in mind that their marketability is not as great as that of government obligations and that the return on the former should, therefore, be commensurate with inferior marketability. Second, under present conditions, banks do not seem warranted in buying state and municipal obligations with a very long maturity, partly because of the smallness of the ratio of capital resources to risk assets and partly because very long term obligations, particularly with restricted marketability, may be subject to considerable fluctuations. The banks should also bear in mind that economic conditions are subject to rapid changes and that the credit standing of some municipalities may be adversely affected by a decline in business activity. Now is not the time for commercial banks to buy credit obligations.

Realizing the growth in risk assets and the changing character of business, and bearing in mind the possibility of an economic readjustment sometime in the future, the banks will continue to follow a very conservative dividend policy and will endeavor to plow back as much as possible of their earnings into surplus and undivided profits. Some banks will endeavor to increase their own capital resources through the sale of new capital to the public and to their present stockholders. A moderate firming of money rates and stabilization of bank expenditures should have a favorable effect on bank earnings and attract new capital.

The low point in money rates has long since been passed, and at present we are witnessing a moderate firming in short-term rates. The unpegging of the bill rate and the shortening of the maturity on certificates of indebtedness forecasts the unpegging of the certificate rate sometime in the future. Any firming of short-term rates, however, is bound to be very moderate in character. When the bill rate was unpegged, the Board of Governors of the Federal Reserve System stated that "The Federal Reserve System will continue to purchase and hold Treasury bills as well as other government securities in amounts deemed necessary in the maintenance of an orderly government security market and the discharge of the System's responsibility with regard to the general credit situation of the country." In other words, the stability of the government bond market is still considered the key to broad economic stability. So long as this policy prevails, no material changes in money rates are likely to take place. The unpegging of the certificate rate will probably have a minor effect on medium term government obligations, but it is not likely to have any particular effect on long-term government obligations. These, however, will continue to fluctuate primarily under the influence of psychological factors.

The increased supply of mortgages as well as of state and municipal obligations is bound to have an effect on high grade corporate bonds with long-term maturity; i.e., 25 years or more. A further firming in the rate on this segment of the capital market may be expected. It should be noted, however, that any change in money rates that may take place is bound to be moderate in character and that the monetary authorities will endeavor to prevent any sharp break.

Despite the inflationary conditions which still prevail in the country, the huge public debt, the large volume of short-term obligations, and the fact that a large amount of the public debt can be redeemed at a moment's notice impose a responsibility on the monetary authorities to prevent any material decline in prices of government obligations.

The general broad outlook for the banks will depend primarily on economic and political conditions prevailing throughout the country. Will the future be marked by a dynamic expansion of the system of private enterprise in the standard of living; or will prise, leading to a constant rise it be marked by stagnation, with private enterprise unwilling to take risks and relying on the Federal government for aid and support, and to take the initiative?

If the first assumption prevails, then production of commodities will increase, business will expand, new industries will spring up, and competition will be keen. In that case, the supply of new securities, both stocks and bonds, will be substantial and the demand for short-term bank credit will increase. What is more important, the threat of unemployment will decrease and economic security will grow. Above all, we will have demonstrated to the rest of the world that the system of private enterprise does work and that it still offers more to the people than any other system thus far devised by human beings. We will not only insure the continuance of this system for ourselves but we may also induce other nations which are still free to act, to follow our way of life.

If, on the other hand, economic stagnation sets in, it is bound to be followed by the establishment of a planned economy. In that event, there is not much hope for the banks or for the economy as a whole. In fact, one might go so far as to state that it is doubtful whether our system could withstand the shock of another depression of the magnitude of that of 1929-1933. The future of the banks, of the economy, of the sys-

(Continued on page 22)

The Outlook for Banking

(Continued from page 21)

tem of private enterprise—in fact, the future of the American way of life—depends on economic and political developments that may take place during the next few years.

As to which of these conditions will prevail, the answer will depend primarily on the wisdom of our leaders in government, business, banking, and labor. Basically, there is no sound reason why this country should not enjoy an indefinite period of good business from which the violent swings of the business cycle have been eliminated. In contrast to Europe, where so much damage was wrought during the war, our productive capacity is greater today than ever before, and we are in a position to meet the economic requirements of our people. The general standard of living is higher than ever before. Although a number of individuals, particularly in the lower income groups, have already disposed of their savings and have incurred new debts, the accumulated savings of the nation are still very great and the pent-up demand for all kinds of commodities is tremendous. The demand for housing, for example, is only too well known. As soon as a moderate decrease in the cost of construction takes place, it is bound to lead to a substantial increase in the volume of building activity. The demand for machinery and equipment remains unabated and will continue strong because manufacturers as a whole have realized that the only way to combat the high cost of labor is through the acquisition of more modern machinery and equipment. The demands for our products from abroad are bound to be considerable, particularly if the Marshall Plan is carried out.

Furthermore, a number of abuses that were responsible to a large extent for the collapse in 1929 have already been eliminated. The stock market cannot exercise the same influence on the volume of credit and on business activity as it did in the '20's, while bank failures have, for all practical purposes, been eliminated. Wholesale foreclosures of real estate and of farms, such as occurred in the '30's, are also not likely to recur. It is therefore evident that, basically, economic conditions in the United States are sound, and there is no good reason why we should not have an expanding economy for a long period of time.

It cannot, of course, be denied that there are many maladjustments which must be rectified and many problems which must be solved. The decline in exports is bound to have an effect on some phases of our economy. Food prices are altogether too high, and too large a proportion of the average family income has to be devoted to food. The productivity of labor has not kept pace with the increase in wages, and costs of production and distribution will have to be lowered. Sooner or later these maladjustments will have to be rectified; and when this takes place, the country will go through a period of readjustment from a sellers' to a buyers' market. Painful as this readjustment may be to some, on the whole it should not be prolonged, because any decline in prices, notably in the cost of construction, will make possible the conversion of potential demands into actual demands. Once this readjustment is ended, there are no reasons why business activity in the United States should not continue at a high level, accompanied by a growth in national wealth and income, a decrease in the public debt, and a rise in the standard of living. These goals cannot be achieved, however, unless we devote all our energies at the present time to preventing existing maladjustments from becoming more aggravated.

What can the banks do in this direction? First, they must exercise great care in the creation of credit. With the Federal budget balanced and the public debt decreasing, new deposits can be created only by the banks through increased lending and investing of idle funds. In granting loans or in making new investments, the banks should take into account the following factors:

(1) The volume of bank deposits is already larger than is needed for business purposes. The same is true of the volume of currency in circualtion, which now exceeds $28 billion.

(2) The volume of personal loans and those made for the purpose of financing the purchase and sale of durable goods has increased at a rapid rate. A further acceleration is not desirable. The controls over instalment selling will be removed on Nov. 1. The banks are, therefore, on their own and must utilize great restraint in making new loans.

(3) Loans by commercial banks on mortgages increased at a rapid rate during 1946. Some of the smaller banks in particular were perhaps a little too aggressive in this respect, with the result that in some institutions the volume of mortgage loans is entirely out of line with their resources.

(4) While inventory loans have not increased materially and inventories as such are not considered too large in relation to the present volume of sales, in making inventory loans banks should take into account the fact that most commodity prices are excessively high, that buyers' resistance is gradually developing, and that economic changes can take place without warning.

The above suggestions are not intended to mean that banks should stop making loans. On the contrary, the granting of loans is the prime function of the commercial banks. What is implied, however, is that the banks should be more cautious in the extension of loans at the present time and do their best to prevent a too rapid increase in the volume of deposits, particularly so long as the forces of inflation are still pronounced. A wise old banker once said: "When everything looks rosy, it is advisable to become cautious; when things look dark, it is time to become optimistic." I believe this is truer today than perhaps at any time during the last four or five years.

Acting as economic counselors for their clients, the banks can also do a great deal to prevent overexpansion followed by too rapid contraction. Banks can advise their customers, be they corporations or farmers, that it is

(Continued on page 24)

The Outlook for Banking

(Continued from page 22)

not advisable to take advantage of a sellers' market and to charge what the traffic will bear. Prices of many commodities are too high, and a further increase above the present level certainly is not desirable or advisable. Bankers must also remind the public as often as possible that exorbitant demands of labor merely lead to higher costs and prices, which in turn further stimulate the vicious circle of prices and wages. High wages are justified only if they are accompanied by an increase in the productivity of labor. Unless the productivity of labor and equipment increases in the United States, it will not be possible to maintain the present high standard of living of the American people. Banks must teach their customers, large and small, that the American system is based on competition and that any tendency toward monopoly in business and labor is dangerous to the workings of the system of private enterprise.

Price guaranties by the government and violation of the forces of the law of demand and supply handicap the satisfactory operation of the system of private enterprise. Since the farmers were among the principal objectors to the OPA and to the imposition by government decree of ceilings on commodity prices, they ought not to favor floors under prices of many commodities produced by them either.

Similarly, government guaranties of loans serve a purpose in periods of war but they are certainly out of place at the present time. The banks are in a good position to judge whether a borrower is a good credit risk or not. Banking is a business, and the banks must not adopt policies which eliminate the taking of risks. Such policies can lead only to increased government competition and greater interference by the government in the field of banking. In order to preclude further government competition, the banks must be able to meet this competition through aggressiveness in seeking loans and by applying business standards to loans. Taking the good credit risks and sending the weak ones to a governmental agency does not solve the problem. If a credit is not good for a bank, neither is it good for a governmental agency. If, on the other hand, a credit is good for a governmental agency, a bank also should find ways and means of granting it.

Then there is the problem of how to provide small and medium-sized business concerns with equity capital. This problem has already been given careful consideration by the government as well as by the banks. So far no satisfactory solution has been found. It is, however, evident that the initiative in finding a solution to this problem should be taken by the private banks of the country. The banks should also utilize their best efforts to influence their customers to prevent overexpansion, the erection of buildings at exorbitant cost, and the acquisition of real estate at present inflated prices.

In brief, what is advocated here is increased responsibility of the individual in banking and in business toward the community and the economy of the country as a whole, and less reliance on government. What is particularly stressed is the necessity of realizing that the gaining of a temporary advantage to the individual or concern at the expense of the community is not wise. Above all, bankers and businessmen must constantly bear in mind that the economic and political welfare of the individual can be achieved only by keeping the economic system on which the country is based sound. And finally, let us not overlook the most important fact: namely, that nothing is more important to us, either as individuals or as a nation, than the maintenance of liberty and freedom.

The above program outlined for the banks is broad in scope. There are a number of problems closer to home, however, which the banks will have to solve in the near future. Among these, mention may be made of the following:

(1) Good public relations: It is the imperative duty of the banks to acquaint the public with the important role played by the banks. It is not sufficient merely to hark back to the splendid work done by the banks during the war in providing the government with the wherewithal to fight an external enemy. It is also necessary to point out the leading role the banks have played in the reconversion period and are playing at the present time. Above all, it is necessary to educate the public to the fact that a sound banking system is absolutely essential to the proper functioning of the system of private enterprise.

(2) Banks must give close attention to employee relations, primarily with the view to attracting capable young men and women to become future executives of the institutions. Whereas at the end of the last war, high caliber young men from the colleges and universities sought employment in the financial institutions, this does not seem to be the case at the present time. Ways and means must be found to attract capable young people into the financial business.

(3) The banks must give careful study to the financial problems that confront the nation, in order to be able to give sound advice not only to their own customers but also to the Congress and the government. This applies particularly to the management of the public debt, in which the banks are vitally interested, and also at the present time to the needs of Europe and the assistance which the United States can and should render to foreign countries. For example, the Marshall Plan does not seem to be well understood by the public at large. The banks ought to make it their duty to educate at least their own customers as to the meaning and implications of the Marshall Plan and what it means to the rest of the world and to us.

All of these problems are of vital importance to the banks, and their solution will have an important bearing on the future of the banking system.

The dire predictions that were made about the future of the system of private enterprise and about business activity in the United States have not materialized. The country is today riding on the crest of the greatest wave of prosperity ever witnessed in the history of the nation. But many maladjustments have crept into our economy, and they will have to be rectified. Their correction will bring about a readjustment in the economy of the country, and in the not distant future the present sellers' market will be converted into a buyers' market. This readjustment will be painful, but all indications are to the effect that it will not be very severe nor of long duration.

The greatest problem that confronts the nation at the present time is that of preventing a sharp decline in business activity accompanied by large scale unemployment. At present, an ideological war is raging between the system of private enterprise as practiced in the United States and the system of totalitarianism as practiced in other parts of the world. The outcome of this ideological conflict will be determined not on the battlefields, but in the sphere of economic activities in the United States during the next few years.

If the American people approach their problems in a spirit of patriotism and good will, then the wide swings of the business cycle can be eliminated and large scale unemployment can be prevented. In that event, the United States will have demonstrated that its way of life is by far superior to that advocated by other countries. Not only does it offer to the individual all the human rights and privileges for which mankind has fought for so many decades and centuries, but it also assures him a much higher standard of living. The actions and policies of the banks will to a considerable extent determine the outcome of this ideological struggle.

Ross, Lyon & Co. To Be Formed in N. Y. C.

Ross, Lyon & Co., members of the New York Stock Exchange, will be formed on Nov. 1 with offices at 61 Broadway. Partners will be Harry Ross, member of the New York Stock and Curb Exchanges, and Sidney Lyon, general partners, and Irving Ross, limited partner. All were formerly members of the firm of Brand, Grumet & Ross.

The Debt, the Budget and Taxes

By BEARDSLEY RUML*

Chairman of the Board, R. H. Macy & Co., Inc.

Mr. Ruml discusses phases of Marshall Plan and points out three basic points are: (1) that money for relief abroad is spent in U. S.; (2) that it will take form of goods and services; and (3) that repayment can be made only in goods and services. Urges reconstruction aid be financed by sale of savings bonds. Recommends budgetary and tax reforms, along with tax reduction and proper use of national debt as instrument of fiscal policy.

In these anxious days, the subject of taxes, the budget, and the debt is one of grave concern to all of us. There is no practical value in discussing this subject in terms of unreal economic abstractions. We must recognize that taxes, the budget, and the debt—that is to say, the fiscal policies of the United States—must be developed in a world that is not at peace and in a world that has not yet been restored to even its old levels of productivity. This disturbing setting provides an unwholesome frame of reference in which fiscal measures must be applied. It also imposes major budgetary facts that must be surmounted in any fiscal proposals that can be considered realistic.

Beardsley Ruml

The first of these budgetary facts is our expenditure on national defense. The annual requirements for this purpose are in the order of $10 billion. We must be prepared to cover this item for some years to come. We may hope and believe that this is an abnormal item, the consequence of living in a disordered world. We may look for, and work for, the organization of a peace in which we can have confidence, a peace which we want in any case for its own sake. When this peace is attained, our expenditures for national defense can then be drastically reduced. But that time is not yet, nor does it seem to be in a future near enough to soften the effect of the defense item on present fiscal policy. To put it bluntly, for the foreseeable future, expenditure for national defense will have to be paid for by taxes.

World Reconstruction Expenses

A second major budgetary fact will be presented to us by our unreconstructed world. This second budgetary fact includes the over-all requirement for expenditures that may be appropriated by Congress to promote the reconstruction of the world community. Part of this requirement will be for urgent humane measures for the relief of human suffering and starvation. Part of the requirement will be directed toward restoring the productive facilities and capacities that were destroyed by war. We have already been made aware of some measure of these requirements in the response by 16 countries to Secretary Marshall's proposals.

No matter what is done for relief on humanitarian grounds, it is generally agreed, I believe, that appropriations by the United States for the reconstruction of productive and economic life abroad must be in response to a program that holds out some promise for its ultimate success. The ability to do and the will to do must both be present in such a program. We must be spared political participation that would be both unworkable and unwholesome. It will not be easy to agree that these desirable assurances of a moral, cultural, and political character are convincing, and at best the most optimistic will agree that the foundations on which we and they must build are in the nature of things seriously shaken and insecure. Nevertheless, even the most skeptical must admit that in recent months much progress has been made in defining the terms under which real cooperation is thinkable.

Let us admit that there will be proper differences of opinion as to the adequacy of the moral, cultural, and political assurances that have and will be given to us as the basis for participating in an economic program. Let us admit that these questions come first. But let us assume that after taking everything into account, we decide to share our strength. Under the program that has met these requirements, we then will have questions of our own fiscal policy that can be separately discussed on their own account. It is to these fiscal questions solely that I wish to address my next remarks.

Misunderstanding of Marshall Plan

The public does not understand the most elementary facts with respect to the economic operations of a loan under the Marshall proposals. Editorials, cartoons, comments of commentators—all make matters worse. Once again we have the blind leading the blind—uniformed opinion being consolidated by uniformed opinion. Here at this point the bankers can cut through and can explain to leaders of opinion the simple facts of an international financial transaction at the governmental level.

There are three basic points that the public should understand:

First, that the dollars which the United States lends abroad or which are appropriated for relief abroad are actually spent in the United States; that these dollars do not leave our shores; that they become wages, rents, and profits for American citizens. You know and I know the minor exceptions to this general proposition. We know that these exceptions are immaterial and that, broadly speaking, a dollar made available abroad is spent in the United States, and that it becomes a part of the stream of our national income.

The second point that all should understand is that the substantive contribution of the United States to relief and reconstruction will be in material goods and services, in food, in cotton, in steel, in engineering. To the extent that we make it possible for others to buy these things from us, we do not have them presently for our own use. Since some of these things are scarce, we ourselves must, for the time being, consume less in order that others may have what they urgently need; or, to put it in other words, we do not give up the dollars; instead we give up certain things that the dollar will buy. The dollars themselves remain at home and become wages, rents, and profits to us; the goods and services go abroad.

There is a third point on which the public should be clear — that when the time comes for repayment to the United States, repayment can be made in goods and services required by us—in hemp and metals, in tourist services, and in the arts. We could receive in the days to come the equivalent of the goods and services we now share, different in kind to be sure, but appropriate to our then existing needs. Notice particularly, for other countries as for ours, it is the product that moves, not the money. Just as what we send abroad becomes wages, rents, and profits to us in dollars, so what they some day send back to us in repayment will then be wages, rents and profits to them in their own currencies.

These three points should be understood by every citizen: first, that dollars that are sent abroad do not leave this country but are spent at home; second, that goods shipped abroad, purchased with borrowed dollars, are taken from what could be consumed at home; and third, that repayment to the United States can be made in goods and services which we will then require.

Public understanding of these points will establish the mutuality of interest that gives dignity to both borrower and lender. The transactions possible under the Marshall proposals are advantageous to us as well as to other countries. We can receive, in exchange for some restriction on current consumption, a share of the production of others for years to come. What better measures could be taken to assure for our children and our children's children access to raw materials that will be vitally needed to supplement our own resources?

I have pointed out the manner in which repayment can be made of loans made for world reconstruction in response to the Marshall proposals or otherwise. But the question remains not "Can the loans be repaid?" but "Will they be repaid?" The answer to this question is, "That depends." It depends on whether the program succeeds. It depends on whether the moral, cultural, and political foundation for reconstruction is adequate. It depends on forces of man and nature which are unpredictable in any program. It also depends on whether the amounts that are made available are in fact adequate for the task that has to be done, and that unforeseen contingencies, such as the price rise which affected in substantial measure the adequacy of the British loan, are not permitted to destroy the possibility of a decisive success. It also depends on how much we require in repayment, and when, and the terms which we ourselves impose. Expenditures for relief must be dissociated from advances for the reconstruction of productive facilities. The time for repayment must be very long, and the interest rate must be very low or none at all. We must be prepared to receive our repayment in raw materials, in services, and in manufactured goods, in amounts and in kind convenient to both borrower and lender.

Need For Food

Since transactions that may occur under the Marshall proposals must be thought of as goods and services moving from us to them, we ask ourselves, "What kind of goods and in what amounts?" As far as the aggregate amounts are concerned, the general picture that has been drawn does not seem too ambitious. Even when we include loans that are suitable for the International Bank, the annual totals seem modest enough, considering the great work that remains to be done in getting the world back to productive health, and considering also the strength and resiliency of the American economy. Nor are the amounts so large that the portions going into productive plant, equipment, and working inventories cannot be paid back to us in raw materials and various services in future years without serious distortion of the normal flow of international commerce.

However, when we examine the kind of goods the world requires from us, it is apparent that the amounts become very large, particularly in 1948. Of course the overwhelming problem is food. Marshall proposal or no Marshall proposal, the United States would have been called on for unusually large food supplies to help meet the world food crisis this winter.

The food that is needed this year cannot be produced by appropriating money; it can be made available only by drastic elimination of wasteful consumption of food by the people of the United States. President Truman's call last week for an all-out nationwide voluntary program of food conservation recognizes that food consumption must be reduced and food waste must be stopped. His appointment of Charles Luckman as Chairman of the citizens' advisory committee gives to the conservation effort vigorous and courageous all-out leadership. His assignment of the committee to headquarters within the White House gives to the committee's work the prestige of all-out Presidential support. The President's Committee on Foreign Aid has declared in no uncertain terms that large exports of food are possible without imposing "grave hardship on the American people as a whole, if its effects be measured in physical terms." So clearly the possibility of success is present, and the stage is set.

The food conservation plan of 1947 has been organized as a voluntary plan. To succeed it must also be an educational plan. It must teach people why they must eat only what they need, waste nothing, and plan their food use with the greatest care. It must persuade people that it is their duty to follow principles of food conservation that they are made to understand. It must give people a feeling of authentic personal participation in alleviating the distress of a tragic period in the world's history.

The food requirements for this winter will be met to the extent that there is brought vividly to the mind of every American one simple thought — that what one man eats another cannot eat, and that at best there's not enough to go around. We cannot afford to waste food or to consume more than we need, even if we are able to pay for it.

From the financial side, a sharp reduction of food consumption and in the using up of foodstuffs will restrain and perhaps reduce food prices. This effect on prices will serve a double purpose: first, it will reduce the amount of dollar contribution that must be made on relief account; and second, it will be a check on living costs in the United States and therefore on inflationary tendencies arising from irremediable production shortage.

In addition to food, there are other goods and materials that will be in high demand for construction here, for reconstruction over there. In these badly needed goods and materials, there will be shortages and inconveniences. Businesses will be affected as well as individuals. A measure of patience and understanding will be required, and an attitude of cautious consumption will help relieve many strains.

Financing Reconstruction

Helpful public attitudes toward the reconstruction phases as distinguished from relief requirements can be fortified by the way the reconstruction phases are financed. That portion of our aid to Eupope and elsewhere that goes into plant and equipment, into inventory, into the rebuilding of tools and facilities, is productive loans and given a fair chance will build up the level of productivity. Productive loans abroad for world reconstruction should be financed, not by taxes but by the sale of (Continued on page 34)

*An address by Mr. Ruml before the National Bank Division at the 73rd Annual Convention of the American Bankers Association, Atlantic City, N. J., Sept. 29, 1947.

International and Domestic Economic Problems

By HON. A. LEE M. WIGGINS*
Under Secretary of the Treasury

Asserting major economic problem is to make sure dollar size of the economy does not further outrun its physical size, Treasury executive and former ABA President lays down as three requirements for preserving peace and economic stability: (1) world-wide increase in per capita production; (2) international and domestic cooperation of free men under systems of governments that release springs of incentives; and (3) establishment of sound and stable governments. On domestic front, he depicts financial policies of government in debt management, budgetary expenditures and tax reform as matters requiring careful concern.

Three years ago it was my pleasure to address the annual convention of the American Bankers Association as your retiring President. Today, after an interval of three years, I return as an official of the government to continue the discussion of some of our national problems.

A. L. M. Wiggins

Through the past eight months, I have been able to observe at first hand the operations of government and have participated in handling some of the problems of government.

That experience confirms, strengthens, and deepens the conviction that I have expressed to you on other occasions, namely, that democratic government, as conceived and wrought by the American people, is the best system of human relationships yet devised by man. It continues to be the last best hope of man.

Too much are we inclined to emphasize the weaknesses of democratic processes, the wastes in our system of checks and balances, the failures that result from political influences, the unbalanced weight of powerful minorities in the determination of national policies, and the give and take and compromise on legislative programs, and to consider these things as evidence of weakness in the basic structure of democratic government.

Some of them, no doubt, constitute a price for democracy. But, more important to me, they are the evidence of a flexibility which constitutes the strength of democracy. Democratic government, as we understand it and as it has true value, must operate in an environment of freedom. When men are free to think as they please, to differ as they will, and to seek to translate their views into policies of government, there necessarily follows a flexibility that responds to the changing needs of national life. It is this flexibility that assures the strength and permanence of democratic government.

It is now more than two years since the end of our armed conflict. The readjustment from war to peace has ever been a difficult period. Much of the world has made little progress in that adjustment. In this country, we have moved further and more quickly than any of us dared hope. The shift from wartime production to peacetime has been a marvel of industrial readjustment. There has been a minimum of disturbance in the field of finance. In spite of the necessity of vast operations in financing government during the war, our financial machinery was adequate and has handled a government debt in an amount undreamed of prior to the war. And, in spite of continuing high costs of government, most of which is attributable to the war, we have achieved a balanced Federal budget within two years of the end of the conflict.

Furthermore, the flexibility of democratic government has made possible the restoration of many of the freedoms in our economic life that were taken away under tion for war. Many government controls have been removed, some perhaps too quickly, but all through the operation of democratic processes. Throughout much of the world, this has not happened, but, on the other hand, the stern necessity of regimentation ... the powers of the state have further increased and the freedoms of the individual have been further restricted.

Our Post War Economy

If we examine our postwar economy in terms of prewar, we discover several important developments. The Federal Reserve Board's index of industrial production is now 67% higher than the average for the year 1939. Although industrial production is only a portion of total production in the economy, we find from available evidence that the total output of goods and services—including agriculture and elsewhere in the economy, as well as in industry—has risen nearly proportionately.

But purchasing power has risen even more than production. Our national income has increased 172%; deposits in commercial banks have increased 162%; and the total liquid assets held by individuals have risen about 250% since 1939. Purchasing power has outrun production. Prices have gone up all along the line. The most fundamental prices of all—those paid by consumers—have gone up about 60% since 1939.

Today our major economic problem at home is to make sure the dollar size of the economy does not further outrun its physical size.

In solving this problem, we are confronted with major difficulties both on the side of supply and on the side of demand.

On the side of supply, we find that our economy is now almost fully employed. This is true of both our labor force and our physical plant. This leaves but one way in which production can be substantially increased promptly, and that is through greater production per individual employed.

On the side of domestic demand, our major difficulty is impatience. Large backlogs still remain from the war period and there is the purchasing power to make them effective, while consumers seem to be unwilling to wait for the regular course of production to catch up with their orders.

The situation calls for restraint on the part of government, consumers, business, and labor—restraint in spending, restraint in pricing policies, restraint in wage demands, restraint in tax policies. If we will exercise this restraint, the present combination of factors can result in a long continuing period of prosperity; if we do not, it can result only in further inflation.

We accomplish little, if anything, by merely writing up price tickets. We cannot create prosperity in this country merely by writing up higher and higher price tickets, whether on wages, on commodities, or on profits. Although our economy is now geared to a higher ratio of dollars to the volume of production

*An address by Mr. Wiggins before the 73rd Annual Convention of the American Bankers Association, Atlantic City, N. J. Oct. 1, 1947.

than before the war, and no doubt will continue above the prewar relationship, a continuation of the write-up of more and more dollars must inevitably lead to a top-heavy dollar structure.

World-Wide Goods Shortage

The pressure of the dollar against goods arises not only from this unbalance but also because of the desperate shortage of goods throughout the world. We hear much of the dollar shortage, but that is a mere symbol of the shortage throughout the world of goods that require dollars to produce. While we are consuming in this country the largest volume of production in our history, in many of the countries of Europe consumption is on a starvation level. This is particularly true as to food. With reasonable temperance in eating and careful avoidance of waste of food, we can feed millions of hungry people.

We are today confronted with the practical urgent necessity for taking proper action in dealing with this situation. In our domestic economy we cannot afford to allow the pressure of dollars against goods to rise to the point that it will endanger our whole economy. At the same time, we must face in our conscience the stark requirements of hungry people in other nations. As we face the realities of the world situation, we know deep down in our hearts that aside from any generous impulse, our own long-term self-interest requires a participation in meeting the needs of other peoples. Whether we like it or not, we now realize that we cannot maintain an island of prosperity in the midst of a sea of adversity.

Our Limited Resources

Our resources are not unlimited. We would be foolish to tear down and give away our own house through generous impulses. We must remain strong, because not only is our continuing strength necessary to preserve this nation but a strong America is the best hope of the world. We must find proper balance between the head and the heart.

We must be as generous as long-term self-interest will permit. This means that we must share our production of the necessities for maintaining life with many peoples throughout the world until they are able to survive through their own production. America has never turned a deaf ear to hunger and cold and disaster. This does not mean that we should accept the responsibility of working out their problems, but we have a clear duty to provide food and fuel to prevent starvation and death. To many nations that do not have current means with which to repay, we must also provide productive equipment and loans with which to pay for such equipment. Such loans, being for productive purposes, could and should be on a sound and solid basis. Generosity and loans need not be mixed. There is a limit to what we may be able to give, but the limits of loans for productive enterprise can be multiplied through government and by private capital. There is immediate and urgent need in both fields, and prompt action is necessary if some nations are to avoid the twilight of disintegration.

International Political Problems

I have discussed only the economic side of our international problems, but we cannot close our eyes to the political side. The world revolution of the past half century finds fertile fields among many peoples whose economies have been wrecked, who are living in wretchedness and who face hopelessness and despair. Such is the breeding ground of communism. We find it difficult here in America, where the individual is his own master and where we are surrounded by abundance, to understand why many people in many nations give up their birthright and surrender their souls to systems of government under which freedom disappears and the individual becomes the slave of the state. I think the answer is that hunger, fear, hopelessness and a familiarity with death break down the will, destroy ambition and weaken resistance. It is a surrender to futility. Under such conditions, freedom becomes a mockery and a government of free men an idle dream. As this poison spreads throughout the world, it destroys freedom everywhere and gets into the bloodstream of civilization. We have no choice but to fight its spread with all the tools we have. However, argument, facts, and enlightenment are not enough in barren soil. That soil must be fertilized through provision of the basic necessities of life, from which may follow renewed hope and courage.

It is easy to surrender our spirit to a sense of hopelessness as to the future of many parts of the world. I do not subscribe to the inevitability of any such conclusion. On the other hand, it is my deliberate conviction that to the furthermost part of the world today there beckons an opportunity within grasp in the foreseeable future of the greatest advance in the standard of living and well-being for the most people in the shortest period of time in the history of the world.

Three Essentials

To realize that opportunity, there are three requirements. The first is for the countries of the world to utilize the experience of this nation in multiplying per capita production. This mean, first of all, hard work and the production of goods. It means also the multiplication of human production through the use of mechanical energy. Second, it requires the cooperation of free men under systems of government that will release the springs of incentives. The third requirement is sound and stable governments of integrity that will invite world-wide investment and trade. Under such conditions, capital and management know-how will flow to the four corners of the earth.

I do not mean to say that this opportunity will be grasped throughout the world. At the present, it appears that many people in many nations are more interested in internal strife and in efforts to promote political ideologies that restrain the energies of men, that remove their incentives and destroy their hopes than are willing to work with one another to rebuild their national life and improve their well-being. Many are tired and discouraged and see no hope for the future. Others are imprisoned by a ruthless minority of a police state. Our opportunity is in doing all we can to keep the spark of their hope alive.

Perhaps we are too much inclined to see the destructive forces at work throughout the world and to look only at the dark side of the picture. There is no more thrilling epic of courage and heroism in the long tragic fight of man for freedom than we find in many of the nations of Europe today.

Men and women in every land are pouring out their last ounce of resistance against the tides that

(Continued on page 36)

Earning Power of Banks

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company of New York

Bank economist predicts no pronounced upward swing in money rates that would enlarge bank earnings. On dark side, sees no relief from high taxes and international discord, but points out sounder position of banks today than in 1920. Holds both Treasury and Federal Reserve will expand their powers of credit control, and lays down as essential to restore free money market: (1) prohibiting Federal Reserve Banks to acquire government securities; (2) limiting use of such bonds as Federal Reserve collateral; and (3) restoring gold standard.

In considering the future earning power of banks, it is necessary to start from the circumstantial context in which American banking operates today. We are two years removed from war in human the greatest history. We are suffering the inevitable dislocations which follow such a conflict. We are still confronted with profound uncertainties regarding the political and economic future, uncertainties which are bound to affect the operations of banking and the profits realized from them.

Jos. Stagg Lawrence

Consider the problem first in terms of the experience which followed the First World War. The analogy has been drawn often enough so that it is not necessary to repeat the process here. In both instances, we were involved in a worldwide conflict which resulted in distortions and necessary corrections, many of them costly and painful. However, in comparing the prospect today with the events of 1920 we may be pursuing an easier line of reasoning, probably to false conclusions. What I mean to say is that there are many material differences between this period and that which followed the First World War. They are differences so substantial and so significant that it may be well for us to be on our guard, lest in accepting superficial similarity as proof of fundamental identity, we commit serious errors of judgment.

Consider the course of money rates. These rates constitute one of the major dimensions of bank earning power. During and after the First World War, they followed a conventional course. As the public debt increased, as capital was consumed in the struggle, as prices rose, money rates moved up. Between the start of the war and the Armistice, the average rate on long-term government bonds moved from 3½% to 4¾%. This action conformed to the requirements of classic economic theory. At the end of the war, these rates continued a sensational upward trend. In April of 1920, the Pennsylvania Railroad marketed a $50,000,000 issue of 10-year 7% gold bonds at par. In the following month, the U. S. Treasury had to offer a rate of 5½% on six months U. S. Certificates. The call money rate touched 15%. On May 20, 1920, Liberty Loan 4¼s dropped to a low of 81.10. Bear in mind that the coupons on government bonds at this time were tax-exempt.

Here is a clear instance where history does not repeat itself. We are now more than two years removed from the end of the war. We have passed the comparable period in which a money market crisis might occur. There is not the remotest chance at this time that any collapse will occur in long-term securities or that money rates will rocket to levels existing in the late Spring of 1920. In certain other respects, the outlook today is a marked contrast to 1920.

Expects No Severe Depression

It is still doubtful that we shall have at the present time a business collapse, a depression as severe as that experienced in 1920-21. We know that our friends on the Left have predicted a depression for us, the severity of which seems to vary directly with the "liberalism" of the prophet. We hope that business events in the future will confuse these forecasters as effectively as they have in the past. I do not mean to imply by this statement that the United States today is depression-proof or that we should assume the indefinite continuation of present high levels of business. I simply mean to refute the implication in Left-wing forecasts of depression that capitalism has fatal flaws which spell the inevitable doom of our society.

This well advertised depression has not yet occurred. On the schedule of prognostication, it is long overdue. When those adjustments occur which the end of a great war demand, and we as a nation are compelled to reconcile ourselves to a lower level of business activity, I am sure we possess the necessary material and spiritual resources to meet the test.

Outlook For Banks

Consider now in some greater detail some of the specific conditions which affect the general business outlook and particularly the outlook for banks.

We are entering the third fiscal year after the war. The American economy is still bearing an unprecedented peace time burden of taxation. The Federal government alone is collecting approximately 24.7% of the estimated national income for the year 1947-48. This aggregate of Federal taxes represents an increase of 1.9% over the total collected during the last year of the war. We are all able to confirm painfully the fact that our personal burden has in no way been lightened in spite of the heroic and persistent efforts of Congress to grant relief. Although it may not be readily apparent at present, such a vast preemption of buying power on the part of the state has a necessarily discouraging effect upon personal incentive and in the long run will act as a wet blanket upon American prosperity and progress.

Nor has the government made much headway in shrinking a swollen Federal budget. Current expenditures in the aggregate are running at a level four times total Federal outlay in the period 1935-39. Some slight progress has been made, against the most vigorous resistance, in the reduction of the huge personnel of the Federal government. In relation to the total task, progress has been disappointingly meager.

We may pause here and compare our fiscal position with that prevailing after the First World War. During the third fiscal year after the Armistice of 1918, Federal taxes had been cut from a wartime peak of $5,689,000,000 to a level of $3,554,000,000, a reduction of 38%. Personal income taxes had been cut from a total of $1,270,000,000 to a total of $719,000,000, a drop of 43.4%. The top rate of 65% prevailing in 1918-19 had been cut to 50% for the 1921-22 year. The budget itself had sustained vigorous paring and in the third year after the Armistice was off 82.5% from the wartime peak. No corresponding progress has been made on the present occasion. This is a political phenomenon on which the voters of this country will in due course pass judgment.

In another respect, the outlook today is less attractive than it was in 1920. Our major foe had been defeated. No other aggressor had arisen in the ranks of the victors to reconstitute the menace to peace which Germany had presented before the war. The victorious nations, after some slight haggling, which by comparison with the protracted, futile conferences of today seemed like mild tea-party conversations, achieved a reasonably harmonious peace structure. So thoroughly persuaded were they of each other's intentions at the time that the leading powers of the world did achieve distinct progress toward disarmament. The world of the '20's seemed like a good world, peaceful and prosperous. Western civilization was under no immediate threat of possible destruction. The stock market of the '20's properly reflected this mood of optimism.

If we do not at present enjoy relief from high taxes, if the government has been disappointing in its budgetary economies, if peace today is indeed a dim prospect, there are nevertheless other elements in the picture, particularly as they affect banking, which are of a more agreeable character. In the first place, the banks themselves occupy a position of far greater security than they held at the beginning of the '20's. We have today approximately 15,000 commercial banks, against twice that number in 1920. We know now that there were altogether too many banks on the earlier occasion and that the failure of state and federal authorities to restrict bank charters was one of the major causes of that generic weakness which caused so many failures in banking.

As a result of the crisis in 1933, we now have a scheme of bank deposit insurance which has so far proved effective. A smaller number of banks, operating in a larger economy and with greater total business, find themselves in a competitive position where it is possible to pursue safer banking practices than was the case in the '20's. While the high percentage of government securities in our portfolios is properly deplored as an unwise emphasis upon a single client, the fact is that these holdings do constitute an element of safety in the banking structure. It is doubtful that the next ten years will see anything like the losses and charge-offs in banking that were necessary in the '20's and carried through into the decade of the '30's.

*An address by Mr. Lawrence at meeting of the Savings Division at 73rd Annual Convention of the American Bankers Association, Atlantic City, N. J., Sept. 29, 1947.

Future of Bank Earnings

In considering the future of bank earnings, we must recognize that earning power is predominantly a function of gross asset value and rate. The volume of business depends primarily on general business conditions and the size of the public debt. In spite of much wishful thinking on the part of bankers, it must be admitted reluctantly that the rate which banks are able to realize on their assets depends primarily on government policy. The last fifteen years conclusively demonstrated the ability of the state to control the money market. A lot of bankers still doubt this. Very few professional students do. The evidence is overwhelming.

Consider the record of the last fifteen years in this country. The average yield on government bonds at the end of 1933 was 3.34%. Suppose that we had summoned at that time the fifty leading monetary economists of the world to a conference and posed to them this problem: "What will happen to the money rate and particularly the yield on government bonds under the following conditions—conditions which may develop during the course of the next decade: (1) the government repudiates its obligation to redeem its currency and securities in gold and as a corollary abandons the gold standard. (2) It resorts to deliberate inflation in order to help favored political groups. (3) It conducts a continuous and malicious campaign against wealth and business. (4) Throughout this period it never once balances its budget but on the contrary reports deficits year after year. (5) The public debt rises steadily. (6) Toward the end of this period, a great world war breaks out which leaves this country with a public debt ten times the peak in 1919?" In the face of all these conditions, we repeat, "What would happen to interest rates, and particularly the yield on government bonds?"

We are confident that these savants without exception would say that rates would have to go up, that public credit would necessarily decline and that the yield on government bonds would inevitably skyrocket. We know how wrong such a conclusion would have been. We know how completely the experience of the last 15 years has challenged the teachings of classic economics. We know that rates today are roughly at their lowest level in this 15-year period. We know that our government, in the face of a total debt of $258,000,000,000, can borrow money at a lower rate than it could at any time in the past.

Effect of Unfreezing Short-Term Rates

The recent unfreezing of short-term paper by the government, the refunding of $4,394,000,000 of 1½% notes and 1¼% notes with a 12½ month issue of 1% notes, representing a slight increase in the rate, plus some vague lip service by officials in favor of a freer money market, may lead some of us to believe that a turn has taken place.

There are a number of reasons why we should regard this apparent turn with the utmost reservation. In the first place, broader figures representing the rates at which money can be borrowed in the principal money centers of the country show, up to this time, no appreciable change. Corporations and qualified borrowers are still able to borrow at roughly the same rates which prevailed a year ago. I say this with full knowledge of the change in certain special categories of lending which have been announced by several leading New York banks. It is possible that some upward correction in certain rates may be taking place, as indeed they should take place. Accommodations in some instances have been made on a basis where it is difficult for the bank to realize adequate compensation for the service performed and the risk assumed.

However, the corrections which may seem so significant are corrections within a limited area, a limited range; and it remains to be seen whether they will stick. For the forces operating against any broad return of a free money market are almost insuperable.

In the first place, it is extremely unlikely that the government, having demonstrated its ability to control the rate structure and having profited by that control, will freely relinquish it. Two important agencies of the government compete for the power to control the money market. These are the Treasury and the Federal Reserve Board. In this competition, the Treasury enjoys an unquestioned priority. National policy has resolved that the need to control the rate on government obligations and the rate of Federal financing will take precedence over any conceivable necessity on the part of the Federal Reserve Board to use the rate as an instrument of economic control.

The tolerant attitude which the Treasury now displays toward possible upward changes in the rate are the result of obvious special circumstances. Due to the continuation of high wartime tax rates and an unprecedented level of domestic prosperity, the Treasury is accumulating a substantial surplus. It has been able to pull down the total Federal debt from $279,800,000,000 to $258,400,000,000. It is definitely not in the market for fresh money at this time. Under the circumstances, it can take a detached attitude toward the money rate and view with some indulgence a firming of that rate; that is, provided such a firming process does not get out of hand.

Federal Reserve's Power

If for any reason, not visible certainly at the present time, the Treasury should abandon its power over the money market, the Federal Reserve authorities are prepared to seize it. These authorities nurse a sense of mission. They think they have a mandate to control the business cycle. They have in recent years repeatedly complained of the inability to control the quantity of credit due to the exclusive exercise of rate control by the Treasury. In lieu of money rate control, these authorities are now demanding an expanded qualitative control of member bank credit. By qualitative control, they refer to stock market margin and consumer credit regulation.

In addition, they have asked for completely flexible power over reserves, the right to require the maintenance of secondary reserves, the right to regulate the character of member bank long-term security portfolios. They have repeatedly suggested that they would be much happier if all the banks in the country were subject to the full authority of the Federal Reserve Board. The only comment presently needed on this program is that our current Congress is not hospitable to the questionable aspirations of the Federal Reserve authorities, that it regards such aspirations as in-

(Continued on page 41)

The FDIC and the Dual Banking System

By H. EARL COOK*
Director, Federal Deposit Insurance Corporation

Asserting the strength of dual banking system lies in our organic political philosophy, Mr. Cook contends Federal Deposit Insurance Corporation has been a major factor in restoration of confidence in all banks, both state and national. Stresses standardizing function of FDIC and says it is only Federal agency that has direct contacts with state banks not members of Federal Reserve System.

H. Earl Cook

"The dual banking system needs no justification. It works . . ." These words written by the distinguished gentleman who was your President last year, Frank C. Rathje, epitomize the sentiments of Americans who apply the test of practicality to this important segment of their economic structure. Thus tested, the many elements of strength in our banking system are brought to sharp focus.

For more than 80 years, this country has conducted its banking through the facilities of institutions free to choose between Federal and State law as the source of charter powers and governmental surpervision. The system since its inception in 1863 has played an important part in the successful financing of four wars as well as a continuing industrial revolution which has now established the United States as the leading economic power in the world.

Associated with the rise of the dual banking system, the nation has increased tremendously in size as well as in the volume and richness of its economic life. The annals of history are replete with illustrations. In this same period, for example, population has grown from more than 30 million to nearly 143 million and the value added by manufacturing establishments has expanded from less than a billion dollars annually to a pre-World War II total of approximately $25 billion. Moreover, the system has facilitated the rise of many new industries and the widespread distribution of the products thereof. The development of automobiles and the electrical industries are cases in point. Indeed, it is difficult to envisage any other system of bank organization which might function as well as the dual banking system, and it is easy to see important reasons why alternative forms of organization could impose serious handicaps.

A study of banking in other nations emphasizes the uniqueness of our dual system. As a matter of fact, we should be well advised to call it the American rather than the dual banking system because it is really a counterpart of the Federal structure of government. Fundamentally, the strength of the dual banking system is nothing more nor less than the strength inherent in our organic political philosophy.

Dual System Competitive

Highly developed and intelligent competition is an essential condition for our economic and social progress. The existence of a dual system of banking furnishes the necessary competitive setting. It makes possible the flexibility whereby men can adjust their activities most efficiently to the economic facts of life. As long as the dual system prevails, men in the exercise of their abilities always have an alternative.

Students of political science observed long ago that the Federal system of government maximizes the opportunity for testing policies while at the same time it minimizes the risks of so doing. Likewise, this same feature is an advantage afforded by the dual banking system. From time to time, the various states have established provisions for bank regulation which proved their worth on a small scale and then were widely adopted. Thus, sound improvements soon permeate the entire banking system; the others wither away with little or no harmful effects. One could argue with a considerable show of reason that this aspect of the dual system is in itself a sufficient justification. We tend to forget, for example, that the early experiences of certain states in the field of deposit insurance contributed importantly to our federal legislation. In the absence of that experience, I am confident that the Federal Deposit Insurance Corporation would have been quite a different and certainly a much less satisfactory agency.

Cooperation between the Federal and state authorities is the unifying principle which makes the dual regulation of banking a system, just as cooperation between the Federal and state governments makes the United States a nation. This cooperation maintains standards and sets limits to competition. Cooperation between the state and the Federal banking authorities establishes the rules which encourage wholesome competition and prevent it from degenerating into conflict and disorganization. Cooperation is the American way of getting the best out of individuals.

Coming of National Banking

Historically, the dual banking system began with the National Banking Act of 1863. Prior to that time, America tested and after two experiments, finally abandoned in 1836 the idea of a single bank chartered by the U. S. Government, largely because of its monopolistic features. Between 1836 and 1863, the banking system consisted solely of institutions chartered by the states. The principle of "free banking" first enacted by the Michigan Legislature in 1837 rapidly spread to the other states. Calculated to eliminate the old abuses which developed when the chartering of a bank required special legislation, these "free banking" acts provided that charters were to be granted automatically to all bank organizers who conformed to minimum requirements, the most important of which involved capital. Under liberalized charter procedures, state banks increased rapidly in number from about 500 in 1834 to a peak of 1,600 in 1861.

In the passing of time, it became evident that a banking system composed entirely of state-chartered institutions was no more in accord with basic American social philosophy than one dominated by an institution operating under the charter of the Federal Government. Moreover, "free banking" legislation was not accompanied by any important advances in bank supervision. Widespread abuses developed, most of which involved the issue of bank notes with inadequate provisions for specie redemption. Numerous attempts at correction were undertaken by the various states. In some instances, bank commissioners were empowered to examine banks; but nothing in the way of fundamental progress was achieved because the inherent weakness in the system stemmed from the fact that the banking system consisted solely of state institutions.

The urgency of war financing occasioned the adoption of the National Bank Act. Nevertheless, the structure created by this legislation rested on a much firmer foundation. At the time, the Federal Government was confronted with the urgent necessity for marketing its bonds. Organizers of banks were given an opportunity to obtain a charter as a national banking association which carried with it incidentally the right of note issue. Since the note issue privilege involved a pledge of U. S. Government Bonds as security, a broad market for these obligations was practically assured.

Drawing upon the long and varied experience in banking, the Act of 1863 corrected the major weakness in the state banking system by providing the nation with a sound hand-to-hand currency. Furthermore, it avoided the error hitherto demonstrated by experience with the first and second Banks of the United States.

After the prohibitive tax was imposed in 1865 upon the issue of notes by state banks, the feeling became widespread that banking by state-chartered institutions was doomed. The statistics seemed to bear out these sentiments because the number of state banks declined from approximately 1,600 in 1861 to 247 in 1868. However, the banking needs of the country were changing. Deposits were growing in importance as circulating medium, and by 1885 the state banks discovered that they could operate profitably on the basis of their deposit business without the note issue privilege. Thereafter, the number of state banks increased rapidly, reaching 2,250 in 1890, 5,000 in 1900, and 17,000 in 1913. These years, likewise, were characterized by tremendous expansion in the economic field; and the dual banking system afforded the necessary flexibility to cope with the current financial problems.

Embodying the best thought then prevailing with respect to bank chartering and supervisory practices, the National Bank Act was effective in bringing these features to the attention of the various state legislatures. Slow but more or less steady progress in improving standards of supervision both at the Federal and the state levels was achieved over the last quarter of the 19th century. Competition between the Federal and the various state authorities in liberalizing charter provisions developed. However, it certainly was much more restrained than that characteristic of the earlier "free banking" era.

Effect of Federal Reserve

With the creation of the Federal Reserve System in 1913, state bank members acquired a mechanism designed to cope at the national level with problems extending across state lines. This, however, was merely incidental to the primary reasons for the legislation; namely, the creation of an elastic currency and provision for central banking facilities. Unquestionably, the system also is one of the milestones in the course of progress towards higher standards of bank supervision.

State banks acquired membership in the Federal Reserve System slowly; and by June, 1917, only 53 had joined out of a list of eligibles totaling approximately 8,500. Clarifying legislation subsequently removed the misgivings of state banks, and the membership increased rapidly, reaching a total of 1,648 in 1922.

Viewed in terms of its philosophical implications to the dual banking system, the establishment of the Federal Reserve provided a mechanism for cooperation among state banks conducting business on a nationwide scale. For one reason or another, these institutions desired to remain outside of the scope of the National Banking Act; yet they were confronted with problems extending far beyond the reaches of the states which chartered them. A web of common interests knitted these institutions together, and the Federal Reserve System was a legislative recognition of this fact. It restored a balance to the dual banking system which had shifted off center in the period of economic change between the 80s and the First World War.

Few will deny that the Federal Deposit Insurance Corporation was a major factor in the restoration of confidence in our banks after the financial collapse of 1933. It is now abundantly clear that we could have readily slipped into some form of absolute centralization as a logical consequence of the crisis, and thereby sacrificed the advantages of the free enterprise dual banking system. Fortunately, the program of deposit insurance adopted at that time achieved the twofold objective of restoring public confidence in banks and at the same time preserving the system of banking which is peculiarly adapted to the American way of life.

Standardization

Broadly speaking, the Federal Deposit Insurance Corporation is a standardizing agency. All banks which measure up to its standards are eligible for insurance irrespective of membership in the Federal Reserve System, incorporation under the National Bank Act, or the possession of a charter from any particular state. Since losses attending the failure of an insured bank are sustained in the first instance by the Corporation, it fully appreciates the evils resulting from the competitive chartering of banks as well as inadequate supervision of operations. Accordingly, from its inception, the Federal Deposit Insurance

*An address by Mr. Cook before the State Bank Division at the 73rd annual convention of the American Bankers Association, Atlantic City, N. J., Sept. 29, 1947.

Corporation has served as a connection between Federal and state supervisory authorities with the purpose of enlisting their cooperation in mitigating these evils. Efforts of the Corporation to maintain high standards have received the wholehearted cooperation of Federal and state authorities, and many of the difficulties which heretofore beset the dual banking system have largely vanished.

The development of a uniform examination report for banks is one of the major steps in the direction of closer cooperation between Federal and state supervisory authorities which have been taken since the advent of the Federal Deposit Insurance Corporation. With slight modifications, this form is used by all of the Federal agencies and a majority of the states. Moreover, in almost three-fourths of the states, joint or concurrent examinations are scheduled with state supervisory authorities. Not only does this arrangement achieve important savings for both the supervisory authorities and the institution under examination, but it facilitates cooperation among all of the interested parties in bringing about corrective measures when necessary. Here again, dual banking is buttressed against weaknesses which tend to call the adequacy of the system into question

Bank Reports

Comprehensive and timely information is one of the necessary conditions for intelligent policy with respect to banking. In a very real sense, the life of the dual banking system depends upon the availability of facts. Accordingly, the Federal Deposit Insurance Corporation has been steadfast in its efforts to bring about consistency in statistical data through the adoption of uniform condition and earnings report forms. Furthermore, it cooperates with the other supervisory agencies in compiling the pertinent information into a useful body of knowledge.

The agreements reached in 1938 among the supervisory authorities with respect to improved methods of asset appraisal and classification furnish still another illustration of Federal Deposit Insurance Corporation in its role as a standardizing agency for the dual banking system. Prior to that time, practice was common for the supervisors to identify one of the qualitative categories of assets with the term, "slow." Following extensive consultation between the various authorities, a new system of classification was adopted which definitely classified assets in terms of the relative credit risk. In addition, a basic change was made in the appraisal of bond investments. For issues of investment merit, valuation at market was abandoned and cost less appropriate amortization was substituted therefor. Admittedly these changes fall short of perfection, but it is well to remember that they are advances in supervisory methods which help to make the dual banking system work in an era of economic change.

The executive committee of the National Association of State Bank Supervisors was established as the advisory council for Federal Deposit Insurance Corporation by Chairman Crowley in 1938. Thereby, the Corporation has provided itself with a mechanism for exchanging information with the various state bank supervisory authorities. The exchange of ideas between the segments of the system is essential for the continued existence of dual banking, and the arrangement has proved its worth many times since its inception.

Of major importance, although more or less incidental to its work as a standardizing agency, has been the work of the Federal Deposit Insurance Corporation in articulating the problems of the state banks that are not members of the Federal Reserve System. The Corporation is the only Federal agency whose contacts with the state banks are direct and continuing. It is in a position to appreciate their difficulties and to view their aspirations sympathetically. This portion of the banking system is relatively small, measured in terms of financial resources, but large numerically; and it is very responsive to the best traditions of American free enterprise.

Value of FDIC to State Banks

Owing to the fact that the other major parts of the banking system could turn to other and long established Federal agencies when they were confronted with a problem requiring a solution at a national level, it was to be expected that the state nonmember banks would turn to Federal Deposit Insurance Corporation in similar circumstances. During World War II, the corporation cooperated actively with them in a successful effort to secure by means of legislation the right to participate in so-called "V" loans. Other instances of a similar character could be mentioned.

In a larger sense, it is fitting and proper that the Federal Deposit Insurance Corporation should be the Federal agency to which the state nonmember banks may turn. The dual banking system works only so long as the separate parts are able to define their problems and to reach appropriate solutions. Many problems confronting the small state nonmember banks are national in scope. The Corporation has a very real contribution to make to the success of the dual banking system in cooperative efforts to deal with these problems.

To sum up then, the practical man knows intuitively that the dual banking system is good, despite its seeming contradictions. This is the American system of banking wherein the free play of ingenuity is fettered only by the necessity for cooperation when the commonwealth is at stake. In recognition of its obligations to further the public interest by strengthening banks generally, the Federal Deposit Insurance Corporation continues to stand where it always stood—an ardent supporter of the dual banking system.

J. Hyman & W. Cahn Now With Stern & Co.

Stern & Company, 25 Broad Street, New York City, members of the New York Stock Exchange, have announced that Julius P. Hyman has become associated with them to handle trading, specializing in high-grade preferred stocks and bonds. Previously Mr. Hyman was associated with Struthers & Dean.

Walter L. Cahn has also become associated with the firm. For the past several years Mr. Cahn has been associated with E. F. Hutton & Company as a specialist in reorganization of railroads, and previous to that, was in a banking and brokerage business for himself in New York and Amsterdam.

Railroad Securities

One of the strongest spots in the rail market in recent weeks has been the Denver & Rio Grande 5% preferred stock. Just under 40 at the end of last week, the stock was only a small fraction from the year's high and 14 points above the 1947 low of 25¾. Many analysts consider that the shares are still attractive at recent levels, based on prospective payment of back dividends before the year is out, and the favorable long-term earnings prospects for the reorganized properties.

There are only 325,313 shares of the stock ($100 par) outstanding, and dividends are cumulative to the extent earned. The reorganization was actually consummated only early this year but the effective date was Jan. 1, 1943. Dividend accumulations now amount to $10 a share from 1943 and 1944 earnings and the company's financial position is adequate to allow payment of these arrears. Net working capital as of the end of last June was in excess of $17 millions. Payment of the arrears would reduce the "net" cost of stock purchased at recent price levels to below $30 a share.

In 1945 and 1946 there were no earnings reported available for the preferred stock. This lack of earning power in the past two years was due largely to special, non-recurring, charges. In 1945 there were the charges for accelerated amortization and last year the company in the final month made a special charge for possible liability on account of disputed freight rates on government shipments in prior years. This year, however, the road has been staging a strong comeback.

Net income for the first eight months of 1947 amounted to $1,884,980 contrasted with a deficit a year earlier. The 1947 figure more than covered the full year's dividend on the preferred shares and there is little question but that these earnings will be augmented by profits in the closing four months. Aside from the payment of dividend arrears of $10 a share this year, therefore, it is generally expected that the stock will go on a regular 5% basis in 1948.

During the trusteeship just ended The Denver & Rio Grande Western property was practically rebuilt. Heavy rail has been installed on most of the main line, a large amount of c.t.c. has been constructed, wooden bridges and trestles have been replaced in an important degree by steel and concrete construction, and other major improvements have been made all along the line. A substantial amount of non-productive branch line mileage has been abandoned. New equipment has been installed, and, in particular, the road has gone in extensively for dieselization.

Rehabilitation of the property and modernization of equipment has opened up new traffic sources for the company, making it possible to compete more aggressively for through freight. Also, the property improvements should vastly improve the basic operating efficiency of the road. It is notable that the operating ratio for the first eight months of the current year dropped to 78.1% from 86.3% in the like 1946 interval and 84.1% for the full year 1946. In August, 1947 alone the operating ratio had been cut to 71.0%, or more than ten points lower than in the corresponding 1946 month.

Aside from the benefits of property rehabilitation, the character of the road has been changed materially in recent years by the expansion in steel mill facilities in the Provo-Geneva area of Utah. The Government's plants have been purchased by a subsidiary of United States Steel Corp. and a sustained high level of activity is anticipated. Denver & Rio Grande Western gets the profitable coal haul to these plants, protected by the fact that the coal mines are also owned by the steel corporation's subsidiary. Rio Grande will also get a smaller volume of other raw materials and a portion of the movement of finished products.

With the combination of increased efficiency and the new traffic sources it is generally expected that the road should have little difficulty in normal business cycles in covering the preferred dividend requirement by a good margin.

New York Stock Exchange Weekly Firm Changes

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

David I. Kramer retired from partnership in Friedman, Brokaw & Lesser October 1.

Interest of the late George E. Williams in Beer & Co. ceased September 30.

Interest of the late Alfred S. Klauber in Lober Brothers & Co. ceased September 30.

Interest of the late Harold P. MacDonald, an Exchange member, in Blair S. Williams & Co., ceased September 30.

To Be Brand, Grumet & Co.

Effective November 1, the firm name of Brand, Grumet & Ross, 55 Broadway, New York City, members of the New York Stock Exchange, will be changed to Brand, Grumet & Co. Harry Ross, Sidney Lyon, and Irving Ross will withdraw from partnership in the firm on October 31.

The Debt, the Budget and Taxes

(Continued from page 26)

government savings bonds to the public. The sale of these government savings bonds should be by nationwide intensive campaigns associated with care and restraint in consumption. From the figures that we now have available, the annual requirements under the Marshall proposals for productive loans—that is, for goods and materials other than for relief and food—seem to be in the order of five billion dollars, and this amount is not too large to be handled annually by the sale of savings bonds.

Such a program of sales of savings bonds to the public picks up purchasing power that would otherwise have to be withdrawn by taxation. It has the great advantage over taxation in that it is selective and that it therefore does not impose on those who cannot afford it, as taxation might, the direct costs of reconstruction of productive plants. The sale of savings bonds to the public would also afford an occasion for making people aware of their personal association with the overall program of world reconstruction.

In principle, I think it can be said that we shall be on sounder ground if all our international commitments that are directed to the reconstruction of world productivity, productive loans as distinguished from grants for emergency relief, are covered by sales of bonds to the public rather than by taxation. The tax burden is far too high, and one important measure of tax relief will be found if the proceeds of the sale of savings bonds are used for budgetary expenditures of a constructive and non-recurrent nature such as those which we are now discussing.

I have spoken at this length concerning the economic realities underlying prospective international financial commitments in the hope that I might persuade you as individual bankers to carry on quietly but vigorously your personal program of public education on this subject. Even though an appropriation is passed by Congress under proper conditions, we will have done only half a job unless the leaders of opinion in our communities understand the true nature of the transaction and behave accordingly.

Taxes and Budget

Let us leave these two special items—national defense and world relief and reconstruction—and turn to more general consideration of taxes, the budget, and the debt.

Taxes, the budget, and the debt include the principal subject matter with which national fiscal policy must deal; and in many ways they are the key to our own continuing prosperity and to the possibilities of world reconstruction. But let us not overrate the powers of fiscal policy nor look to fiscal policy as a panacea. Good fiscal policy can support sound efforts; bad fiscal policy can restrain and can destroy. These considerations are sufficent to justify high concern with fiscal policy, with the budget, with taxes, and with the debt.

First, the federal budget. We have today a budget of enormous size, amounting to between 15 and 20% of the national income. The mere change in size from prewar and predepression days raises questions that were once academic, but which have now become matters of vital concern. One of these questions is, when we talk about THE federal budget, which budget do we mean?

There are two federal budgets, both in good standing. One budget, the more familiar, is the conventional budget; the other is the consolidated cash budget. When federal budgets were smaller, it made little difference which budget was being referred to, but today it is necessary to distinguish between them and to use them correctly for the purpose to which each is adapted.

The conventional budget is adapted to purposes of administrative and financial control. It shows transactions between government agencies; it excludes certain transactions between the government and the people where other financial controls are more appropriate; it carries some items on an accrual basis where this is convenient. The conventional budget was created and has been improved as an instrument of administrative control. This is an important purpose, and the conventional budget is an important budget.

The consolidated cash budget is also an important budget, and it serves a different but also an important purpose. That purpose, as President Truman points out in his first Economic Report, is to measure the impact of government transactions on the economy. The consolidated cash budget does this because first, it is consolidated—that is, it includes all transactions between the government and the people, and it excludes all transfers between the internal agencies of the federal government itself; and second, because it is a cash budget—that is, it shows the intake and outgo on a cash basis in the year in which the transaction takes place.

The difference between the conventional budget and the consolidated cash budget can be appreciated when it is realized that in the past fiscal year, 1947, the surplus in the consolidated cash budget was about $6 billion greater than was shown in the conventional budget. In other words, the cash taken from the public by the government was $6 billion more than the surplus in the conventional budget might imply.

So when we are interested in the impact of government transactions on the economy, we shall look to the consolidated cash budget. If our objective is a budget that is balanced in the economic sense, then it is the consolidated cash budget that we want to balance. As a matter of fact, balancing the administrative, conventional budget is meaningless, since being an administrative budget, it can be balanced at any time by definition, by inclusions or exclusions.

The consolidated cash budget becomes of special importance since it is the budget which should be used in setting rates of taxation. So far this has never been done; but now, with budgets and taxes at their present levels, we cannot afford the unneeded surplus or the concealed deficit, either of which may be invisible on the face of the conventional budget. The Tax Bill of 1948 should break new ground, and should organize its rate structure to the requirements of the consolidated cash budget. By doing so, we shall find that both debt reduction and tax reduction are possible.

Taxes

Next, with respect to taxes, I am not able to present to you today my views on tax structure and tax rates. The reason is that the Committee for Economic Development will shortly issue a Policy Statement on taxation, and I have been working with others on this Statement for several months. When this report is released, I am sure you will find it of great interest.

This much, however, I can say because it is no secret—taxes in the year 1948 can and should be substantially reduced. Priority in tax reduction should be given to several measures of tax reform, the aggregate of which will still leave some billions for general tax reduction.

There is some well informed opinion to the effect that no tax reduction should be contemplated until after we have seen some abatement of present inflationary pressures. However, it is apparent that the pressure toward higher prices centers in and stems from the food situation, with its direct effect on living costs and through wages on the costs of production. The food problem must be met by direct conservation action now. If the food problem continues throughout 1948, direct conservation action must be also continued throughout 1948. Monetary policy, or credit policy, or fiscal policy cannot be depended upon to check a series of price rises touched off by mass starvation and a shortage of food caused by crop failures. It therefore seems appropriate to think in terms of a tax program for 1948 that would produce only an ordinary surplus at high levels of employment. Such a tax program will permit both reforms in our present structure and substantial reductions in current rates.

One measure of tax reform should be made immediately and without waiting for an over-all general tax program. That measure is to permit income splitting by families for purposes of federal income tax, in order to give equality of tax treatment with the states that have community property provisions. This reform should be passed at once so that the spread of the institution of community property is not forced from state to state on material but irrelevant grounds. It is unsound to force the separate states to adopt property legislation they would not have otherwise passed except for the irresistible pressure of avoiding federal income tax discrimination.

Income splitting by families should not be considered a measure of tax reduction. It is simply a response to the broad principle of equality of treatment as between taxpayers of the same class. Besides, if the federal government does not act promptly, the states will take matters into their own hands; and the revenues now being unequally collected by the federal government will be lost anyway.

The National Debt

And last, the national debt. Just as the high new level of the budget and taxes has raised new and unfamiliar problems, so also the size of the national debt creates a new situation for which we have had little preparation. Much thought and much experience will be needed before we can have a debt policy in which we can have full confidence.

I think we can be reasonably certain that the easy answers are probably wrong—for example, that the debt is of no importance because we owe it to ourselves. We haven't heard that one since the debt passed its first hundred billion, but it never was true in any practical sense.

Then there is the proposition that we must retire a fixed percentage or fixed amount of the debt each year if we are to keep the credit of the Federal government good, these retirements to be made regardless of the state of employment and national income. This proposition flows unthinkingly from analogy with prudent handling of private borrowings. It is as if to say, "Now what would I do if I owed somebody two hundred and fifty billion dollars?" The fixed debt retirement policy has a respectable following which I believe is rapidly diminishing as the implications of such a policy are better understood.

The big new questions associated with a national debt of the size that ours has become are those that relate to policies of debt management. A debt of two hundred and fifty billion dollars has to be managed in one way or another, and decisions have to be made several times a year that are based on more or less clear principles and on more or less explicit objectives.

I am not going to discuss those phases of debt management that involve the horrid questions of what the interest rate should be; who should get it; and, above all, who should decide. But we do not get rid of these questions by snubbing them, and sooner or later people will be making speeches on this phase of the matter.

My interest in debt management today is in a more general aspect of the subject; namely, in the possibilities of debt management as a tool of fiscal policy, affording perhaps a new instrument to maintain a high level of productive employment.

The possibilities of debt management as a tool of fiscal policy arise first from the sheer size of the debt and second from its complex composition. If the debt were small, the possibilities and necessities of debt management would be negligible. The implications in the size of the debt are obvious, but those in the composition of the debt are generally ignored.

The national debt consists of at least four distingushable kinds of debt; that is to say, the national debt is in no sense a homogeneous global aggregate. Through the application of surpluses and through the terms of refunding issues, the retirement of sums from each classification or the transference of debt from one classification to another has consequences on the amount and kind of purchasing power remaining in the hands of the public. Debt management is therefore a corollary of tax policy in the maintenance of high employment at stable price levels.

I have said there are at least four distinguishable kinds of public debt. Let me name them.

First, there is the debt in the hands of private individuals. We could perhaps divide this classification in terms of amount and maturity, and get some significant differences.

Second, there is the debt in the hands of savings banks, insurance companies, and other institutional investors.

Third, there is the debt in the hands of the commercial banks.

Fourth, there is the debt held by the Federal Reserve Banks, Federal trust funds, and other Federal agencies.

It is apparent that it makes a great deal of difference what kind of debt is retired, what kind increased, what kind redistributed at times of refunding operations. Accordingly, the simple demand that debt be retired for the mere sake of retirement is meaningless and is no guide whatsoever for policy.

During the war we knew that the sale of war bonds to private individuals, particularly those with small and moderate incomes, was an alternative to taxation as a means of withdrawing purchasing power from the hands of the people. We knew that sales of bonds to the commercial banks had different effects. But in spite of the fact that we made these distinctions in wartime, we do not seem to have carried a parallel conception over to the long-term problem of managing a $250 billion dollar debt.

I hasten to say that I did not invent the four classifications of debt distinguished above, nor did I create the problems and possibilities, for good and evil, in debt management. The classifications of debt exist, the problems of management exist. These are not creations of the imagination; they are the stubborn facts of our present fiscal situation.

The tools of fiscal policy are powerful instruments that can be used to maintain a high level of productive employment in the United States. They can also be used to assist in the establishment of conditions throughout the world that will be conducive to a just and durable peace. True, fiscal policy cannot be looked to as a panacea. But the tools of fiscal policy — taxes, the budget, and the debt — are no longer merely the chronic annoyances associated with community responsibility for common activities. On the contrary, they have now so developed that they are prime factors in our economic life.

If these tools of fiscal policy are well managed, they will contribute much to the prevention of government interference in the specific decisions of businesses and private individuals. For the consequences of action at the level of fiscal policy are general, impersonal, and appropriate to the development of the economy as a whole. The individual's specific decisions may then be taken within a general frame of reference, a frame of reference established in the public interest and not distorted by private greed nor destroyed by the blind whirlwinds of economic collapse.

The instruments of fiscal policy give us our best hope that we can preserve our economic freedoms: to buy and to sell; to borrow and to invest; to move from place to place; to employ and to be employed; and to receive for our own private use wages, rents, and profits as a reward for skill in the application of our efforts in supplying what others need. To make sure that these powerful tools of fiscal policy are managed in the public interest, we must find in the democratic processes of our government the organizational arrangements that will protect the economic freedoms we are committed to preserve.

Fisher Hawes Forms Own Investment Company

KNOXVILLE, TENN.—Fisher Hawes has formed Fisher Hawes & Co., Inc., with offices in the Hamilton Bank Building to engage in the securities business. Mr. Hawes was formerly Manager of the municipal department in Knoxville office of J. C. Bradford & Company.

J. C. White Co. Opens

WALLACE, IDAHO — J. C. White will engage in a securities business under the firm name of J. C. White Co. from offices on Cedar Street.

International and Domestic Economic Problems

(Continued from page 29)

would engulf them. They still carry the torch of freedom in the face of cyclonic winds that would extinguish the light forever. Their bodies are wracked under the heels of tyrannic despotism, but their spirits do not yield. They lift their eyes to the hills from whence cometh help, if help is to be had. Throughout the world, America stands today not only as a symbol of hope and the inspiration for freedom but as a land and people with the means that can make possible the translation of the dreams of millions of people into reality.

Threats to Our Economic Progress

In our own country there are some who profess to see across the horizon indications of trouble ahead in our own economic progress. The best insurance against such trouble is to recognize these threats and to take timely action. The basic factors in our economy show that we can support a high level of production and consumption for a substantial period ahead. There is a large backlog of accumulated individual savings and corporate surplus, an unsatisfied demand for goods that will require years to fill, and there continues a dynamic growth of our productive economy. We have discovered secrets of production during the war period through the ingenuity of our workers and the wider use of mechanical power that astonished us and seemed a miracle to the rest of the world. Our large purchasing power is widely distributed among the people. Demands for our products multiply throughout the world and the continued flow of trade is essential for them and most important for us.

If failure comes, it will be through our failure to properly harness and direct the forces that make it possible to stabilize a high national income for years to come. It may also come from the race of the various segments of our economy to secure a larger share of the fruits of our production through trying to put the highest possible price tickets on their share.

In achieving a sound, continuing economy, the financial policies of government will play an important part. In particular, this means the management of the public debt, the size and character of the government budget, and the policy of taxation followed.

The policy of debt management has been specifically directed toward a reduction in money supply through the liquidation of bank-held government debt. There have been three phases of debt management since the beginning of the war. The first was the period in which vast sums were raised through the issuance of new securities to provide funds for war purposes. The second phase began with the end of the Victory Drive, which resulted in large Treasury balances in the banks. These balances were used largely to retire bank-held government debt. We are now in the third phase, in which government balances are kept at peacetime operating level, and, with the achievement of a balanced budget, there is no need for additional funds. Debt management now consists of reducing the total debt through the use of a budget surplus, and the transfer of the debt through the sale of securities to non-bank holders, including trust funds of government, and using the proceeds to further reduce the bank-held debt. During the period from February, 1946, to date, in which the gross outstanding debt was reduced 21 billions of dollars, the bank-held debt, during the same period, was reduced $24 billions, the difference resulting from the shift of ownership.

I need not say to bankers that the policies pursued in debt management have an important effect upon the entire financial community, including the money markets, bank earnings, returns on long-term investments, as well as on the pockets of the taxpayers. All of these are important considerations and must be constantly weighed. Bankers have been fully cooperative with government in debt management programs that were in the public interest, including the sale of government securities to the public and even including policies that resulted in lower bank earnings. We must not, at this time let up in our efforts to distribute more of the debt into the hands of the public.

I am convinced that the Federal Government and the Federal Reserve System, with their high degree of cooperation, not only have the essential powers but the machinery and the know-how for the sound management of the public debt under any conditions that may arise. So long as the public debt remains at high levels, these powers should and must be exercised. They should be exercised to permit so far as possible, a degree of freedom in the money markets and in the investment markets. However, the major consideration must be the effect of such management on the economy of the nation as a whole.

Budgetary Expenditures

Budgetary expenditures of the Federal Government have been reduced from more than $100 billion for the fiscal year ending June 30, 1945, to a current budget estimate of $37 billion for the year ending June 30, 1948. This is a cut of two-thirds within a three-year period. Most of the reduction was in items for war purposes. Of the present budget of $37 billion of expenditures, about three-fourths of the total are for purposes related directly to war, the effects of war, or efforts to prevent a future war. This leaves 26% of the current budget for all government programs, of which the share of general government is only 4%. The President has been most vigorous in his efforts to reduce budget expenditures. In the current budget, he made a reduction of $5.5 billion from the estimates submitted to him by the various departments. As part of the readjustment plan, the President not only recommended recision of $65 billion of appropriations, but set limitations which reduced expenditures substantially below the appropriations made by Congress.

There are times and conditions under which government expenditures should be made to conform to the pre-determined level of revenue, but in the present state of world affairs, we are confronted with the practical necessity of measuring the requirements in terms of the national interest and providing the revenues to meet those requirements.

In spite of the continuing efforts being made to reduce the cost of government, the budget will remain relatively high in terms of prewar budgets. An outlay of $23 billion, or nearly two-thirds of the total budget, is now required for the three items of expenditures for national defense, veterans and interest on the public debt.

This leads to a consideration of taxes. Any tax program must start from the budgetary requirements of government. Assuming a balanced budget, the cost of government must be provided through current taxes. The second consideration is a surplus to be used to retire the public debt. What the amount of this debt retirement should be will vary under different conditions and becomes a matter of judgment. It would seem to me proper to use a relatively simple formula: That in times of a high level of income, and particularly in times of inflationary pressures, larger payments should be made on the debt. Under adverse conditions, little, if any, can be paid.

Whatever government income there may be above budgetary requirements and proper application to reduce the debt, the excess should be used for tax reduction.

For the past year and longer, both the Treasury Department and the appropriate committees of Congress have had under study our tax structure. It is generally recognized that the existing tax structure was designed to finance the war to the largest extent possible out of current income. It has as its major objective the production of maximum revenue. It is no reflection on the policies pursued to achieve that objective to recognize that certain other considerations were of less importance. The result has been that inequities have crept into our tax laws and some of the burdens of our present tax structure are ill-designed for peacetime conditions and objectives.

The Secretary of the Treasury, testifying before the Committee on Ways and Means of the House of Representatives on May 19, 1947, said: "I should like to repeat my firm conviction that at this time we have a unique opportunity to modernize the Federal tax system. We are nearing lower peacetime levels of government expenditure and continuing high levels of national income and production. A period of tax reduction is approaching." He concluded his presentation by saying: "The development of a sound postwar tax system constitutes one of the most important steps toward the assurance of continuing prosperity in this country. If production is to continue to increase, if the American standard of living is to improve in the future as it has in the past, the tax system must yield the needed revenue without impeding business and work incentives, without restricting investment and without weakening consumer markets."

The application of these sound principles of taxation to basic tax laws that shall constitute a peacetime tax program for America is by no means an easy one nor will it be possible to find full agreement everywhere on any tax revision program. The problem is largely an economic one and judgment must be applied in the determination of probable economic effects, not only of varying rate schedules but in the many fields of taxation. It is in these fields of judgment that differences of opinion will arise.

The objective of tax revision is clear. While every consideration should be given to the particular needs of every segment of our economy and to the effect of every tax, both as to rate and structure, and every effort made to achieve the most equitable distribution of the load, the controlling objective must be to raise the revenue required in such ways that the results will be in the best interest of our national economy as a whole. In achieving that objective, self-interest must give way to general welfare.

Bankers' Responsibilities

The bankers have an important part in dealing with the problems I have discussed. Their actions and attitudes will have a direct effect in finding the correct answers.

On the inflationary front, the banks have a potent instrument in the creation of loans. Bank deposits have increased from the prewar level almost proportionately to the increase in national income. Further increases through loans made for speculative purposes create no productivity and merely add to the volume of deposits. Consumer loans promptly flow into the spending stream. While the volume of consumer loans in proportion to national income is well within bounds, the rapid increase of such loans adds inflationary pressure to the spending stream. With the termination of controls on consumer credits on Nov. 1, the bankers must accept the serious responsibility for the policies they pursue. The bankers have a definite obligation in exercising their powers to create deposits, to examine carefully the effect of all loans on our current national economy.

Under our monetary system, banks are able to create reserves through the sale of government securities to Federal Reserve banks. Through the use of such reserves, private credits may be multiplied seven-fold. This power of multiplication of credit imposes a serious responsibility upon the banks in terms of the uses for which such credits are made.

A third responsibility of bankers is in the interest of preserving our private enterprise system. We must not confine our efforts in this direction merely to lip service. We should recognize that the kind of private enterprise system that will survive is one in which there is a free play of competition that will restrain both prices and profits. In a period of shortage of goods, heavy demand, and a plentiful supply of dollars, competitive factors have not had free play. In some cases the facilities to produce actually become a temporary monopoly. The result has been higher prices and higher profits than would be possible under free competition and a full supply of goods. The banks themselves have been largely free from excessive prices and the hire of the dollar remains the lowest wage in our economy, but the bankers can have an important influence in restraining those who place their own immediate profit above the national good.

On many occasions I have pointed out trends toward state socialism in this country and have warned bankers that if the nation should be propelled in that direction, we might find the banking system among the first targets. I have now come to the conclusion that this will not, of necessity, be the case. So long as our dual system of chartered banks remains strong and continues to perform the high degree of public service that commands the confidence and respect of the American people, so long as bankers place national welfare above private profit; so long as our banking system consists of thousands of units scattered across the land and not allowed to become concentrated in a few large branch banking systems or holding company systems, so long as the bankers themselves fulfill the responsibilities of leadership that their positions of trust require of them, so long can banking in this country escape the designs of any who would socialize our American economy.

The crowning responsibility of the bankers, as of everyone else, is to participate in government. This democratic government of which I speak is not merely made up of a legislative, judicial, and administrative system. It consists of free men and women of whom every individual is a part of government and responsible for the success of that government or for its failure. As an administrator working in Washington, I have tried to discover what our government really is. I look across the street from my office to the White House and ask myself if the President is really government. The answer unmistakably is that he is not, but that he is merely one of 140 million people who, through the processes of government, has been handed certain responsibilities and duties. So is a member of Congress and a judge on the bench; so are you and every other citizen of this nation. Of course, all have different assignments and different duties to perform, but every one of us, under the democratic concept of the rights of the individual, also has our own individual responsibilities and is equally a part of this thing we call democratic government.

In the face of all of the difficulties of this complex society in which we find ourselves and of the desperation and conflicts in which much of the world finds itself, I reaffirm my faith in the principles on which this nation was built and on the vigor and courage and capacity and vision of the men and women of America and on their zeal and devotion to the cause of freedom, not only for ourselves but to the uttermost parts of the earth.

Homer Vilas Named for Pres. of Exch. Firms

PITTSBURH, PA.—Homer A. Vilas, partner of Cyrus J. Lawrence & Sons, New York, has been nominated for the presidency of the Association of Stock Exchange Firms, it was announced Oct. 6 when Governors of the Association at the first session of their Fall meeting being held here this week received the report of the Board's Committee to nominate officers for the year 1948. Mr. Vilas will succeed James F. Burns, Jr., partner of Harris, Upham & Co., New York, on Nov. 17 next following the Annual Meeting.

Homer A. Vilas

John Witter, partner of Dean Witter & Co., San Francisco, was nominated to serve as First Vice-President; George R. Kantzler, partner E. F. Hutton & Co., New York, as Second Vice-President, and Walter W. Stokes, Jr., partner Stokes, Hoyt & Co., New York as Treasurer. These nominations are tantamount to election inasmuch as the Board of Governors of the Association selects the officers to serve one year and the terms of only 1/3 of the 33 members of the Board expire at the time of the Annual Meeting in November.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market after showing signs of strength seems to have pulled in its horns somewhat, as traders and investors assume a waiting attitude because of the conflicting feelings that appear to be coming in the picture. . . . Certain followers of the money markets seem to be quite bullish on the bank-eligibles, while others believe the powers that be will resume their old role of market regulators, with the closing of the books on the new offering. . . .

Generally the authorities are not too active in the open market when they are retailing an issue, which some feel is the reason for the recent strength in Treasury securities. . . . It is also being pointed out that meetings of the various committees and groups might bring new developments into the situation which could have an influence upon prices of government securities. . . .

For the present, more attention is being given to corporate bonds, and the upward trend in yields, because a few investors have been taking on the better-grade non-Treasury obligations in place of short-term low yielding government securities. . . . Uncertinty caused in some degree by the foreign situation, the downward movement in corporates coupled with "open mouth operations" has created a feeling of caution among the quick turn operations in Treasury issues. . . .

On the other hand, it is indicated in some quarters that subscriptions to the non-marketable bond may not be as large as had been estimated, and this, along with the fact that outstanding issues are generally more attractive than the new issue will give a fillip to the market, especially the top bonds. . . . Although the powers that be could sell marketable issues in order to keep prices in tow, there does not seem to be the same fear of this liquidation as in the past, because it is believed that the bottom of the barrel is not too far away. . . .

SCARCITY FACTOR

Bank-eligible issues appear to have plenty of friends despite the feeling that they are not likely to go against the market trend. . . . Periods of price weakness will therefore be utilized to build up positions in these securities, particularly by investors. . . . The scarcity factor, together with the refunding policy of the authorities, is the answer to the demand for bank bonds. . . . Corporate bonds, despite the higher yields that are appearing are not likely to influence the eligible obligations very much, because of the longer maturities of the non-government issues, and the limited marketability. . . . Likewise the protected position of Treasury securities together with the increase in risk assets in bank portfolios, makes it imperative that a substantial amount of funds be kept in the highest quality obligations, which are United States Government bonds. . . .

CORPORATE DIFFERENTIAL NARROW

The downward movement in corporate bond prices, which has been very pronounced recently, especially in new issues, will undoubtedly make for greater confusion in the non-Treasury market, because of the adjustments that must be made between the various ratings to bring these issues in line with each other. . . . AAA's cannot long sell at yields that are just a few basis points under those for AA's, because this difference in risk must be compensated for. . . . The widening of yield differentials between corporate bonds will tend to keep that market on the defensive until returns have been reached which will reflect the investment grading of these obligations. . . .

While uncertain conditions in the corporate bond market will naturally have some influence upon government security prices, it is quite likely to be psychological until yields have been reached that will allow the non-government obligations to compete more directly with Treasuries from the standpoint of real investment merit. . . . It is held in well-informed money market circles that a AAA corporate yield of 3.00% will have to be reached before there will be serious competition with Treasury obligations. . . .

DRIVER'S SEAT

Although banks must go along in order to protect earnings, the uptrend in loans has been very helpful to many of the deposit institutions, some of which have shown a greater interest recently in selected near-term securities. . . . During periods of uncertainty, such as now, this is a natural development. . . . While there is still need for higher income obligations, there is not the same desire to reach up and pay fancy prices as there was a short time ago. . . . The feeling that government security prices will tend to move within trading ranges is responsible in some measure for the belief that it should be worth-while to wait and try to buy securities near the lower limits of the trading area. . . . Volume, which has been light, is expected to pick up, as investors make more adjustments in holdings.

Ginsburg Quits SEC

Arnold R. Ginsburg, principal attorney in the solicitor's office of the Securities and Exchange Commission, has resigned and will practice law in association with Thomas C. Egan, Chairman of the Philadelphia Gas Commission. Mr. Ginsburg joined the legal staff of the SEC in 1941.

Ray Clark Dead

Ray Clark, partner in Rich & Clark, New York City, died at the age of 64. Mr. Clark had been a member of the New York Stock Exchange from 1922 to 1942.

Young in Seattle

SEATTLE, WASH.—Jessie E. Young will engage in a securities business from offices at 9005 Carkeek Drive.

Mutual Funds

By HENRY HUNT

"The Survival of the Biggest"

Of the 521 investment companies of all types registered under the Investment Company Act with the SEC in 1940 (or later), 156 have already "withdrawn" from registration either voluntarily or "by order." Presumably the vast majority of this latter group has assets of less than $1,000,000 each and obviously none of the open-end mutual funds in this category enjoys active sponsorship any longer, since annual registration with the SEC is a prerequisite to offering mutual fund shares for sale.

Of the 122 mutual funds now in registration a recent study of the writer indicates that only 35 have assets of $10,000,000 or more. As was pointed out in this column last week, a mutual fund or group of funds under one sponsor with combined assets of less than $10,000,000 appears to be an economic step-child that may be forced to shift for itself before attaining maturity.

While every mutual fund had to start from scratch at one time or another, in view of the increasing competition in the business and the growing number of fiascoes among would-be sponsor-distributors, this column suggests that mutual fund investors check on the net assets under the control of any sponsor as well as the relative merits of his offerings before deciding to buy.

The basic *raison d'etre* of a mutual fund may be summed up as follows: "Through the pooling of funds of **thousands** of small investors, each can economically obtain the same type of investment management as the man of wealth." However, if the funds of only a few **hundred** small investors are pooled, it is virtually impossible to provide them with the investment management they expected and to which they are entitled. There are few businesses where size is more important to assure permanent and able management. When contemplating the purchase of shares in a small mutual fund, "Caveat emptor" is a good motto to remember.

"Affiliated" Borrows Another Million

Lord, Abbott's Affiliated Fund took down another $1,000,000 under its loan agreement, bringing total bank loans up to $8,000,000. The money is being borrowed at 2% per annum and is being invested in common stocks. Gross assets of **Affiliated Fund** including the $8,000,000 bank loan now approximates $35,250,000. On Oct. 31, 1946, Affiliated had gross assets of approximately $25,000,000 and net assets of $20,000,000. The ratio of its bank loan to gross assets now amounts to 22½% as compared with 20% 11 months ago. Under the Investment Company Act the company is permitted to borrow up to 33⅓% of gross assets.

"The Merchant's Warning"

Under the above caption, "The Prudent Investor" issued by the **George Putnam Fund of Boston,** relates an old tale that has timely implications. "A merchant, so a tale of many years ago runs, while on a precarious journey to a distant city, was joined one night at his campfire by two travelers. Introducing themselves as Hard Times and Fear, they explained that they too, were journeying to a distant city—'It is our destiny to ruin 20,000 merchants,' explained Hard Times. The merchant traveler was horrified. Addressing Hard Times he queried, 'Do you not feel guilt rest heavily upon you at this evil thing?' Hard Times smiled. 'I? . . . no,' he answered. 'I shall ruin but a very few who are deserving of it. My companion Fear will ruin the others.'"

154 Years Later

"These Things Seemed Important" published by **Selected Investments Company of Chicago,** comments on how history is repeating itself with respect to the current price fixing of farm products in Germany as follows: "Farmers are compelled by laws, carrying jail sentences, to deliver certain portions of their production to a market, where the prices are also fixed. The prices, in marks of sorely depreciated purchasing value, do not compensate the growers. The growers withhold for their own tables more than the bureaucrats allow. And they hold out produce so they can barter on the black market for necessities." Prof. A. D. White, Cornell, in 1896, commenting on conditions in France in the "assignat" inflation of 1793: "The first result of the 'Maximum' (a price control law) was that every means was taken to evade the fixed price imposed, and the farmers brought in as little produce as they possibly could. This increased the scarcity, and the people of the large cities were put on an allowance."

Notes:

Distributors Group believes that the investor should cash in on the current prosperity of the farmers through the purchase of its "Agricultural Shares" on which a new folder has been prepared.

"National Notes" No. 428 issued by **National Securities & Research Corporation,** describes the seven year record of National Income Series. Using average offering prices and payments from investment income alone this issue shows an average return of 6.1%. Oddly enough the current return is also 6.1%.

Through the grape-vine we understand that one of the largest Boston mutual fund sponsors, as well as a leading New York sponsor, have turned very bullish on stock prices in recent weeks.

Hugh W. Long's Manhattan Bond Fund recently declared its 37th dividend amounting to 14c a share, of which nine cents was derived from investment income and five cents from realized security profits.

American Interest in European Reconstruction

(Continued from page 19)

world stability and security over a long period of time. In the long run direct private investments will make the maximum contribution to European recovery and reconstruction with minimum expenditure, accompanied as they are by the managerial skill and "know-how" of American business.

Cost of American Aid

The report by the Paris Committee on European Economic Cooperation estimates that the trading deficit of the Western European nations and their dependent territories with the Western Hemisphere will total $22.4 billion for the four-year period from 1948 through 1951. About $16 billion of the trading deficit is with the United States and about $6 billion with the rest of the American continent. The estimated deficit declines each year, amounting in 1948 to about 36%, and in 1951 to about 15% of the total.

Estimates of the trading deficits are predicated upon the fullest use of the existing manpower, raw material resources and productive capacity of the Western European nations; upon continued restrictions on the consumption of food, clothing and fuel; upon an expanding volume of world trade and upon the willingness of the United States to reduce tariff rates and to receive in increasing amounts the products of European industry. These estimates, too, are predicated upon the "creation of internal financial stability" throughout Western Europe and upon substantial increases in the production of foodstuffs, coal electric power and steel. In addition the development of oil-refining capacity and inland waterways, and the restoration of prewar merchant fleets are envisaged as integral parts of the program.[5]

A series of projects are planned to exploit new sources of electric power, to encourage the standardization of mining and electrical supplies and to promote the pooling of freight cars and other types of transportation facilities.

Of the trading deficit with the Western Hemisphere of $22.4 billion, the Paris Committee expects that $3.1 billion will be financed by the International Bank for Reconstruction and Development and hopes that $2.8 billion will be financed by a surplus in trade with non-participating nations other than those on the American continent. If both the expectation and and the hope materialize, a balance of $16.5 billion dollars remains to be financed directly by the Governments of the United States, Canada and the Latin American Republics.

The estimated size of the trading deficit of the Western European nations with the Western Hemisphere is in large part attributable to the lack of supplies formerly available from Eastern Europe, southeast Asia, and other non-European sources. In consequence, these nations need to draw heavily upon the food, fuel and raw materials resources of this Hemisphere.

The report prepared by the Paris Committee, acting upon the instigation of Secretary Marshall, is now submitted to the American people for their careful consideration and eventual decision. The decision to be taken is most critical for not only will it determine the degree of leadership to be exercised by the United States in world affairs but it will also determine whether the economies of Western Europe are to recover and to make their full contribution to the welfare of the world.

In my own thinking I have assumed that the maximum amount of dollar aid required over the next four years would total about $16 billion, a figure which corresponds to the estimate in the Paris report of the trading deficit of Western Europe with this country. This sum would include the dollar loans extended by the International Bank for Reconstruction and Development as well as di-

5 The production programs, taken as a whole, represent an expansion of output similar in general scale to that achieved by the United States in the mobilization years, 1940 to 1944.

rect appropriations by the American Congress. It would cover not only immediate relief needs but also recovery and reconstruction requirements.

It would seem improbable that the total dollar assistance (at existing price levels) would exceed $16 billion. It could be smaller, and would be smaller to the extent that recovery was accelerated in Western Europe. Economic recovery will be accelerated if the economies are closely integrated, if populations are willing to work assiduously at the task of reconstruction and if monetary and credit and fiscal systems are put on a sound basis. The cost of American aid can be held to a minimum if the credits granted do not take the form of tied loans (i.e., if the borrowers are not required to spend the sums borrowed in the United States) and if the products shipped from this country do not have to be carried in American bottoms.

Impact on the American Economy

The precise effect on our own economy of the granting of additional aid and assistance to Western Europe, coming to a possible maximum total of $16 billion over the next four years, is now being studied by committees appointed by the President and will depend upon a variety of accompanying circumstances. The effect will depend upon the level of business activity in the United States, whether the economy is operating at full or less than full capacity. The effect will also depend upon the source of the funds used to assist Europe; whether, for example, they come within the scope of a balanced federal budget. In my judgment, the funds appropriated to assist Europe must be provided within the scope of a balanced budget even though this might postpone for a considerable period of time the over-all reduction of existing taxes.

If European demand is for goods in scarce supply, priorities between domestic and foreign needs may have to be established. If the credits are not granted in the form of tied loans, and if the funds are left free to be spent in the cheapest markets wherever they may be, the effect on our domestic price level for scarce commodities will be diminished. If the should develop that European needs impinge heavily on our food stocks, we may have to introduce voluntary forms of food conservation in order to release a larger quantity for export. These effects on our economy will not be popular. But the question of granting additional assistance to Western Europe should not be decided solely upon the basis of its temporary effect on the American economy. General considerations of a political, strategic, economic and humanitarian character are of preeminent importance.

Possible Success of Marshall Program

The question is frequently asked whether additional assistance to Western Europe will, in reality, promote further recovery there. No one can guarantee the future of human affairs. But all experience teaches us that we lose less in the long run when we boldly attack such problems with competent organization and the intention to succeed. It is inconceivable to me that we cannot manage to help the ablest people in Europe to get on their feet in reasonably short order if we are determined to do so. If our Government is committed to succeed in this enterprise it can succeed at the minimum cost, for its confidence will justify American private enterprise in adding its capacities to the task and give new life to the money and capacities in Europe that are now in hiding from the risks of inflation and economic uncertainty. The creation of confidence is the basis of production, of trade, well-being and political stability. We alone have the reserves to create that confidence.

Need for Constant Supervision

The prospect for a constructive and successful use of the assistance granted will be greatly enhanced if the proposed United States Corporation for European Reconstruction gives constant attention to the use of the monies advanced. Constant attention is necessary to make certain that the funds will be used in a way most conducive to recovery. In the immediate future a considerable amount must unavoidably be spent on foodstuffs. It is essential, however, that the amount spent on agricultural as well as industrial rehabilitation increase rapidly in order that Western Europe may become self-supporting.

The Problem of Inflation

The corporation should endeavor as one of its primary objects to discourage inflationary trends in Western Europe. Otherwise the financial assistance extended by the United States will be dissipated in a futile effort to offset the inflationary effects of budgetary deficits.

Inflationary pressures are very severe in France and Italy and are not absent in England. In France and Italy they result from huge budgetary deficits, and in England from the quest for cheap money (wholly unrealistic in view of England's enormous capital needs) and from the payment of large subsidies for food and clothing. Such pressures must be brought to an end if complete recovery is to be attained in Western Europe.

Inflation promotes speculation as opposed to production, discourages savings, gives rise to the hoarding of foodstuffs and raw materials, causes manufacturers to withhold goods from the market, deters agricultural production, induces the farmer to feed his grain to livestock instead of sending it to the markets, disrupts trade channels and diverts activities to the black markets. Inflation, in the presence of fixed exchange rates, causes a progressive overvaluation of currencies and distorts the balance of payments—attracting imports, retarding exports, checking the inflow of foreign investment funds and leading, in accordance with Gresham's law, to a flight of capital and the hoarding of gold and foreign exchange. In fact, the so-called balance-of-payments problem, which is but another name for the current dollar shortage, is in part the result of distortions arising from internal inflation.

Experience has demonstrated, notably in the case of Belgium, that when inflation is checked, hoarded foreign currency and gold reappear, commodities come out of storage and internal savings build up. An immediate need, therefore, is to work out by cooperative effort a comprehensive plan for monetary reform, including the convertibility of currencies. Budgets should be balanced, central banks should cease issuing credit upon the basis of the public debt, internal investment programs should be limited to voluntary savings, interest rate policies should be made flexible, subsidies should be eliminated, and realistic rates of exchange in line with cost and price structures should be established.

The initial step in the checking of inflation demands not only that governmental budgets be balanced but that a surplus be realized equal in largest possible measure to the assistance received from the United States and other creditor nations. The surplus would be employed in internal debt reduction and, in being used in this fashion, would exert a constant downward pressure on the price level, thereby stimulating exports and retarding imports. The adoption of necessary fiscal policies should be accompanied by a devaluation of currencies to realistic levels. Currency stability will then be attained, for in the last analysis currency stability rests upon the adoption of appropriate internal measures. If appropriate internal measures are taken, the currency stabilization fund of 3 billion dollars proposed by the Paris Committee will not be required. If appropriate internal measures are not taken, this fund will become dissipated.

Trade Restrictions

There will be little opportunity for economic recovery in Western Europe unless trade restrictions are removed. No single step could contribute so much to recovery as the elimination of all trade restrictions and import duties. If a great free trade area were to be established, the nations of Western Europe would be enabled to effect the best utilization of their natural resources and to achieve an optimum division of labor. The customs union established by Belgium, The Netherlands and Luxembourg, points the way for all nations which subscribe to the principles of freer trade and, indeed, of private competitive enterprise.

In recognition of the importance of this problem, the Paris Committee in its report announced that a customs union study group was being set up which would present its first report within three months of the time it was convened. The French and Italian Governments have announced that they stand ready to commence negotiations with all European governments who wish to enter a customs union and whose national economies are capable of being combined in such a way as to make a viable unit. Meanwhile, measures are to be taken by the nations represented at the Paris

(Continued on page 40)

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

It is interesting and helpful to make comparative studies, from time to time, of the market action of stocks over both long-term and short-term periods. The following tabulations are therefore presented this week, to show the relative percent market gains or losses of a list of 21 well-known fire insurance stocks over various periods, as noted.

TABLE I

ANNUAL MARKET APPRECIATION OR DEPRECIATION

	1942	1943	1944	1945	1946	*1947
Aetna Insurance	—10.8%	+ 6.3%	— 5.9%	+13.6%	— 3.4%	—18.1%
Agricultural Insurance	—10.3	+ 6.5	+ 2.7	+17.8	—18.4	— 6.8
Boston Insurance	—14.8	+ 4.3	+12.1	+25.8	—17.7	— 4.6
Continental Insurance	No Change	+10.7	No Change	+21.5	— 9.1	— 3.2
Fidelity-Phenix	+ 8.6	+13.0	+ 0.5	+26.4	—11.8	— 6.2
Fire Association	—13.2	+18.0	+ 6.3	+21.9	—20.3	—10.9
Franklin Fire	+ 8.5	+ 2.2	—16.2	+ 7.1	—21.4	+ 1.8
Great American	+ 7.2	+ 0.9	+ 7.1	+18.8	—20.4	+ 2.6
Hanover Fire	+ 4.8	+ 7.6	+ 1.9	+19.4	—20.2	No Change
Hartford Fire	+ 2.5	+ 7.2	+ 5.5	+16.4	—13.3	— 6.1
Home Insurance	+ 7.8	+ 9.4	—12.8	+13.4	—22.0	+ 3.0
Ins. Co. of No. America	— 7.3	+13.2	+10.5	+21.9	+ 3.9	—11.0
National Fire	— 7.8	+ 4.0	No Change	+ 6.0	—14.5	—10.4
New Hampshire	— 1.2	+10.0	— 1.1	+13.5	— 1.9	— 5.8
North River	+ 0.5	+ 0.5	— 3.2	+11.5	—11.8	+ 8.9
Phoenix Insurance	— 2.5	+ 2.0	+ 1.4	+ 9.0	— 8.2	—12.4
Providence-Washington	+ 1.1	+ 9.8	— 4.8	+18.4	—11.0	— 5.5
St. Paul Fire & Marine*	— 1.8	+11.2	+22.9	+ 7.8	—15.2	+ 3.0
Security Insurance	— 7.2	— 2.3	— 4.1	+ 6.1	—17.6	—13.1
Springfield Fire & Mar.	+ 6.0	+ 6.0	— 4.5	+ 1.6	—16.8	+ 2.8
U. S. Fire	+ 5.9	+ 0.5	+ 3.5	+17.1	—16.7	+ 4.0
AVERAGE OF 21	— 1.1%	+ 6.7%	+ 1.0%	+15.0%	—13.7%	— 4.2%

*To September 30, 1947.

At first glance the table appears confusing and meaningless. Closer study, however, brings to light a number of significant points, despite the array of widely irregular and even diverging market moves.

For instance, during 1942 the average move of the 21 stocks, from year-end to year-end, was —1.1%; however, ten of the stocks actually appreciated in market price. In 1943, the average move was +6.7%, all stocks moving up except Security of New Haven which declined —2.3%. The year 1944 was a mixed year, 11 stocks moving up, two experiencing no change and eight declining, while the average experience was +1.0%. During 1945 all stocks appreciated with an average gain of 15%; but in 1946 all stocks declined, except Insurance of North America which appreciated 3.9%, while the average decline was —13.7%. Thus far in 1947 the 21 stocks, as a group, show an average decline of —4.2%; but the following seven individual stocks register moderate gains, viz: Franklin, Great American, Home, North River, St. Paul, Springfield and U. S. Fire.

Further study reveals other interesting facts. For example, Aetna Insurance has performed below average in each year except 1946 while National Fire and Security Insurance have each consistently performed below average.

On the other hand, Continental has done better than average in each year except 1944 and Fidelity-Phenix in each year except 1944 and thus far in 1947. Hanover has also done above average except in 1946, and Hartford except thus far in 1947.

These year by year comparisons however, like all short-term comparisons, are not conclusive *per se*. They must be related to longer term market performance. For this reason Table II is presented which shows the market performance of each of the 21 stocks from the lows of April, 1942 to Sept. 30, 1947, a period of approximately 5½ years.

TABLE II

	Asked Prices 1942 Low	Asked Prices Sept. 30, 1947	% Change from 1942 Low
Aetna Insurance	46⅛	46¼	+ 0.3%
Agricultural Insurance	53½	68	+27.1
*Boston Insurance	48⅞	62	+26.9
Continental Insurance	31	49¾	+60.5
Fidelity-Phenix	30	52½	+75.0
†Fire Association	43	49	+14.0
Franklin Fire	21⅞	21	— 4.0
Great American	22⅝	29⅛	+28.7
Hanover Fire	19⅜	25¾	+29.6
Hartford Fire	76¼	99¾	+30.8
Home Insurance	23⅞	25½	+ 6.8
Insurance Co. of North America	56¾	89	+56.8
National Fire	47⅜	47½	+ 0.3
New Hampshire	39⅜	48½	+23.2
North River	18¾	24½	+30.7
Phoenix Insurance	74¼	78	+ 5.1
Providence-Washington	28⅞	34½	+19.5
‡St. Paul Fire & Marine	44⅛	69	+56.4
Security Insurance	33½	26½	—20.9
Springfield Fire & Marine	101¾	109½	+ 7.6
U. S. Fire	37⅜	52	+39.1
AVERAGE OF 21			+24.5%

*Adjusted 10 for 1 split 1945. †Adjusted, 20% stock dividend, April 1945. ‡Adjusted, 5 for 1 stock split 1944.

This table discloses some rather surprising facts. For example, Franklin Fire, which has appreciated 1.8% this year *vs.* an average decline of —4.2%, is currently selling at 4% less than its 1942 low. Home, which is up 3.0% this year, is only 6.8% above its 1942 low; while Security of New Haven, declining 13.1% thus far in 1947 is 20.9% below its 1942 low. On the other hand, such stocks as Continental, Fidelity-Phenix, Hartford Fire, Insurance of North America, which show price declines in 1947 are 60.5%, 75.0%, 30.8% and 56.8%, respectively above their 1942 lows, compared with an average of +24.5%. It is also rather surprising to find such a sound and conservative stock as Phoenix only 5.1% above its low of 1942. Aetna Insurance is approximately at its 1942 low, it having declined —18.1% since Dec. 31, 1943, the maximum decline on the list, presumably the result of additional financing this year and consequent dilution.

Eleven stocks have recovered from their 1942 loss more than the 24.5% average, eight stocks less than this average, while two stocks are currently priced below 1942.

In New Quarters

PHILADELPHIA, PA.—Georgeson & Co. announces that its Philadelphia office will be located in the Harrison Building on and after Monday, October 6. The firm's telephone number will be Rittenhouse 6-0546.

J. C. Louis to Admit

Lee J. Spiegelberg will become a partner in J. C. Louis & Co., Savoy Plaza Hotel, members of the New York Stock Exchange, effective Oct. 16.

Bklyn. Chapter (NACA) Announces 1947-1948 Meeting Program

Brooklyn Chapter, National Association of Cost Accountants has announced the program of its meetings for the coming year.

On Oct. 8, Mr. Earl Bunting of O'Sullivan Rubber Corporation and President of the National Association of Manufacturers will address a joint meeting of Brooklyn Chapter, N.A.C.A. and the Brooklyn Chamber of Commerce on the subject of "Management, Labor and Costs." A large turnout is expected for this meeting which will be held on the roof of the Hotel St. George.

On Oct 29, at a special meeting which will be held at Michel's Restaurant, Brooklyn, Mr. Henry C. Perry, Treasurer of Heywood-Wakefield Co. will address the chapter on "Effective Controls for Distribution Costs."

Subsequent meeting dates and speakers are as follows:

Nov. 19, 1947: Mr. B. F. Lickey, Management Consultant of the Brooklyn Chamber of Commerce.

Dec. 10, 1947: Mr. Paul D. Seghers of Paul D. Seghers & Co.

Jan. 21, 1948: Mr. J. S. Seidman of Seidman & Seidman.

Feb. 18, 1948: Mr. Wilber R. Wright, Stevenson, Jordan & Harrison.

March 24, 1948: Mr. William W. Werntz, of Allen R. Smart & Co., who was formerly chief accountant of the Securities and Exchange Commission.

April 14, 1948: Mr. Howard C. Greer, Vice-President and General Manager of Kingan & Co.

May 26: Mr. Mason Smith, a partner of A. T. Kearney & Co. and National President of the National Association of Cost Accountants.

These meetings will be held at Michel's Restaurant, Brooklyn, New York.

The May 26, 1948 meeting is the annual meeting of Brooklyn Chapter, N.A.C.A. at which the election of officers for the ensuing year will be held and presentation of awards for the year then ending will be made.

On May 5, 1948, Brooklyn Chapter will hold a special meeting which will take the form of a visitation to the New York "Daily News." A talk on "Newspaper Accounting" will be given by a member of the "News" staff after a tour through the plant.

American Interest in European Reconstruction

(Continued from page 39)

conference to secure a progressive relaxation of import restrictions, to improve payment arrangements between the various countries and to transfer surplus labor.

Economic Controls

It is to be hoped also that Western European nations will bring about the earliest possible termination of governmental economic controls. Economic controls, if continued, prevent the best use of a nation's resources, distort production and, along with the threat of possible further nationalization, dampen incentive. The controlled price system of France is riddled with inconsistencies, leading to a misdirection of economic effort. Wage controls in England have tended to divert workers from the more essential to the less essential industries. If full scope is given to dynamic economic forces and if risk capital is to be promoted, rigid restrictions must be abandoned as quickly as possible and full play given to the competitive forces of the market place.

German Recovery Essential

It is essential, as part of the Marshall program, that the three Western zones of Germany be put into production in accordance with the revised plan for the level of industry. The most recent estimates place production in the American zone at only 49% of the 1937 level and in the British zone at about 34%. The economy of Germany is of such vital importance that, unless production rises above these stagnation levels, the economic life of Western Europe will be permanently undermined.

The prerequisites of German recovery are fairly obvious. They include the economic unification of the three Western zones and the establishment of central Germany Governmental Agencies for those zones, competent business administration of German industry, the termination of reparation deliveries, the establishment of sound monetary, credit and fiscal systems, and the establishment of direct contact between German business men and foreign purchasers of the products of German industry.

Recovery in the Western Zones will be promoted if the food and consumers' goods which we send to Germany are distributed so as to stimulate production, especially of coal. German coal is a basic need not only of the economy of Germany but also of that of Western Europe as a whole, and its increased production will serve as a powerful dynamic factor.

Conclusion

The great merit of Secretary Marshall's proposals lay in the fact that the needs of Western Europe were envisaged as a whole. A basis was laid for the integration of those needs and for cooperative effort on the part of European nations in overcoming their economic difficulties. Acting upon suggestions of Secretary Marshall, the nations of Western Europe met together and now have submitted their report. This act required courage and faith—courage in opposing the policy of Russia and faith in the willingness of the United States to extend additional aid.

To supervise the extension of this additional assistance, I have suggested that a new instrumentality be established, the United States Corporation for European Reconstruction. Such a Corporation will have great responsibilities. It would have to make certain that assistance by the United States was productively used and used to promote key industries. It would have to exert its influence to persuade Western European nations to check inflationary pressures. It would have to encourage the removal of trade restrictions and economic controls. Administered in this manner, the Corporation would implement Secretary Marshall's proposals and would insure that the assistance granted was matched by increased production.

I suggest such a corporation as a means of carrying out Secretary Marshall's program for I believe such an organization of non-partisan experts would mix brains with the money we advance, insure the effective use of our resources, and immediately establish that reliance upon our determination which would unite in the task of rehabilitation the confidence, credit and energy in Europe which are now lacking. Nothing will help Western Europe help itself so much as for us to organize in a businesslike manner with the same assurance to win the peace as we organized to win the war. And we have within our grasp the final victory—the establishment of conditions of freedom in Western Europe that would insure the greatest welfare of people there and our own security here. Those things for which we fought we still can have.

This is our opportunity to restore to the world enough strength to maintain peace, the human liberty that makes life worth while, and the incentives to production and the increasing welfare of humanity. With Western Europe so restored we can be safe to continue our guarantees of life, liberty and the pursuit of happiness in our own way and sell to our neighbors, buy from our neighbors and visit our neighbors in peace and quiet — and to our mutual advantage. There are no ideologies that can greatly disturb a world so constituted.

It is not in the character of the American people to do nothing for the liberty and welfare of Europe. If what we do is too little and too late our hearts and purse-strings will be continually pulled for piecemeal and futile amelioration. But it is more in our nature to take the bold and effective course of providing well-managed and adequate assistance to make good the conditions in the world for which we spent men and treasure in the war.

If the American people understand the facts I am certain that they will dedicate their efforts to the task and assure its success.

Earning Power Of Banks

(Continued from page 31)

compatible with economic freedom.

It is not likely that either of these two agencies, the Treasury or the Federal Reserve Board, would voluntarily relinguish any material fraction of their present power over money. Governments have learned—and this certainly applies most emphatically to our own government — that they can avoid the pressure of scarcity as a factor in the money market. The issue of currency is a sovereign prerogative. The gold standard and statutory provisions have always placed a limit upon the power of issue. With the emasculation of the gold standard and the changes in central bank reserve requirements which any government can make, no absolute limit operates to prevent whatever issue of currency and credit the government may consider desirable.

Conditions of Natural Money Market

To the bankers who hope and believe that a free money market is returning and that rates will rise, we must say that a natural money market cannot exist without the reestablishment of at least three essential conditions: first, the cancellation of the present power of Federal Reserve Banks to acquire government securities; second, a severe limitation upon their use as collateral for Federal Reserve Bank loans; third, the restoration of the gold standard. An obvious corollary of these conditions is that the Treasury abandon its present power over the money market and that the Federal Reserve authorities renounce their ambition to control the American economy through a manipulation of credit factors. It is only by or through the realization of these conditions that a free money market, responding to supply and demand, can again emerge.

If we accept the foregoing, what does it mean in terms of bank earning power? It means that so far as the money rate is a factor in that earning power, the possibilities for increase are severely limited. It is a mistake to anticipate any change in this rate which might restore it to the levels of the twenties or even the levels prevailing a decade ago. If any upward change occurs, it is bound to be of modest proportions. Portfolio policy should be developed accordingly. The income that is forfeited today by bank portfolios on short term securities should be measured as a premium against the kind of increase in rate which is probable during the next five years. It may well be that when this premium is measured against such a possible change it may be found in many instances to be excessive.

In other words, portfolio policy in many instances is predicated upon a change in rates of a magnitude which is not likely to be realized. A bulging portfolio of short term securities does not constitute the valuable hedge against great changes in the money market which was once the case. Portfolio management may be betting on a probability; i.e., a substantial change in rates, which is not likely to occur. Within the range of rate change which now seems possible and probable, the forfeit of income entailed by some portfolios may prove an excessive premium for the protection they afford.

With Barrow, Leary & Co.

(Special to THE FINANCIAL CHRONICLE)

SHREVEPORT, LA.—William A. McKenzie, Jr., is with Barrow, Leary & Co., 515 Market Street.

Abandon Savings Bond Issues!

(Continued from first page)

government spending or through investment in public works. A companion doctrine that gained acceptance in this fateful decade was that the depression could not be lifted unless interest rates were reduced to and maintained at unprecedented levels. In short by a prolific and intense propaganda our people were persuaded that high taxes, big public debt, government intervention, riotous spending, and "easy money" were virtuous and indispensable.

In implementing this program the Treasury utilized, among other techniques, the Savings Bond and Stamp. When the World War started in Europe, our preparations were in part financed by the "Defense Savings Bond" and "Savings Stamp"; and later these were diversified and made a basic part of war finance, the "War Savings Bond" and "Saving Stamp." Patriotic zeal was whipped up so that employers readily set up "payroll savings" or "wage deduction" plans and subjected their employees to considerable pressure to save in this way. The government employed every known type of propaganda in persuading the people to buy these Bonds and Stamps. The net purchases above encashments, from their inception in 1935 to the end of June 1945, amounted to $45,586 millions.

Having made such a great success with this device the Treasury quite naturally decided to retain it in the postwar finance. The name was changed to "United States Savings Bonds" and the "Stamps" were dropped as too cumbersome and expensive. The propaganda for their sale took on a new order of magnitude, the banks and savings institutions of the country were importuned to sell and encash them; and in addition to the "wage deduction" plans, the banks inaugurated, among other helpful things, the scheme of having their depositors buy a "bond a month" by charging their accounts. They have also cluttered their advertisements and radio script with admonitions to "buy bonds."

The result is that for all series sold the total sales above redemptions of U. S. Savings bonds—the total amount outstanding — rose $5,531 millions from July 1, 1945, to April 30, 1947, (the latest date for which data are available). Had the savings institutions not cooperated it is probable that these $5,531 millions would in very large part have been deposited in these institutions.

According to estimates of gross saving by individuals in the United States from 1940 to 1946 inclusive, of the $251.0 billions saved, $87.7 billions went into currency, bank deposits and savings and loan accounts, while $42.4 billions went into U. S. Savings Bonds. In addition it must be remembered the Government requisitioned from the people a total of $22.5 billions for Government pension and insurance reserves, business that under a private enterprise system would be handled by the insurance companies on a voluntary basis.

A Competitor of Private Savings Institutions

These figures surely serve to force the point that our private savings institutions have a formidable competitor for the savings of our people: but instead of protesting against this competition and the deep inroad into their proper domain, they through ignorance, bad judgment or misguided sentimentalities are doing just about everything they can to foster its progress. They are promoting government intervention into the field of private thrift.

The wages that employees allow their employers to deduct and put into these U. S. Savings Bonds never reach these private savings institutions. They are, rather, hurried along to the Treasury. They are diverted from investment in private enterprise. They do not help finance the operations of individuals, corporations or cooperatives. They never become "risk" capital. They never finance "small" business or large. They do not help to meet the present housing shortage with which the veteran contends, except perhaps a trickle of "public housing."

The Treasury commingles these funds with moneys derived from taxes and other sources and uses them either to cover current expenditures or to pay off maturing obligations. In the latter case, there is no reduction of public debt — merely the substitution of Savings Bonds for other types of securities. In the former case, the government spends the savings in lieu of the saver. This does not prevent inflation. Indeed it helps the government continue the high spending program that it has pursued since 1930. During the war the private savings institutions invested the bulk of their new deposits in war bonds, and similarly reinvested the funds received from borrowers as they amortized their mortgage loans. Whether the customers put their savings directly into War Savings Bonds, or deposited them in these institutions, or made interest and principal payments on their loans, the result from the point of view of the government was the same. The public debt was purchased with the savings of the community, and the government was clothed with purchasing power needed to prosecute the war. The private savings institutions quite properly joined the Treasury in urging thrift as never before, for winning the war transcended all other considerations. Thrift reduced consumption of certain civilian goods and released men and materials for the construction and delivery of war materiel. Voluntary reductions in consumption were supplemented by forced reductions attained by increased taxes, and rationing. Some of the unspendable funds were deposited in banks or put into War Savings Bonds. Thrift also kept down the volume of deficits financed by the creation of deposits at the com-

(Continued on page 42)

Abandon Savings Bond Issues!

(Continued from page 41)

mercial banks—that is, it held inflation in check.

Savings Bond no Longer Justified

With the cessation of the war and the completion of reconversion to peacetime pursuits the government is no longer justified in its effort to corral the people's savings. Instead of trying to reduce current consumption of many products with a view of increasing the war potential, the peacetime program should be to enhance their production and thus supply a greater consumption; to shrink the competitive expenditures of government; to balance the budget and end deficit financing; to reduce the public debt, especially that held by commercial banks; to pare government cash and bank balances to the minimum necessary; to allow savings to flow freely into productive enterprise, through the savings institutions or directly. In short, the whole scene is reversed and government should make a graceful exit. There is an intense demand for savings funds in housing, the improvement of highways, the expansion and rehabilitation of industrial plant, and help abroad — a demand for capital that will shortly exceed the supply. It is no longer necessary or desirable that private industry be sacrificed, that government compete with private savings institutions and ride rough-shod over our traditional American system. When war ends it is time to restore private rights and liberties, peacetime rules, practices and conceptions.

Probably it is illusory to expect the government to reverse its policy and withdraw from the sale of Savings Bonds. The program has been too successful. Indeed many, both inside and outside the government, regard the program as an ideal method of financing. They stress the point that it lodges the securities in the hands of final investors who are likely to keep them, and that by using the Savings Bonds in refunding, the large and dangerous supply of government securities afloat in the market is reduced. The broad dispersion of ownership, particularly by people of small income, is expected to make for political stability and for conservatism, as well as to give the holders a more direct and intense interest in the Federal government.

Better Yield Should Be Given

Assuming, therefore, that the sales of U. S. Savings Bonds will go forward, both equity and expediency require that the government compete in the market on equal terms with the private savings institutions; that it does not dragoon these institutions into selling, redeeming and otherwise servicing these Bonds at a loss, if at all; that the government pay a yield on the Bonds which is equal to or above the market; and that the private institutions feel quite free to call the public's attention to the poor features of the bonds and the better features of their own savings plans.

One strange distinction is currently drawn by the private savings institutions. They have waged a vain and losing fight against the Postal Savings system ever since it was introduced in 1910. They have fought it chiefly on the grounds that it is government intervention into the domain of private industry; that they themselves provide ample savings facilities; that the safety of deposits under the government-sponsored FDIC and FS & IC insurance schemes is as great as the direct obligation of the government in Postal Savings.

The past session of Congress they supported the Buck bill which would reduce the rate of interest presently paid on Postal Savings from 2% to 1%. The 2% rate is higher than the commercial banks and many mutual savings banks are paying; whereas in 1910 the 2% rate was far below the going rate paid by the private thrift institutions. The intent of Congress in establishing the Postal Savings system was not to compete with the existing savings institutions, but rather to have the government accept deposits only from persons who did not want to place their funds in private institutions for whatever reasons, and if they did so, they paid the penalty of a lower rate of interest.

During the past 15 years, however, the market rates of interest have declined while the rate on Postal Savings stood fast, so that now the System has a competitive advantage not only in paying higher rates, but also in not needing to build and maintain reserves and in having the free facilities afforded by the Post Office. The Buck bill was designed to restore the original conception and status of Postal Savings. The total amount of Postal Savings now is about $3.3 billions. The lower rate would probably result somewhat in shifting these funds to private savings institutions; and it would have less tractive force in drawing new savings to the Post Office.

While the private savings institutions have been much alarmed by the $3.3 billions of Postal Savings and by the 2% rate paid thereon, and have vigorously pushed legislation designed to correct the situation, they have behaved in the absolutely opposite manner toward the United States Savings Bond campaign, although these savings amount to nearly 17 times as much. As noted above, the private savings institutions are pushing the sales of these bonds in every possible way.

If one asks the manager of a savings institutions why he pushes the sales of the Savings Bonds, he'll probably say it is the patriotic thing to do. But it is just as patriotic to push Postal Savings! Both are operated by the government. The funds redound to the same Treasury coffers, and result in comparable sales of government securities. Both have the same adverse effect on the private savings institutions. Both represent the socialization of savings.

A Usurpation of Private Enterprise

There is here a perversion of thought. It is indeed a doubtful patriotism to aggrandize the role of government and to promote its usurpation of the functions of private enterprise. During the late War the demands of patriotism may have exacted all that; but in time of peace it has no defensible place. It runs counter to the traditional concept of the American way of life, for which, so the legend goes, we fought that long and terrible War.

In any case there is no sound reason for requiring such special devotion to country from the savings institutions, a devotion which is devouring the very substance on which they feed and without which they cannot live, namely, savings. Why should they sacrifice their function and, at the same time, spend their income in promoting their competitor—what special obligation do they owe the state that they should destroy themselves? They are not in the service of the state. They are not eleemosynary institutions. They are private. Their net earnings belong to their depositors and stockholders as in other private enterprises.

There is no such sense of patriotic obligation elsewhere. The security issues of corporations, municipalities and states are sold in the market place in competition with government issues, and the sellers enjoy an untrammeled privilege of purveying the virtues of their securities and comparing them favorably with any and all government securities. They are not expected simultaneously to push the sales of government securities and thereby destroy the market for their own, and they are not branded as unpatriotic for desisting from such suicidal action.

The private savings institutions, fearing such branding, hesitate to "sell" their accounts and services aggressively and to point out the ways in which they excel the United States Savings Bonds. The Savings Bonds are in fact a poor investment compared with an account at most savings banks or savings and loan associations. The yield on the Savings Bond is below the market, unless perchance they are held many years. Take a $100 Series E Bond. It sells for $75. If held 10 years (to maturity) it will amount to $100, which represents a yield of 2.90%. If, however, the holder needs money and has it redeemed during the first year, he gets no interest whatever. If he has it redeemed at the end of three years, he gets interest at 1.06%. If at the end of five years, 1.79%. Not until near the end of the sixth year does he get as much as 2%.

By contrast, take, for example, an account at the savings banks and savings and loan associations of my home City, New Haven, Conn. These private savings institutions pay interest and dividends ranging from 2 to 3%. The customer gets a yield of this amount on his savings from the date of deposit, payable and withdrawable every six months without penalty.

By careful observation of interest (or dividend) dates the saver in these private savings institutions can avoid loss of interest (or dividend) by premature withdrawals, especially because the institution (or others) will lend against the account. If he makes withdrawals between interest (or dividend) dates, the most that he can lose is the interest (or dividend) on the amount withdrawn for the time till the next interest (or dividend) date at the rate paid by the savings institution.

The case of the holder of a U. S. Savings Bond is distressingly different. There is no such thing as interest (or dividend) date. If he has his bond redeemed at anytime before the end of the tenth year he loses. For instance, if he disposes of the bond sometime in the latter half of the third

Amount of Accumulated Individual Savings Outstanding
(Millions of dollars)

At End of Year	Savings Bonds	Life Insurance	Savings Accounts	Savings & Loan Accounts	Total
1914	-----	3,408	8,792	1,019	13,219
1920	-----	5,488	16,209	1,890	23,587
1929	-----	12,801	28,189	6,782	47,772
1934	-----	15,687	23,156	5,343	44,186
1939	2,209	23,024	27,059	4,680	56,972
1940	3,195	24,663	27,738	4,785	60,381
1941	6,140	26,592	27,729	5,095	65,556
1942	15,050	28,734	28,431	5,250	77,465
1943	27,363	31,365	32,748	5,740	97,216
1944	39,400	34,212	39,790	6,400	119,802
1945	46,800	37,509	48,452	7,600	140,361
1946 (*)	48,300	40,800	53,960	8,600	151,660

(*) Contains some estimates

(Sources: U. S. Treasury Bulletin, Federal Reserve Bulletin, United States Savings & Loan League, Institute of Life Insurance) year he gets interest at the rate of 1.06%; whereas if he refrains from encashing it, he would be earning from that date to the end of the tenth year at the rate of 3.52%. It is, in other words, very expensive to have the bond redeemed so that he can get his money out of his investment.

What is worse, he can not get any part of his money out without taking this heavy penalty. If on occasion, say during the latter half of the third year, he needed only $10, but desperately enough to have the bond redeemed, he would lose at the rate of 3.52% interest a year on his whole cumulated investment. The redemption value at that time is $77.00, and if he reinvests the remaining $67.00 in bonds, he must start all over again, the yield rising from 0% the first year to 2.90% the tenth. He can in fact only reinvest $50, for there are no $67 units.

Advantage of Savings Accounts

In the case of a savings account at a private savings institution he can withdraw any amount, odd or even, large or small, at any time, with equal ease; and similarly he can increase his account by any amount, odd or even, large or small, at any time, with equal ease. The account is good collateral for a loan from any bank, as well as from the debtor institution. The account is far more manageable than the bond. The bond is an awkward possession.

The only dispositions the bondholder can make of his investment are to hold it or to encash it. He can not have it even redeemed during the first 60 days. He can not sell it to anyone at any time. He can not pledge it as collateral at his bank or elsewhere at any time. The maximum holdings by any person of bonds issued any year are $10,000. They are redeemable only at authorized banks, at their discretion, and at the post offices; and satisfactory identification is often very difficult.

If the saving public really understood these differences in the character of these two types of investment, it is highly doubtful that the sales of U. S. Savings Bonds would be maintained at current levels. But the public is kept in ignorance. The private savings institutions, for specious reasons noted above, refrain from publishing these adverse comparisons, and the Treasury wisely does not call the public's attention to them.

The redemptions of the U. S. Savings Bonds run high. Of Series E, for example, the percent of redemptions to sales (plus accrued discount) was 34.69%, as of April 30 last. Out of $45,794 millions sold, $16,330 millions had been redeemed before maturity. These redemptions mean a great saving in interest on a goodly part of the public debt; but this economy is at the expense of the people who are trying to save money. They are an especially good class of people. Instead of penalizing its thrifty citizens the government should premiumize them for this virtue, so fundamental to private enterprise and the capitalistic system of production.

A Product of "Easy Money" Policy

The repercussions of the penalty, however, run much further than this. The low rate of interest paid by the government on this large fraction of its debt is part and parcel of the inclusive policy of "easy money" which the government has pursued the last 17 years. The low cost makes borrowing and spending too easy for governments, and combined with acceptance of underconsumption theories as in the 1930's, leads to chronic budget deficits. The low rates on fixed-interest-bearing securities causes a broad redistribution of national income at the expense of bondholders and others with fixed incomes. The yields of endowments of philanthropic and educational foundations, of trust funds of all kinds, of savings bank portfolios and of insurance company reserves are pared, crippling their services, reducing the income of depositors and annuitants, and raising the premiums on insurance. Thrift is discouraged. The earnings of banks are reduced, so that they are forced to resort to service charges or to forego doing their customary services.

Government Bonds Should Have Market Test

The securities issued by the United States Treasury should, in peace time at least, be continuously subject to test in an open market, where all the influences which affect value have free and unrestricted opportunity to exert themselves. Only in this way can the credit of the government be determined and a proper guide for the financial management of the government be supplied. Only in this way can it be known whether the government is allowing a proper yield for the money it procures from the people and is not on the one hand, gratuitously shifting an undue amount of national income from taxpayer to bondholder, or on the other hand, living parasitically off the private suppliers of capital. Only if the Treasury finances its deficits and refundings by the sale of securities in the open capital market, in free competition with the offerings of corporations and governmental units, can we know these basic considerations of national policy. One fundamental feature of the traditional American private enterprise system is public markets where prices of all kinds are freely and openly determined.

Our government is proceeding increasingly on the opposite course, marked by all sorts of interference with the market. For the past 15 years the market for government securities has been manipulated and controlled, in pursuit of easy money, high public spending and other dubious policies. The monetary authorities have acted with a high degree of secrecy as to method and intent, as well as with a callous disregard for traditional concepts. Through the SEC, for example, it has restricted the market for private securities in favor of its own, and has exacted a higher code of moral conduct in the securities market than it itself is willing to abide by. It has rigged the market and stabilized the yields of its securities while prohibiting investment bankers from pursuing similar tactics in private issues.

For the purpose of this article, however, attention is particularly called to the restriction imposed by the government on the securities market when it issues restricted non-marketable securities, represented by the United States Savings Bonds. In these the very right of market is denied. The only disposition of them is to the Treasury at fixed punitive prices. The success of the United States Savings Bond has led the Treasury to extend the policy of offering restricted non-marketable securities. Early this September it announced its intention soon to issue 2½% Treasury Bonds, with 18-year maturity, not callable for redemption by the Treasury before maturity, but giving the holders the option of redeeming them on or after April 1, 1948, on the first day of any calendar month, on one month's notice in writing, at fixed redemption values. These values are punitive.

Thus the idea is carried forward in fiscal policy. It is the second step in this change in debt-management policy. In the past six months almost $1.4 billions of marketable obligations have been thrown on the market, from the holdings of the Federal Reserve Banks and government trust funds, with the view of depressing the prices of outstanding marketable securities to levels deemed consonant with monetary policy. This program cannot be pursued indefinitely. The Treasury seems persuaded that this is an opportune time to satisfy the existing demand other than by selling securities in the open market.

Among other objectives, the policy aims at removing the securities from the market and freezing them in the hands of holders. Glaciation of the debt is a popular idea in government circles. Last year the Federal Reserve authorities demanded that Congress freeze the short-term debt in the member banks and count it as reserves, in order to save the Reserve Banks from the necessity of refusing outright to buy or loan against the securities or to accomplish indirectly the same end by raising their discount rates. The Congress quite wisely did not accede to this demand. And now, relieved from Congressional requirement to congeal their portfolios, banks may well go slowly in voluntary congelation as they purchase the new Treasury Bonds.

It is hoped that sufficient has been said to show: (1) that the United States Savings bond makes for the so-called "socialization" of savings and usurps the functions of private savings institutions; and (2) that it displaces the test of the market place. Both the private handling of private savings and the free, unrestricted use of the public market are fundamental features of the traditional American private enterprise system. While the prospective issue of 2½% Treasury Bonds, Investment Series A-1965, is less violative of these features than the United States Savings Bonds, in that they are designed to be purchased by savings institutions and are therefore less destructive to them, in all other respects the above criticisms are applicable.

A. M. Kidder Branch In Jacksonville, Fla.

JACKSONVILLE, FLA.—A. M. Kidder & Co., members of the New York Stock Exchange, announces the opening of an office in the Barnett National Bank Building, under the direction of John J. Morley. For the past five years, Mr. Morley has been connected with Merrill Lynch, Pierce, Fenner & Beane in Jacksonville, and prior to that time he spent 15 years in Wall Street, where he was connected with Glore, Forgan & Co.

Morfeld, Moss Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Knight Woodward has been added to the staff of Morfeld, Moss & Hartnett, 818 Olive Street, members of the St. Louis Stock Exchange. Mr. Woodward was previously with Slayton & Co., Inc.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

E. Chester Gersten, President of **The Public National Bank & Trust Co. of New York,** announced on Oct. 2 the appointment of John King and Erik O. Skog as Assistant Trust Officers.

* * *

Karl Schenk, founder of the **Trade Bank and Trust Company of New York,** at 481 Seventh Ave., and who had served successively as its President, Secretary and Executive Vice-President, died on Oct. 3. He was 73 years of age.

* * *

C. W. Green, who for over a year has been Director of the Public Relations Council of the American Bankers Association, resigned to return to the **Franklin Square National Bank,** Franklin Square, L. I. on Oct. 6, as a Vice-President. Mr. Green was formerly Director of public relations for the Bank, which gave him a leave of absence in July, 1944, to assist the Committee on Economic Development in its post-war work in the field of small business. He has been associated with the ABA since February, 1946. John B. Mack, Jr., Deputy Manager of the ABA in charge of its advertising department for many years, will assume the post of Director of the Public Relations Council vacated by Mr. Green, in addition to his duties as Director of the Advertising Department.

* * *

THE CHEMICAL BANK & TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$1,321,804,300	$1,293,093,043
Deposits	1,195,134,163	1,168,958,598
Cash and due from banks	310,334,308	325,011,456
U. S. Govt. secur. hold.	463,008,401	463,613,551
Loans & bills discounted	398,194,912	369,030,356
Undiv. profits	7,811,083	7,289,613

* * *

BANKERS TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$1,573,355,231	$1,526,091,313
Deposits	1,393,338,536	1,340,581,583
Cash and due from banks	330,943,128	333,432,893
U. S. Govt. secur. hold.	558,311,249	602,665,899
Loans & bills discounted	592,512,863	505,320,504
Undiv. profits	38,913,064	38,201,728

* * *

THE IRVING TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$1,159,267,873	$1,159,522,229
Deposits	1,030,192,659	1,035,687,213
Cash and due from banks	260,982,619	278,183,071
U. S. Govt. secur. hold.	537,804,370	547,624,771
Loans & bills discounted	320,671,403	300,716,608
Surplus & undiv. profits	64,681,957	63,978,421

* * *

BANK OF THE MANHATTAN COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$1,142,110,049	$1,121,173,424
Deposits	1,068,100,769	1,047,392,028
Cash and due from banks	281,258,833	297,833,838
U. S. Govt. secur. hold.	371,785,555	356,407,198
Loans & bills discounted	429,810,380	414,979,966
Undiv. profits	14,123,292	13,760,370

* * *

BROWN BROTHERS, HARRIMAN & CO

	Sept. 30, '47	June 30, '47
Total resources	$262,480,901	$250,952,016
Deposits	231,602,633	224,226,511
Cash & due from banks	53,513,485	50,906,977
U. S. Govt. security holdings	72,200,107	80,792,995
Loans and bills discounted	61,404,302	56,142,926
Capital & surplus	13,825,284	13,805,284

* * *

THE FIRST NATIONAL BANK OF THE CITY OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$793,575,213	$847,187,900
Deposits	626,627,093	703,820,719
Cash & due from banks	148,348,719	167,500,731
U. S. Govt. security holdings	468,130,704	467,372,087
Loans and bills discounted	76,654,837	123,515,072
Undivided profits	25,798,494	26,039,371

* * *

CORN ECHANGE BANK TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resoruces	$827,819,087	$812,741,984
Deposits	782,641,524	767,512,666
Cash & due from banks	213,323,403	204,009,705
U. S. Govt. security holdings	524,438,509	512,246,362
Loans and bills discounted	63,892,753	72,240,171
Undivided profits	8,271,140	7,856,663

* * *

THE PUBLIC NATIONAL BANK AND TRUST CO. OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$550,757,489	$555,932,090
Deposits	514,263,481	520,046,838
Cash & due from banks	109,901,883	115,460,405
U. S. Govt. security holdings	278,950,382	301,141,782
Loans and bills discounted	142,562,973	125,246,190
Undivided profits	7,503,280	7,197,603

* * *

UNITED STATES TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$152,902,599	$140,613,605
Deposits	120,030,271	107,580,404
Cash & due from banks	36,650,650	20,476,961
U. S Govt. security holdings	62,199,987	69,581,006
Loans and bills discounted	34,441,370	32,327,664
Undivided profits	2,817,802	2,835,339

* * *

THE COMMERCIAL NATIONAL BANK AND TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$217,985,458	$220,580,558
Deposits	191,680,466	194,774,308
Cash & due from banks	47,436,008	48,164,216
U. S. Govt. security holdings	117,885,474	125,965,824
Loans and bills discounted	46,436,922	42,137,795
Undivided profits	2,380,631	2,265,038

THE GRACE NATIONAL BANK OF NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$90,709,331	$90,888,855
Deposits	78,138,181	78,721,679
Cash & due from banks	19,561,669	19,274,028
U. S. Govt. security holdings	43,948,557	45,713,893
Loans and bills discounted	22,991,305	20,301,378
Undivided profits	1,043,692	981,059

* * *

THE BROOKLYN TRUST COMPANY OF BROOKLYN, N. Y.

	Sept. 30, '47	June 30, '47
Total resources	$244,115,866	$242,600,401
Deposits	226,649,871	224,789,623
Cash & due from banks	55,187,277	61,146,531
U. S. Govt. security holdings	140,505,378	138,435,342
Loans and bills discounted	34,967,653	30,278,277
Undivided profits	1,859,070	1,692,948

* * *

THE NATIONAL CITY BANK OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$4,957,416,117	$5,044,245,923
Deposits	4,622,164,738	4,730,475,216
Cash and due from banks	1,208,876,854	1,301,215,569
U. S. Govt. secur. hold.	2,183,146,029	2,154,497,314
Loans & bills discounted	1,144,278,147	1,181,679,629
Undiv. profits	38,260,503	36,036,301
The City Bank Farmers Trust Company—		
Tot'l resources	$151,286,871	$147,024,238
Deposits	118,579,746	114,147,533
Cash and due from banks	27,856,823	22,930,552
U. S. Govt. secur. hold.	107,752,302	110,403,745
Loans & bills discounted	1,227,878	769,540
Undiv. profits	8,500,994	8,250,072

* * *

CENTRAL HANOVER BANK AND TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$1,560,143,423	$1,568,036,845
Deposits	1,422,676,351	1,431,750,976
Cash and due from banks	393,202,598	386,393,240
U. S. Govt. secur. hold.	653,113,547	688,952,211
Loans & bills discounted	416,046,058	407,570,503
Undiv. profits	24,681,079	24,155,237

* * *

THE GUARANTY TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	[illegible]	[illegible]
Deposits	2,475,101,407	2,417,706,061
Cash and due from banks	528,013,047	596,220,879
U. S. Govt. secur. hold.	1,407,618,356	1,406,053,590
Loans & bills discounted	789,353,139	679,092,158
Undiv. profits	59,046,425	58,124,196

* * *

J. P. MORGAN & CO. INC., NEW YORK

	Sept. 30, '47	June 30, '47
Total resources	$706,320,349	$701,757,337
Deposits	633,671,778	630,679,398
Cash & due from banks	167,944,220	162,195,587
U. S. Govt. securities holdings	245,215,996	258,793,824
Loans and bills discounted	146,169,971	139,328,195
Undivided profits	18,811,023	18,498,983

* * *

THE MANUFACTURERS TRUST COMPANY OF NEW YORK

	Sept. 30, '47	June 30, '47
Tot'l resources	$2,299,713,391	$2,259,011,590
Deposits	2,153,427,086	2,113,002,694
Cash and due from banks	582,126,444	536,519,549
U. S. Govt. secur. hold.	1,139,511,194	1,175,263,724
Loans & bills discounted	478,137,330	450,415,149
Undiv. profits	21,075,452	38,793,075

* * *

The **Citizens Bank & Trust Company of Dansville, New York,** became the Dansville office of the **Security Trust Company of Rochester** effective Oct. 1, completing the merger negotiations that had been under way for some weeks. This was indicated in the Rochester "Times-Union," which in its issue of Sept. 30 also said:

"In making the announcement, Bernard E. Finucane, President of the Security Trust Company, stated that George H. Plummer, President; Paul E. Wamp, Jr., Secretary and Treasurer; Alice R. Finn, Assistant Secretary, of the Citizens Bank and Trust Company will continue as officers of the Security Trust Company, to operate the Dansville bank. The staff of the bank is, likewise, being retained." An item regarding the merger agreement appeared in our issue of Sept. 4, page 926.

* * *

The promotion on Sept. 24 by the directors of the **Hartford National Bank and Trust Company of Hartford, Conn.** of three of the bank's senior officers was made known in the Hartford "Daily Courant" of Sept. 25, which said they are Ostrom Enders, First Vice-President, to be President, filling the vacancy caused by the death of Robert B. Newell; Maynard T. Hazen, Vice-President in the trust department, and Milton H. Glover, Vice-President in the banking department, to be senior Vice-Presidents in their respective departments. Mr. Glover was elected to be a director. Mr. Hazen has been a member of the board for some time.

The "Courant" added in part: "Mr. Enders becomes the third of the Enders family to become President of the bank, or its predecessors, Thomas Enders, grandfather of the new President, served as President of the United States Bank and his son, John O. Enders, succeeded him there in the Presidency. The United States Bank was one of three banks which merged in 1923. These banks composing the Hartford-Aetna National Bank, participated in a consolidation from which the Hartford National Bank and Trust Company merged and of which John O. Enders became Chairman of the Board. He continues to serve as a Director."

The death of Mr. Newell was noted in our issue of Sept. 25, page 1216.

* * *

At a meeting of the board of directors of the **Corn Exchange National Bank and Trust Company of Philadelphia,** a transfer of $312,500 was authorized from undivided profits to surplus account. After giving effect to this transfer, the capital remains $5,687,500. Surplus will be $10,312,500, making total capital and surplus $16,000,000.

* * *

J. F. Koch has been elected President of the **Hazleton National Bank of Hazleton, Pa.** He succeeds C. Marvin Pardee who remains as Chairman of the board, the Philadelphia "Evening Bulletin" reported in its Sept. 25 issue.

* * *

THE PHILADELPHIA NATIONAL BANK, PHILADELPHIA, PA.

	Sept. 30, '47	June 30, '47
Total resources	$713,838,267	$712,623,219
Deposits	648,475,219	646,492,061
Cash & due from banks	240,715,735	230,510,356
U. S. Govt. security holdings	298,623,750	309,441,391
Loans and bills discounted	120,327,025	120,070,988
Undivided profits	8,081,853	7,876,060

CORN EXCHANGE NATIONAL BANK AND TRUST COMPANY OF PHILADELPHIA

	Sept. 30, '47	June 30, '47
Total resources	$279,600,587	$271,546,086
Deposits	256,408,944	247,263,760
Cash & due from banks	69,593,792	68,625,725
U. S. Govt. security holdings	108,945,234	109,683,184
Loans and bills discounted	77,913,662	69,265,831
Undivided profits	3,044.962	3,241,414

* * *

Approval by the Fedcral and State Banking departments has been given to plans for the acquisition by the **County Trust Company of Maryland** (main office Cambridge, Md.) of the **Commercial National Bank of Snow Hill, Md.,** according to the Baltimore "Sun" of Sept. 25. The plans were referred to in these columns Sept. 25, page 1236.

* * *

Citizens National Bank of Waukegan, Ill. will increase its capital from $150,000 to $200,000 through the declaration of a 33⅓% dividend, payable in stock Sept. 30, William F. O'Meara, President, said on Sept. 14, it is learned from the Chicago "Daily Tribune." These advices added that after the dividend the bank's capital structure will consist of $200,000 capital, $175,000 surplus, and $75,000 undivided profits and reserves.

* * *

The Board of Directors of **The Manufacturers National Bank of Detroit, Mich.** on Sept. 12, declared a quarterly dividend of $1.50 per share, payable on Sept. 30, 1947 to stockholders of record on Sept. 16, 1947. In announcing this payment of dividend on a quarterly basis, Charles A. Kanter, President, stated that the board of directors had adopted the customary corporation practice of paying dividends quarterly, instead of semi-annually as heretofore.

* * *

In recognition of his 50 years' service, George T. Campbell Vice-President of the **First Wisconsin National Bank of Milwaukee, Wis.** was guest at a dinner at the Milwaukee Country Club on Sept. 15 according to the Milwaukee "Journal" from which it is learned that Mr. Campbell began as a messenger at the old First National Bank, on Sept. 15, 1897.

* * *

Directors of the **Midland National Bank of Minneapolis** authorized transfer of $500,000 to the bank's surplus account from undistributed earnings and reserves, according to announcement on Sept. 10 by Arnulf Ueland, President. The Minneapolis "Star," from which we quote, added:

With this addition the entire capital structure of the bank will consist of $1,000,000 common stock, $1,500,000 surplus and $670,829 undivided profits and reserves, a total of $3,170,829.

* * *

The **Mercantile-Commerce Bank and Trust Company of St. Louis, Mo.,** has announced the appointment of John E Hauss as Manager in charge of instalment credits, collections and general office operations of the Consumer Credit Departments.

* * *

P. W. Henry, formerly President of the **South Side Bank of Kansas City, Mo.,** died on Sept. 29. Mr. Henry, who was 64 years of age, had also formerly been a Vice-President of the old Pioneer Trust Co. In 1941, said the Kansas City "Star" of Sept. 29, he gave up a position with the Reconstruction Finance Corporation, where he was in charge of preferred stock in the tenth [Kansas City] Federal Reserve District, to become President of the South Side bank. Last July, the "Star" added, he sold his interest in the South Side bank and joined the American Meat Company as Vice-President and Financial Secretary.

* * *

Martin E. Kilpatrick, of Atlanta, Ga., a member of the law firm of Smith, Kilpatrick, Cody, Rogers & McClatchey, was elected on Sept. 16 by the Board of Directors of the **Fulton National Bank of Atlanta** to fill the vacancy created by the recent death of Marion Smith. In indicating this the Atlanta "Constitution" of Sept. 17 stated that Mr. Kilpatrick's law firm has represented the Fulton National as legal council for many years.

* * *

The officers and directors of the **First National Bank of Beaumont, Texas,** announce the death of their President Preston Beverly Doty on August 29.

* * *

The officers and directors of the **First National Bank of Arizona at Phoenix** announce the death on Sept. 21 of Maurice J. Hackett, Vice-President of the bank.

* * *

The **First National Bank in Boulder, Boulder, Colo.,** increased its capital on Sept. 15 from $100,000 to $200,000. Of the $100,000 increase $50,000 was represented by a stock dividend of $50,000, while the other $50,000 was realized by the sale of $50,000 of new stock.

* * *

Rudolph Ostengaard, formerly Assistant Comptroller of **California Bank, Los Angeles, Cal.** was recently appointed Assistant Cashier and assigned to the banks and bankers department. Former Comptroller of the **Live Stock National Bank, Chicago,** Mr. Ostengaard joined the California Bank staff over two years ago. He is active in the National Association of Bank Auditors and Comptrollers, serving as President of the Chicago conference in 1942, and is a member of the Los Angeles Control, Controllers Institute of America.

* * *

Emil T. Kruse, Chairman of the Board of Directors of the **San Francisco Bank at San Francisco, Cal.,** died on Oct. 2. He was 83 years old. The San Francisco "Chronicle" reports that Mr. Kruse was the son of Edward Kruse, one of the original incorporators of the San Francisco Bank which was founded in 1868. He became a director of the bank at the age of 41 years and held the office of Chairman of the board for the last 14 years.

* * *

Arthur C. Spencer, Secretary of **Oregon Mutual Savings Bank of Portland, Ore.** has been elected a director, of the bank, George Brice, Sr., President of the institution has announced. The Portland "Oregonian" of Sept. 14 reported that Mr. Spencer who succeeds the late Lee Paterson, has served as Secretary and legal counsel for the directors most of the current year.

* * *

William S. Street, President and General Manager of Frederick & Nelson, was elected on Sept. 30 by the trustees of the **Washington Mutual Savings Bank of Seattle** to serve on the bank's board, it was announced by Dietrich Schmitz, President of the bank. In making this known the Seattle "Times" stated that Mr. Street was formerly Vice-President and General Manager of Marshall Field & Co., Chicago.

* * *

Barclays Bank (Dominion, Colonial and Overseas) of London announces that Anthony William Tuke and Captain Derek Fitzgerald have been appointed directors of the bank.

Barclays Bank (Dominion, Colonial and Overseas) announces that a branch of the bank would be opened at Nassau (Bahamas) on Oct. 1.

* * *

The directors of the **Midland Bank Ltd. of London** announce that Lieutenant-Colonel F. Leslie Orme, O.B.E., has been elected a member of their board and of the board of the **Midland Bank Executor and Trustee Company Ltd.**

* * *

An announcement on Sept. 9 in behalf of the **Bank of Australasia and The Union Bank of Australia Ltd.** states that for the protection of their Proprietors, the directors of the two banks, as soon as they had reached agreement in principle, made known on Feb. 21 last plans of the proposed merger of the two institutions. The latest advices state that:

"It was appreciated that the solution of the legal and technical difficulties, particularly in the matter of taxation and stamp duties, of an amalgamation of this magnitude involving the laws of three countries and six States, would take a considerable time. The arrangements for the implementation of the decision to merge have been actively pursued, but an entirely new situation has been created by the proposed nationalization of the Trading Banks by the Australian Government. It will be readily understood that until the position of the two banks under this proposal is clarified, the directors are not in a position to proceed further with the merger."

* * *

The Court of Directors of the **Bank of Australasia** has declared an interim dividend of 3s. 6d. per share (3½% actual), subject to deduction of United Kingdom income tax at 9s. in the pound, being at the rate of 7% per annum, less tax, on account of the year ending Oct. 15, 1947. The dividend will be payable on Oct. 3 to Proprietors registered in the books of the Bank on Sept. 8. The advices in the matter Aug. 28 added:

By reason of double taxation relief the net United Kingdom rate of tax payable by the Bank is 5s. in the pound. The rate at which relief or repayment of United Kingdom income tax may be allowed to a Proprietor is limited to the net United Kingdom rate payable by the Bank—namely, 5s. in the pound.

First Boston Group Underwrites Pfd. Issue Of Amer. Brake Shoe

The American Brake Shoe Co. on Oct. 2 offered to its common shareholders a new issue of 199,101 shares of 4% cumulative preferred stock ($100 par) at the rate of one share of preferred stock for each five shares of common held of record on Oct. 1, 1947. A group headed by The First Boston Corp. and Harris, Hall & Co. (Inc.) are underwriting an aggregate of 100,000 shares less the number of shares purchased upon the exercise of subscription rights, expiring on Oct. 20, 1947. Each share of new preferred is to be convertible into common any time prior to Oct. 1. 1957, at a price of $44.44 per share of common.

Proceeds of the new preferred stock are, to the extent available to be applied toward repayment of short-term bank loans totaling $12,250,000 incurred for the retirement on Sept. 20, 1947, of the company's outstanding 5¼% cumulative preferred stock, at $125 per share, and any balance for general corporate purposes, including a plant replacement and improvement program undertaken by the company since the war.

Outstanding capital stock, adjusted to reflect the financing, is to consist of the new 4% preferred stock and 995,507 shares of common stock.

The new preferred is redeemable at $103 per share on or before Sept. 30, 1949, and at prices scaling down to par if redeemed after Sept. 30, 1957, plus accrued dividends.

Consolidated net sales for the six months ended June 30, 1947, totaled $55,041,662 compared with sales of $77,590,394 for the calendar year 1946. Consolidated net profit for the first six months of 1947 amounted to $2,567,594 compared with $4,005,029 for the year 1946. Cash dividends have been paid on the common stock of the company and its predecessor in each year since 1902.

With Edward E. Mathews

(Special to The Financial Chronicle)

BOSTON, MASS.—Albert W. Davis has been added to the staff of Edward E. Mathews Co., 53 State Street.

With Vance, Sanders Co.

DUBLIN, N. H.—Philip F. McLellan has joined the staff of Vance, Sanders & Co. of Boston.

Joins Sloan & Wilcox

(Special to The Financial Chronicle)

PORTLAND, OREG.—Anthony B. Harrison has become associated with Sloan & Wilcox, Cascade Building. He was formerly with Daugherty, Cole & Co. for many years.

Gillespie & Wouters Adds

(Special to The Financial Chronicle)

GREEN BAY, WIS.—Harold R. McInerney is now connected with Gillespie & Wouters, Northern Building. Mr. McInerney was previously with Paine, Webber, Jackson & Curtis.

Strader, Taylor & Co. Forming in Lynchburg

LYNCHBURG, VA. — Strader, Taylor & Co., Inc., is being formed with offices in the Peoples National Bank Building to engage in the securities business. Officers will be Ludwell A. Strader, President; Clarence E. Taylor, Vice-President, and M. J. Strader, Secretary. Mr. Strader was formerly Vice-President of Scott, Horner & Mason, Inc. in charge of the corporate bond department. Mr. Taylor was manager of the local securities, unlisted trading and stock department for the same firm.

Ludwell A. Strader

Clarence E. Taylor

The new firm will conduct a general business in investment securities, specializing in Virginia issues of all types, including municipal bonds, corporate stocks and bonds and all local stocks.

Also associated with the firm as general sales manager will be Philip L. Strader. who for two years was with Scott, Horner & Mason, following service in the Marine Corps. Mrs. Virginia T. White will serve as office secretary.

Sustaining Prosperity and General Stability

(Continued from page 6)
employment and price stability are incompatible. The Administration, through the Wagner Act and scores of other laws and administrative rulings has built up a powerful monopolistic labor movement. Now this movement has a dynamism and momentum which through successive rounds of wage increases appears destined to continue to **push** costs up and **pull** prices up through the enlarged money income in pay envelopes, until the wage-price spiral will burst in mass unemployment. Then the businessman will be blamed for "not finding jobs." The Administration in Washington, largely responsible for this impasse, is absolutely bankrupt of remedies; it has no medicine for the disease. The erstwhile brain-trusters who cooked this stew have fled back to the colleges and universities or the practice of law from whence they came.

Higher production may help to counteract inflation, but **working alone** against an inflationary currency, it cannot solve the problem. Similarly, higher wage rates for those who can get them may offset in part the rise in the cost of living; but their gain is likely to come at the expense of the pensioners, teachers, clergymen and others living on fixed incomes—thereby accentuating the social and political tensions.

By concentrating upon recent months, it can be shown that the cost of living has overtaken wage rates and weekly wage income. For persons who spend a large proportion of their income upon food, real hardship exists.

But for the great body of factory workers real wages are still substantially ahead of prewar and predepression. **Real** wages today are about 54% above 1929 and about 31% above 1939. Surely this is no mean gain, especially considering the plight of the peoples in nearly every other country in the world. The official data are provided in the accompanying tabulation.

***WAGES AND PRICES—1929-1947**

	1929	1939	1946	1947	1947 Percent Increase Over 1929	1939
Cost of living (1935-39=100)	122.5	99.4	139.3	157.1	28	58
Food (1935-39=100)	132.5	95.2	159.6	190.5	44	100
Total non-food (1935-39=100)	117.1	101.6	125.8	139.9	19	38
Average hourly factory earnings	.566	.633	1.08	1.23	118	94
Average weekly factory earnings	25.03	23.86	43.74	49.25	97	106
Real average hourly factory earnings (1939 prices)	.458	.633	.773	.783	71	24
Real average weekly factory earnings (1939 prices)	20.28	23.86	31.20	31.35	54	31

*All data from U. S. Departments of Labor and of Commerce. 1947 data are most recent available.

Inflation and Pension Requirements

By permitting the general price level to rise ever higher, we are in effect breaking faith with the millions of actual and potential beneficiaries of the government's old age and survivors' insurance program. Others, saving for their retirement, will discover that their thrift has been illusory. The government, having failed to deal with the causes of inflation, will be asked to make good the disparities caused by the inflation. So the wheel of maladjustment keeps whirling, and nothing gets settled.

Can Business Control Prices?

Although businessmen have been held responsible in some circles for the rising prices and the substantial profits which the intense buying demand have made possible, the facts, as pointed out by Lord Keynes, are that the forces making for inflation are not substantially within the control of the businessman. The only substantial control which the businessman has over prices is through his control of the output of the supply of commodities. Yet few would say that the businessman has been cutting production or withholding supply. If the businessman were to depress prices below the market rates, he would be constituting himself a private OPA and then he would have to institute a private rationing system. If this became general, it would negate the free market as the guide to production.

Since August 1939 at the wholesale level farm prices have risen nearly 200% as compared with some 83% for non-farm prices. The durable goods industries with their "administered prices" have had very little to do with the rise in the cost of living, 55% of which has been accounted for by the rising food prices and another 16% by clothing. Apart from food and clothing, in the rest of the economy the increased prices have been roughly equal to the rise in wage rates, another factor over which businessmen have had little or no control.

Further Inflationary Causes

The unsatisfactory progress toward world peace has made a heavy foreign demand upon the output of the American economy. During the first half of 1947 we exported $2.50 worth of product for every dollar of imports; this "favorable" balance of trade accentuates the shortages in our midst.

The scarcities in line after line have retarded smooth production scheduling; bottlenecks have continued and private rationing of scarce raw materials and supplies have prevailed. Labor turnover and absenteeism have been high. One man late or missing at the bench or drill press may reduce the output of a whole team of workmen.

Supply and Demand Disequilibrium

Profits last year were up only $7.5 billion above 1939, while wage and salary incomes had moved up from $48 to $117 billion. This enormous increase in income is what is bidding up prices.

Yet, at present we have only 6% more milk cows in production than in 1939. Our pig crop this year is expected to be 1.5% below 1939. Today we have 12 million more mouths to feed than we had in 1939 and we are feeding a considerable part of the rest of the world. Normally, we are a food-importing nation on net balance. Our total net export balance in the first half of 1947 was running at an annual rate of $12.7 billion.

In the face of these facts, is it any wonder that butter and red meat are one dollar per pound? To blame the high prices on profiteers or speculators is sheer nonsense. The leading motor car manufacturers have priced their low-priced cars one-third below the market demand price, as can be seen in the "used-new" car lots, or in your Sunday newspaper classified advertisements.

We are the victims of depression and wartime shortages and the great increase in liquid assets and money incomes growing out of our methods of financing depression and war and repeated wage boosts since V-J Day. We are paying the price of long-time deficit spending—although not all of it was avoidable, and other questionable governmental policies. (For an analysis of the forces in operation see: "Food Prices, Production and Consumption," by the Joint Committee on the President's Economic Report, Government Printing Office, 1947.)

An Integrated Program

This analysis is recited with the hope that we may yet develop an integrated program for fighting both inflation and deflation, a program which will deal with the causes of the problem. This is a story which we told more than a year ago in "Price Control or Decontrol," a document which has proven prophetic in its diagnosis and sound in its prescription.

A rounded program will call for the closest cooperation of government, business, agriculture and labor. It calls for a coordinated government policy. The following steps merit consideration:

(1) Businessmen should do everything possible to hold the price line and to reduce prices wherever possible by stimulating more production. Business alertness in constantly adapting production to changing tastes and demand as to the type of products, their quality and price, should prevent any general decline of economic activity. The anticipation of changing consumer demand is the essence of sound production and price policies in terms of preventing the shrinkage of markets.

(2) Management and labor should increase total production by cooperating to increase efficiency, to reduce waste, and wherever practical and desirable they should work longer hours.

This does not mean the speed-up or stretch-out, but it does mean reduced labor turnover, reduced absenteeism and more thoughtful coordination of all the productive elements in the factory, the store and wherever else management and men are working together for a common purpose.

(3) Business management should not finance operations or expansion through short-term credit where long-term financing should be employed. This will reduce the further rise of demand deposits and checkbook money.

(4) In all cases of renewed organized wage demands, management and men should sit down together and ask themselves these questions:

(a) If the cost of living is pressing on the pay envelope and if our shop gets a wage increase, how will this affect the total balance in the economy between purchasing power and the supply of goods?

(b) Will what we do here help to get a pattern for upward wage adjustments in other plants?

(c) If so, will a wage increase in our shop improve the real buying power of our pay envelopes, or will it merely be another step in the wage-price spiral as was the case in 1946?

(d) If we say: "Others are getting theirs, let's get ours while the getting is good," are we doing all we can to help the government and all the people to get through this postwar reconstruction?

In short, we must find new ways of helping us to see that every one's income is a cost to someone else. Every wage increase must come at the expense of others, unless offset by rising productivity. Only greater output can provide more to share among all of us.

(5) The government should examine its activities, both administrative and legislative, to see how each of its steps affects three main categories:

(a) The supply of money and credit

(b) Its demand for goods and personnel

(c) The supply of goods

A coordinated program should be developed which reduces the supply of money, checks the government demand for goods and services and reduces all interference with production.

(6) In so far as our exports are expanded because of necessary foreign policy, the government should make clear to the people that foreign loans at this time may mean a further excess of exports over imports, thus stimulating inflation.

(7) All foreign loans and the expenditure of the funds from these loans should be carefully scrutinized in terms of their effect on our domestic problems.

(8) The government should generate a substantial budgetary surplus and pay off that part of the debt held by commercial banks with a view to reducing inflationary pressures at this time.

(9) The Administration, the appropriate Congressional Committees, and the Federal Reserve System should take steps immediately to develop a coordinated fiscal, monetary, and credit program which will reduce or abolish the inflationary pressures coming from the side of money. Unless this is done all other steps must fail, and our economy will end in collapse.

(10) The government should establish the rules of collective bargaining, but should not intervene in determining the results of collective bargaining merely to get over a momentary crisis.

(11) The disposal of surplus war commodities should be greatly accelerated during the remaining months of shortages, when the disposal will have the least disruptive effects and do the most good in reducing scarcities.

Conclusion

Unfortunately, there is no short cut to good economic health. The foregoing suggestions, if to be effective, call for the closest cooperation of management, labor and government.

FIC Banks Place Debs.

A successful offering of two issues of debentures for the Federal Intermediate Credit Banks was made Sept. 17 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $34,010,000 1.15% consolidated debentures dated Oct. 1, 1947, and due July 1, 1948, and $8,000,000 1.10% consolidated debentures dated Oct. 1, 1947, and due Jan. 2, 1948. Both issues were placed at par. The proceeds, $42,010,000, were used, together with cash funds, to retire $53,955,000 of debentures due Oct. 1, 1947. As of Oct. 1, 1947 the total amount of debentures outstanding was $379,555,000.

With Chace, Whiteside, Warren & Sears, Inc.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Viola M. Brooks has been added to the staff of Chace, Whiteside, Warren & Sears, Inc., 24 Federal Street.

Jos. H. Vasey With Geo. Eustis & Co.

CINCINNATI, OHIO — Joseph H. Vasey has become associated with Geo. Eustis & Co., Fourth National Bank Building, members of the Cincinnati Stock Exchange, as Vice - President and Treasurer. The firm has been changed to a corporation from a partnership and will continue under the present title. Mr. Vasey, who has been in the investment business for the past 18 years, was previously manager of the trading department for H. B. Cohle & Co.

Joseph H. Vasey

Organized in 1862, Geo. Eustis & Co. is the oldest investment firm in Cincinnati. Officers under the corporation status are George Eustis, grandson of the founder, President; Lee R. Staib, Vice-President and Secretary; and Mr. Vasey.

United Merchants Reports Record Sales and Earnings

Record sales and earnings were reported by United Merchants and Manufacturers, Inc., in its annual report covering operations for the fiscal year ended June 30, 1947.

Total net sales, including intercompany sales, for the year amounted to $230,194,945 compared with $160,402,043 for the fiscal year ended June 30, 1946.

Consolidated net profit amounted to $21,132,358, equivalent to $5.36 per share on the 3,898,125 shares of common stock outstanding as of June 30, 1947. This compares with net profit of $9,098,705 for the previous year.

In addition to these earnings, the corporation's share of undistributed earnings in companies not consolidated amounted to $1,413,814.

"The company entered the new year with the largest backlog of orders in its history," according to J. W. Schwab, President.

Working capital showed an increase of $3,313,774 at the end of the fiscal year, with current assets of $71,140,241 against current liabilities of $34,373,822. Inventories were carried to $24,835,767, compared with $23,930,968 at the end of the previous year. The company's established "last in-first out" method of pricing raw cotton has resulted in inventorying this commodity at an approximate average of 17.12 cents per pound.

Northern Ohio Group of I. B. A. Elects Officers

CLEVELAND, OHIO — Russell J. Olderman, Field Richards & Co., has been elected Chairman of the Northern Ohio Group of the Investment Bankers Association of America, succeeding John Burge, Ball, Burge & Kraus.

Other new officers chosen were: Carl R. Bargmann, Braun, Bosworth & Co., Toledo, Vice-Chairman, and John R. Johnston, McDonald & Co., Secretary-Treasurer. On the Executive Committee are John S. Clark, Fahey, Clark & Co. George W. Blauvelt of the National City Bank of Cleveland; Frank B. Reid, Maynard H. Murch & Co.; and Ray L. Lamb of Merrill Lynch, Pierce, Fenner & Beane.

As We See It

(Continued from first page)

ment, the Federal Reserve would be "obliged" to take up further substantial quantities to hold the market at something like the present exaggerated level — although, of course, Mr. Eccles does not put the matter in precisely this language. Commercial banks would in this way be placed in possession of greatly increased reserves and thus be in a position to enlarge their loans and deposits in still greater measure.

One Wonders

One may be excused if at the very outset one wonders why Mr. Eccles dreads further expansion of bank credit, money supply and the like rather than possible fuller employment of funds already in the hands of the public as a source of what he terms inflation. But it is less his conclusions as to such matters as these than the reasoning by which he reaches his present position and the logic which makes the Federal Reserve appear so helpless which are of chief interest at the moment. He begins by describing accurately and reasonably the process by which enormous increases in money supply and cash or the equivalent accumulated in the hands of the general public during the war. He is fully aware of the fact that the Federal Reserve, which he has a large part in administering, made all this possible by absorbing some $20 billion in government obligations. But then—well, let the Chairman speak for himself:

"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. . . . 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 profit tax, were prematurely abandoned.

"We are currently witnessing the results of this national policy. . . . 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."

Helpless

Confronted with this situation the Federal Reserve, according to its Chairman, is helpless, since it must support the market for government obligations. Federal Reserve authorities, whatever they may have thought of giving up wartime controls in general, have long been demanding authority far in excess of any enjoyed by them during the war, and Mr. Eccles now complains that in the absence of such additional power he and his associates are largely helpless to do anything effective in the existing situation — and so are other bank supervisory agencies throughout the nation.

So much for the defeatist attitude of the head of our central banking mechanism—if such it can be termed. So much, also, for this nth reiteration of demand for further great gobs of power. It is certainly not an inspiring or even an encouraging position.

But there are several very important facts which Mr. Eccles appears to overlook. First of all, the policy of the institution he himself heads. From the end of February, 1946, to June 30, 1947, the Federal Government reduced its outstanding marketable debt by $31 billion. Most of the reduction occurred in securities held by the banking system. A great deal of it was held by the Federal Reserve banks. Has there been anything like a corresponding decline in the government holdings of these institutions? Let us turn to the record. At the end of February, 1946, the 12 Federal Reserve banks held government obligations in the amount of $22.9 billion. On June 30, 1947 these same institutions owned some $21.9 billion government obligations. This is a decline of one billion. During this period, the money supply in the hands of the general public of which Mr. Eccles speaks so feelingly rose more than $12 billion. It seems to us that Mr. Eccles and his associates "stood idly by" while this inflationary situation was developing to a further point of danger.

U. S. Bonds in Danger?

And, was the government bond market in danger during these two years? Federal Reserve figures seem to supply the answer. In February, 1946, Treasury bonds with 15 years or more to run were yielding around 2.12%. They yielded 2.22% in June, 1947. Commercial banks during this period reduced their holdings of governments by some $24 billion. Evidently there is a market somewhere outside the commercial banking system even at the ridiculously high prices asked for obligations of the United States—a market strong enough to enable the Federal Reserve system to lighten its load considerably more than it did without precipitating any such situation as Mr. Eccles seems to fear would result from any substantial sale of governments by the institutions over which he presides.

The fact of the matter is that the danger of inflationary price movements will not vanish so long as the Federal Reserve policy remains what it is. We shall at some time have to find a means of permitting Treasury obligations to seek their own level in an unrigged market. And there is no reason to suppose that this is an impossible task. For a good while past funds have been accumulating disproportionately in institutions whose investments are limited to relatively riskless forms. This may well be the time to make a bold beginning in putting the government market on its own feet.

What's Ahead for Retailing?

(Continued from page 4)

stores for which reports are available. Cash discounts showed a small decrease, which when taken together with the increase in markdowns, led to a decline in gross margins. The average decline was from 2.5 to 3 percentage points. For department and specialty stores with sales of over $1,000,000 the gross margin declined from 38.0 to 35.2%. These figures lend no support to the charge sometimes made that profiteering by retailers has led to higher prices.

Profits

Nineteen forty six was the bonanza year for retail profits. Large increases in sales combined with the elimination of the excess profits tax gave retailers a level of profits never before attained. According to the National City Bank tabulations, the return on net worth for department stores was 20.8%. Nineteen forty seven has witnessed a dramatic reversal of these high level profits. Under the impact of higher expenses, smaller cash discounts, and sharp increases in markdowns, profits have fallen considerably below the 1946 level. Another significant factor in this reversal of profit trends was the increase in total payroll expenses from 15.5% of the sales dollar in the first half of 1946 to 17.2% this year. Total operating expenses rose from 28.1% to 30.6% These figures on profits and expenses point up the most important problem facing retailers in the months ahead. During the first half of 1947, the Controllers' Congress reports that department and specialty stores with a volume of business of over $1,000,000 had net profits before taxes of 6.0% of sales as compared with 11.3% in the first-half of 1946. Net profits after taxes were cut in half. They averaged 3.1% of sales in the first half of 1947 as compared with 6.4% in the previous year. Here, too, there is no support for the charge of profiteering. On the contrary, it is clear that retailers have narrowed rather than widened their profit margins.

Inventories and Open Orders

The first half of 1947 witnessed a major improvement in the inventory and open order picture of department stores. Of particular importance is the tremendous decline which has taken place in outstanding orders. In July, 1946, these outstanding orders reached a peak of $1,073,000,000 for the 296 department stores for which the Federal Reserve Board compiles data. From that date until May of 1947 a fairly steady decline took place in these orders. In May the total was $548 million or only about one-third as large as in the previous July. In June, open orders increased to $471 million. Stocks held by these stores aggregated $735 million last July, reached a peak of $919 million in November; by June, 1947 the total had declined to $769 million. In other words, there has been a considerable improvement in the inventory plus open order position of retailers in the first half of 1947. In the spring of 1947, the relationship of inventories plus outstanding stores to sales was about the same as in 1940 and 1941.

Thus, as we attempt to evaluate the future, we find that the current picture in retailing may be summarized as follows. Sales remain near record levels, markdowns are high, gross margins are contracting, profits are declining, and the inventory position has been substantially improved.

Conditions Ahead

In attempting to evaluate what's ahead for retailing, it is useful to summarize briefly the important factors which will affect business activity, consumer purchasing power, prices, and in turn, the level of retail sales. I shall discuss first the favorable factors and then those that appear to create uncertainty.

Favorable Factors

1. **Redemption of Armed Forces Leave Bonds.** Almost $2 billion worth of these bonds became redeemable on or after Sept. 2, 1947. To the extent that they are redeemed, additional funds are available for current spending. While in terms of the total volume of consumers' expenditures these redemptions will be relatively small, they can act as a bolstering force for a relatively short period of time and are available for the types of goods sold by department stores.

2. **Outlook in Durable Goods Industries.** An examination of durable goods industries indicates that they will continue to experience high level activity. Thus, all the automobiles that can be produced can be sold during the next year. Similarly, the electrical equipment, railroad equipment, and farm equipment industries have large backlogs of orders which assure them of full operation until at least the spring of 1948. High level activity for these industries will be accompanied by high level of steel production. It is difficult to visualize a major recession in employment or in business activity while these industries continue to operate at capacity levels. High level construction also adds support to the business picture. Building is taking place at record levels. Despite this fact, however, construction, which normally accounts for 8 to 10% of the gross national products, now accounts for only about 5%. Material shortages and cost distortions are barriers standing in the way of further expansion in building. However, this area remains one of the sources of potential strength in the business picturue if building costs can be cut.

3. **Consumer Credit.** Effective Nov. 1, installment credit restrictions will be removed. The total volume of installment credit as of June, 1947 was $4.9 billion as compared with $6.2 billion in June, 1941. Total consumer credit today is $10.9 billion as compared with $9.9 billion in 1941, an increase due largely to the increase in charge accounts from $1.7 billion in 1946 to $2.9 billion in June, 1947. The elimination of consumer credit controls makes possible a stimulus to business conditions starting at that date. However, I doubt whether it will be a very significant factor.

4. **Disposable Income.** The total level of disposable income, that is, the income of individuals less the taxes they must pay, is now at an all time high. Currently, disposable income is running at about $175 billion, as compared with the $151 billion in the first half of 1946, $164 billion in the second half of 1946, and $170 billion in the first half of 1947. By way of comparison, the total was $70.2 billion in 1939 and $92 billion in 1941. The recent increases in disposable income have been attributable in large measure to higher farm income and higher wage payments. Disposable income is the major determinant of the level of retail sales. I see little likelihood of any significant decline in the level of disposable income.

5. **Productivity.** During the first year of the postwar period, productivity failed to show any increases because of labor difficulties and the interruptions to production attending reconversion. In recent months labor productivity has once more been improving. To the extent that productivity does increase, additional output will become possible with the present labor force and hence act to relieve pressure on prices.

6. **Business Investments.** New plant and equipment continues to be built in record volume. There is no evidence to date that any significant reversal in this type of spending is taking place.

7. **Inventories.** Inventory accumulation at all levels of business has tended to slow up. By and large, the relationship between inventories and sales is not high as compared with prewar relationships. A high volume of production and a high volume of sales necessarily requires higher inventories. Such inventories would not prove to be burdensome unless there were a terrific decline in business activity, a decline which I do not foresee at this time.

8. **Better Income Distribution.** One of the major developments during the war and transition years has been the sharp equalization of incomes. To a large extent this equalization has taken place by increasing the incomes of those at the lower end of the income pyramid. Thus, before the war there were only 6 million familities with incomes between $2,000 and $5,000 a year. Now this total is variously estimated at between 20 and 25 million. Even after allowing for the increase in prices, it is clear that there has been a substantial increase in the income of the vast majority of the people. In fact, it is this increase in income rather than a reduction in supplies, which helps to explain the persistent pressure for higher food prices. Similarly, this income is available to buy more and better quality clothing and housefurnishings than ever before. This development probably goes as far as any one single factor in explaining why the volume of sales has been so well maintained throughout the postwar period. It will continue to remain a factor of considerable importance.

Unfavorable Factors

The factors of strength in the business picture have been briefly outlined in the foregoing comments. Now let us examine the unfavorable factors.

1. **Food Prices.** One of the most important unfavorable factors is the sharp increase in food prices which has taken place in recent months. Prior to this rise, food prices had already increased much more than had other types of products. For example, as of July 12, 1947, before the recent rise gathered momentum, food products had increased 126%, farm products, 149%, and all wholesale prices except farm and food prices, only 57%, as compared with January, 1941. If the comparison is made with any other date, a similar distortion is revealed. Thus, for example, food products in July were 66% above the level in 1928, whereas all wholesale prices except farm and food products, had risen only 32%. If we go back to 1920, the same picture emerges. During the past two months these distortions have been magnified considerably. The abnormally high level of food prices may be demonstrated in other ways. Thus, spending of food takes a substantially higher proportion of our disposable income than would be anticipated on the basis of past relationships. Farm income, reflecting these higher food prices, has reached stratospheric levels. Net farm income in 1947 has been at the rate of $17.6 billion annually which compares with about $15 billion in 1946, $5.7 billion in 1929, and about $9 billion in 1919 at the peak of the post World War I inflation. This high level of food prices means that a disproportionate share of the consumers' dollar is used to buy food which is a basic necessary of life. One result will be a relatively smaller proportion of the consumers' dollar available to buy clothing, housefurnishings and other items handled by your stores. If food prices continue at their present high level, it will be reflected sooner or later in a lower volume of sales of non-food products. This in turn could have adverse repercussions upon production and employment in the non-food sectors of the economy.

2. **Higher Rents.** The liberalization of rent control necessarily means that some increases in rents will take place. To the extent that a larger share of the customers' income must be used to meet higher housing costs, there will be less available to buy non-food products. One factor which has contributed to the high level of retail sales has been the declining portion of the consumers' dollar which had to be spent on housing, the price of which was held down by rent control. To the extent that rents rise, less will be available to buy other products.

3. **Department Store Sales Relatively High Based Upon Past Relationship to Disposable Income.** I have previously referred to the importance of disposable income as a determinant of retail sales. Over the years there has been a close relationship between the level of disposable income and various types of retail sales. During the first half of 1947, the total volume of sales in department stores was higher than warranted by the prevailing level of incomes. In part, this situation was made possible by the inadequate supply of durable goods and by rent control. Now, the combination of higher food prices, more ample supplies of durables, and relaxation of rent control suggest it will be much more difficult to maintain a level of sales out of line with historic relationships.

4. **Exports.** One of the major supporting factors in the business picture in the first half of 1947, was the large volume of exports. During that period exports were at the annual rate of $20.7 billion, or $12.7 billion in excess of imports. President Truman, in his Mid-Year Economic Report, pointed out that "The increased volume of exports has added a substantial demand at a time when domestic demand itself was running extraordinarily high." (p. 46) However, he observed that the power of various countries "to finance purchases not in their own resources and their present programs of American and international aid, is certain to decline substantially during the present year.... Even if new programs of the character now under consideration are put into effect, it is quite unlikely that the high levels of export and export surplus existing during the past six months will be maintained." (pp. 45 and 47). The decline in export surplus forecast by the President began to develop with a sharp cut in the total volume of exports during June and July. The recent emphasis upon the shortage of dollar exchange is also of significance in connection with this point. However, any decline that takes place in exports will not necessarily be a completely adverse factor, because to a large extent the products exported can be absorbed in the domestic market. These larger supplies would act to relieve shortages and to reduce the pressure on prices.

5. **Federal Budget Surplus.** During the fiscal year 1947-1948. It is estimated that we will have a budget surplus ranging from $2.5 to $7.5 billion. In his recent budget statement, Mr. Truman estimated the budget surplus at $4.7 billion. However, until the magnitude of the assistance we will give under the Marshall Plan is determined, the size of the Federal Budget surplus cannot be known with any degree of preciseness. Moreover, as the past year has shown, the actual cash surplus may exceed the budgetary surplus by a considerable amount.

While the exact amount is not known, to the extent that Federal cash payments to the public exceed cash receipts, a deflationary force may be set in motion because the net effect is to reduce the amount of consumer purchasing power available for the purchase of goods out of current incomes.

6. **Higher Wage Costs.** During the past year and a half, substantial increases in hourly wages have taken place in leading industries. Since the beginning of 1946, average hourly earnings have increased from about $1 an hour to $1.23 and further increases seem probable. These increases have exceeded by a wide margin the improvement in productivity and hence have exerted pressure upon unit labor costs in industry. I have previously described how the sharp increases in labor costs in retailing contributed to the declines in profits in 1947. Now, we are beginning to hear ominous rumbles of a third round of wage increases to offset the most recent rise in living costs. Such a development would contribute to a maintenance of the present high level of prices and in many areas of the economy would make necessary still further price rises. The net result would be to price additional large numbers of consumers out of the market, particularly those groups living on relatively fixed incomes. Such a development would add another notch to the wage-price spiral and create new distortions in our economy.

Conclusion

An analysis of the favorable and unfavorable factors suggests that strength, rather than weakness, is still the predominant characteristic of the businesss picture, although some danger signals are flying. While the recent increases in food prices are a matter of major concern, and if maintained will probably have an adverse effect upon retail sales of non-food products, the continuing high level of incomes and the better distribution of income indicate that retail sales will be well sustained through the balance of 1947 and the early part of 1948. However, expenses are continuing to rise. Many stores have not yet felt the full impact of 1947 wage increases. Keener competition for the consumer's dollar suggests that markdowns will continue at a relatively high rate. To a large extent, the substantial increases in costs during the war and postwar years were absorbed and absorbable because of the sharp rise in volume. Unchanging sales and particularly a moderate drop in sales, therefore, can result in a bad squeeze on profits unless every effort is made to improve efficiency and to trim costs. I just do not see how retailers can count upon a further expansion in sales volume to absorb the increases in costs which they face. This does not mean a period of hard times ahead for retailing. It does mean that retailers will have to be on their toes in order to maintain satisfactory profit margins.

Adrian Ford Now With Milhous, Martin & Co.

(Special to The Financial Chronicle)

ATLANTA, GA. — Adrian C. Ford has become associated with Milhous, Martin & Co., Rhodes-Haverty Building. Mr. Ford was previously with Trust Company of Georgia and the First National Co.

With F. S. Moseley & Co.

(Special to The Financial Chronicle)

BOSTON, MASS. — Donald C. Kneale has been added to the staff of F. S. Moseley & Co., 50 Congress Street, members of the New York and Boston Stock Exchanges and other exchanges.

Am. Water Works Stock Publicly Offered at $8

An offering of $5 par value common stock of American Water Works Co., Inc. was made Oct. 8 by a banking group headed by W. C. Langley & Co. and The First Boston Corp. The stock was priced to the public at $8 per share.

Of the 2,687,069 shares underwritten, 784,593 shares or approximately 29% of the total were taken by certain stockholders of American Water Works & Electric Co., Inc., Community Water Service Co. and Ohio Cities Water Corp. under subscription and exchange offers which expired on Oct. 6 and 1,625,000 shares or approximately 60% of the total have been sold by the underwriters to Northeastern Water Co., leaving 277,476 shares available to the general public.

American Water Works Co., Inc. will use the greater part of the proceeds from the sale of its common stock and from the sale to John Hancock Mutual Life Insurance Co. of $15,000,000 10-year 3% collateral trust bonds to purchase from American Water Works & Electric Co., Inc., substantially all of the latter's investments in its water company subsidiaries. This transaction will result in a complete segregation of the water properties of the American Water Works & Electric system (with minor exceptions) from the system's electric and miscellaneous properties.

Outstanding capitalization of the new company upon completion of this financing will consist of $15,000,000 ten year 3% collateral trust bonds due Sept. 1, 1957 and 2,704,472 shares of $5 par value common stock.

Moseley Group Offers Assoc. Investment Stk.

An investment banking group under the co-management of F. S. Moseley & Co., Glore, Forgan & Co. and Merrill Lynch, Pierce, Fenner & Beane on Oct. 8 publicly offered 218,000 shares of Associates Investment Co. $10 par value common stock at $30.25 a share. Of these shares, 18,000 are being sold for the account of certain stockholders and 200,000 represent a new issue. Net proceeds from the sale of the new issue will be used by the company to increase working capital.

With the completion of this financing, Associates Investment Co. will have outstanding 1,041,324 shares of $10 par value common stock and $10,000,000 of 3% junior notes due June 15, 1953. The authorized common stock was recently increased to 1,500,000 shares, $10 par, from 750,000 shares, no par, and the oustanding stock was split two for one.

A dividend of 45 cents a share was paid Sept. 30 on the new $10 par common placing it on a $1.80 annual basis, equivalent to $3.60 a share before the split. Dividends have been paid quarterly without interruption since 1918, the prospectus pointed out.

For the six months ended June 30, 1947, Associates Investment Co. earned $1,599,182, equal to $1.86 a common share. For the year ended Dec. 31, 1946, earnings totaled $1,313,234 or $1.42 a share compared with $1,411,368 or $1.40 a share for the previous year. These share earnings are adjusted to reflect the stock split.

With Buckley Brothers

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Wilbur A. Morris has joined the staff of Buckley Brothers, 530 West Sixth Street. He was previously with Edgerton Wykoff & Co.

Bogota Bond Exchange Offer Extended to Oct. 1, 1948

Holders of City of Bogota 8% external sinking fund gold bonds of 1924, due Oct. 1, 1945, and of Municipality of Bogota, Colombia, power and light consolidation loan of 1927 20-year external 6½% secured sinking fund gold bonds, due April 1, 1947, are being notified that the offer of exchange of these bonds and appurtenant coupons for Republic of Colombia 3% external sinking fund dollar bonds, due Oct. 1, 1970, has been extended from Oct. 1, 1947, to Oct. 1, 1948. The National City Bank of New York is acting as exchange agent.

David Bandler Opens

David B. Bandler, member New York Stock Exchange, announces the opening of his own office to transact a general investment business. He will maintain offices at 160 Broadway, New York City.

Export-Import Credit to Mexico

Extension of $3,500,000 for hydroelectric development is first of series of loans to aggregate $50 million.

The Mexican Embassy in Washington and the Export-Import Bank announced on Oct. 3 the latter's approval of a credit of $3,500,000 to Nacional Financiera, S. A., a financial agency of the Mexican Government. Proceeds of the credit are to be used to finance purchases in this country of materials, equipment and services required to complete the installation of a new 54,400 kilowatt hydroelectric station and associated facilities now under construction by Nueva Compania Electrica Chapala, a public utility company serving the city of Guadalajara and adjacent territory in the central part of Mexico.

This is the first specific credit to be authorized for Mexico by the Export-Import Bank since the exchange of letters between Mr. William McChesney Martin, Jr., Chairman of the Bank and Dr. Antonio Espinosa de los Monteros, Ambassador of Mexico to the United States, announced May 14, in which the Bank indicated that it was prepared to approve credits up to $50,000,000 to finance projects approved by the Mexican Government and acceptable to the Bank, and the Mexican Ambassador expressed his satisfaction with this financial cooperation for the attainment of well-balanced economic relations between the two countries.

This credit of $3,500,000 is to be available to Nacional Financiera until Dec. 31, 1949. Interest on outstanding amounts will be at the rate of 3½% per annum payable semi-annually. The principal is to be repaid in 20 semi-annual installments beginning June 30, 1950. These obligations of Nacional Financiera will be unconditionally guaranteed by the Republic of Mexico.

The Export-Import Bank also announced today that other Mexican projects continue to receive active consideration.

Federal Reserve Policy and Inflationary Pressures

(Continued from page 7)

have excess purchasing power in our civilian economy to exert upward price pressure or to be controlled in some way. We also force the government to borrow from the banks in order to pay its bills.

Increased Money From Bank Borrowing

What happens when the government borrows from the banks? As in the case of any other borrower, when the government sells its bonds to a bank, in effect it gives the bank a promissory note. In return for this note the bank creates purchasing power for the use of the government by giving the government a deposit credit on its books. This purchasing power, or government deposit, is transferred from the bank to the Federal Reserve Bank for credit to the Treasurer's account in that institution. The Treasury pays its bills by drawing checks against that account. These checks are written in favor of suppliers and others who deposit them in their own deposit accounts at the commercial banks. Obviously, this process builds up commercial bank deposits and this is the essential difference between Treasury borrowing at the banks and Treasury borrowing from individuals. In the latter case, as we saw a moment ago, the individual transfers his deposit to the government, and the spending of the transferred funds merely rebuilds commercial bank deposits back to the level they held before the transfer. With certain exceptions, bank borrowing, on the other hand, brings about a net addition to deposits.

This increase of commercial bank deposits cannot be avoided when bank credit is extended, be it for the account of the government or for the account of the private citizen or business organization. As we know, these deposits are as good as any other form of money when it comes to purchasing goods and services. Because of this, the creation of purchasing power through bank borrowing adds to the upward pressure on prices, particularly when we are working under conditions of full employment of our resources, including manpower, materials and capital equipment. To repeat, borrowing from individuals or business organizations does not increase pressure on prices because it merely transfers purchasing power without adding to it, whereas borrowing from banks adds directly to purchasing power. Some refinement of this statement is possible, of course, particularly if borrowing from the private individual or business organization transfers inactive funds into active use. The principle still remains, however, and it is the basis of much of our current difficulty.

During the last war we added about $100 billion to our currency and bank deposits. This hundred billion was created by the banking system and spent by the government. To be sure, the government has reduced its debt to the banks in some degree, but this has been largely offset by the growth of private borrowing at the banks since the end of the war. Net reduction of bank credit through debt repayment is a slow process unless business depression intervenes and forces liquidation and the destruction of values. At best, we will have to live with most of that hundred billion for a long time. New production, no matter how large in volume it may be, cannot wipe out this addition to our money supply. As we said earlier, money can be used but not used up, unless it is returned to the banks. We also tried to show that production creates income as well as goods and services, and that is just what our current efforts are doing. We have practically reached full employment of our productive resources, including manpower and capital equipment. The figures show that current income has also reached record heights. If, under these conditions, people try to spend their current income and at the same time draw on this hundred billion of *excess cash*, pressure on prices will persist. This is true even though the volume of production were to reach the maximum attainable within the limits set by our present productive capacity. Prices would continue to rise until the distortions in the price structure and the accompanying maldistribution of income brought on a depression.

The existence of this vast amount of excess currency and bank deposits—and, we might add, of a little less than $50 billion in savings bonds held by individuals and redeemable on demand—would be much less serious if we were in a situation calling for increased spending in order to stimulate business activity. But as every one knows, we are in the midst of tremendous peacetime activity, with all our resources pretty fully employed. The problem is to find some way to live with this huge reservoir of funds without letting it spill out so fast that it distorts our whole economic system and produces a business depression of truly serious proportions.

The Functions of Federal Reserve

This brings us to the Federal Reserve System, the part it has played in war finance and the part it can play under existing conditions in controlling the highly inflationary potentialities of the present situation. The System operates mainly through three approaches to the money market—the discount rate, open market operations and changes in reserve requirements. Its purpose in using these tools is to influence the volume and cost of bank credit so as to maintain or bring about a high degree of economic stability.

Originally, the Federal Reserve System was set up to pool bank reserves and to bring about greater flexibility in the nation's monetary and credit structure. These purposes were accomplished by requiring member banks to carry with the Reserve Banks certain reserves against their customers' deposits.

The requirement that member banks carry with the Reserve bank certain reserves against their customers' deposits provided the Reserve Bank with its most important power. As we all know, bank loans create bank deposits. So do bank purchases of investments. We have seen how bank purchases of government securities during the recent war built up the volume of bank deposits. In the process of lending and creating deposits, banks, sooner or later, reach the point where they need more reserves in order to satisfy the legal requirements of the Federal Reserve Act. This fact gives the Reserve Bank its opportunity to influence the volume and cost of bank deposits.

During World War I and in the 1920's banks generally satisfied their reserve requirements by borrowing at the Reserve Bank, using their customers' paper as collateral. Changes of the discount rate, or the rate at which the Reserve Bank advanced funds on this collateral, were therefore an important influence on the member banks. This procedure necessarily placed the preponderant initiative with the member banks, since Reserve Bank influence depended upon whether or not the member banks were borrowing or contemplating doing so.

Gradually the Federal Reserve System discovered that it could take the initiative by buying or selling government securities on the open market. This procedure is now known as the Open Market Operation. Open market operations were the principal means by which the System endeavored to influence the money market and the banking and credit situation during the 1930's and until this country entered the last war. It will be interesting briefly to trace through the mechanics of this operation. To begin with, the underlying theory is the same as that applying to discount rate changes and to all central bank or Reserve Bank functioning. If member bank reserves are plentiful bankers will tend to lend more and thus presumably to stimulate business activity. If member bank reserves are less plentiful member banks will tend to restrict bank credit and thus to retard business activity. In the past this theory appears to have worked better on the restrictive than on the expansive side. At any rate, the considerable easiness of reserves during most of the 1930's did not appear to do all that had been hoped for it as a business stimulant.

If the Federal Reserve System wishes to put more reserves in the hands of the banks it purchases government securities from banks or individual holders. These purchases are paid for with a check drawn against itself. That check is deposited in the Reserve Bank by a member bank to the credit of its reserve account. The member bank then has added reserves. Normally, this makes it possible for the member bank to extend more credit.

If the Federal Reserve wishes to make reserves less plentiful and thus make it more difficult for commercial banks to extend credit the Reserve Bank sells securities in the open market. It is paid for these sales by checks which are debited to the reserve accounts of member banks. In this way reserves are depleted and member bank lending operations made more difficult. The inflow and outflow of gold for the account of commercial banks changes the picture in some of its details, but does not alter the essential principles.

Under the law the Federal Reserve not only has the discount and open market operation to use as an indirect influence on member bank reserves; it may also alter reserve requirements directly within certain limits. At the present time reserve requirements are set at their legal maximums except for a small increase that could be required in the Central Reserve cities of New York and Chicago.

Tools Have Become Impotent

These three tools, discount rate changes, open market operations, and reserve requirement changes, which are the basic implements available to the Federal Reserve in its attempts to help keep the United States on an even keel, economically speaking, have for the most part become impotent. The discount rate has become of little significance, at least for the time being. This is true partly because bankers ceased borrowing from the Reserve Bank for various reasons and partly because the Federal Reserve took the initiative in furnishing them with reserves through the open market operation. It also appears that the Federal Reserve has but little remaining authority to increase reserves. We shall soon see how the open market operation has been rendered practically useless as a means of restricting bank credit under existing circumstances.

The essence of the open market operation lies in the ability of the Federal Reserve to buy or sell government securities strictly in accord with the System's interpretation as to the need for easing or tightening the money market. It hardly needs to be said that this is impossible in war. Wars must be financed. If taxation does not provide sufficient funds, and it never does, borrowing is essential. When patriotism points to the pocketbook, even in wartime, the urge to buy bonds can be dampened considerably by the fact, or the prospect, of serious or mild declines in bond prices. Desirable as it might have been for the Federal Reserve to have sold bonds on the open market during recent years in an attempt to check an undesirable credit expansion, this was made impossible by the overriding necessity to support government bond prices. We do not need to go into the whole problem of easy money rates to understand that.

If this be true, then the Federal Reserve has been virtually deprived of its only remaining power to exercise a positive influence toward checking credit expansion. But this is not all. The commercial banks with their heavy holdings of government securities have been and are now in a position to force the Federal Reserve to buy those securities and thus to augment existing bank reserves. All they need do is to offer government securities on the market in amounts sufficient to threaten government security price levels and the Federal Reserve is bound to take them in the interests of maintaining stability in the government security market. The expansion factor of the added reserves obtained in this or any other way is about six or eight or more to one. With present member bank holdings of $59 billion of governments, the banks could place themselves in a position to expand loans by about $350 billion or more if they chose to do so. In addition to these potentialities I might call your attention to the fact that net gold imports into this country during the past two years have amounted to about $1.8 billion. Every dollar of that amount has been a net addition to bank reserves.

Bankers' Responsibilities

I shall not comment on the inflationary pressures that these potential amounts of new money could create if thrown into an economy already operating at practically full employment levels. I should like to say, however, that bankers generally appreciate the responsibility this situation thrusts upon them. There is no immediate indication that they plan to enlarge their reserves or to expand loans to the full extent possible. It is nevertheless true that bank operating costs are rising and that bank profit margins have declined this year in some sections of the country. It is also true that loans generally pay higher returns to a bank than government securities. Perhaps we can safely conclude that bankers are now facing an important test of their powers of self-restraint and their ability to practice economic statesmanship.

The Federal Reserve has exercised a form of mild restraint of a nature not yet discussed. Early in 1946 it removed the preferential discount rate of ½ of 1% on borrowings secured by short-term government securities. This had been established during the war to encourage banks to invest their excess reserves in governments. Effective in July of this year the System withdrew its standing offer to purchase all Treasury bills offered at ⅜ of 1%. This had the effect of introducing a degree of price uncertainty in one important sector of the government securities market. The current rate is now 0.8 of 1%, or twice the previous rate, and as a result of this move, banks wishing to convert Treasury bills into reserves must now sell them to the Reserve Bank at a discount twice as high as before. This fact has resulted in some hardening of short-term rates to bank borrowers. Prime bankers' 90-day acceptances now sell at 1%, compared with 0.8% prior to July.

It is questionable whether mild restraints such as these are sufficient to cope with the tremendous inflationary pressures that we have inherited from the war. These restraints are closely associated with open market operations and must therefore be confined to rather small proportions. They can be supplemented by moral suasion and by limited steps in the field of so-called selective controls which attempt to regulate a particular type of credit such as loans for purchasing or carrying securities. Moral suasion, at least in so far as it has yet been developed, has never been highly successful for any length of time. The use of selective controls has been confined to narrow areas of the economy. There is no immediate prospect of enlarging either the scope of selective controls or the areas covered. Perhaps it would be fair to epitomize our thoughts on mild restraints and moral suasion with the simple statement that the profit call in boom-time has all the urgency of the mating call in springtime.

There are those who would deny that the Federal Reserve System is relatively impotent in the current situation. They would have the System act with greater independence of the Treasury. Apparently they would not shrink from considerable increases in interest rates, regardless of the effect on capital values. It does seem probable that interest rate changes, which are one of the most important means available to a central bank in its endeavors to influence the volume of bank credit in use, have to be rather large to be effective. Naturally, such changes alter the capital value of a wide range of investments. They would have a peculiar effect on government securities under existing conditions. What would be the most probable effect of widespread and sharp depreciation of government security values? Banks are not the only part of the economy that would be adversely affected by such a procedure, but their situation will serve as an illustration. Commercial banks hold about $70 billion of governments. A drop of 14% in price would equal 7% of their total assets. Such a drop would result from a rise of the average yield on governments from the present figure of 1.5% to 1.75%. Any effective curb on inflationary pressures via rising interest rates would probably require a sharper increase than that.

There are still other considerations to indicate the reasons for great deliberation in connection with moves aimed at influencing the interest rate in a situation dominated by war and its monetary and financial aftermath. As we have seen, such moves are an essential part of the central banking mechanism. They are designed to influence the supply, availability and cost of credit as a means of regulating the expansion of bank credit and the money supply.

This phase of Federal Reserve activity was developed over a period when private indebtedness was the predominant factor in the nation's debt structure. In the intervening years the situation has changed. At the end of World War I, although the public debt of the United States was higher than it had ever been before, it was less than one-third as large as private debt. But at the end of World War II, public debt was almost twice as great as private debt. Since then, the Federal debt-retirement program has changed the relationship to a three-to-two ratio.

The volume of public debt, which has arisen chiefly as a result of war finance, but also for reasons of public welfare, does not respond directly to regulation which changes the supply, availability and cost of credit. The volume of private debt, on the other hand—which arises from the expected productivity of business investment and the satisfaction which consumers get from present rather than future consumption—does respond in some degree to such changes.

Now that our total postwar debt is made up of three parts Federal debt to two parts private and other debt, it becomes necessary to discuss the customary Reserve System instruments of policy in the light of this new situation. There is little or no justification for applying traditional controls to a debt structure so constituted. As private debt again increases relative to public debt, it will become necessary to resume traditional Reserve System methods of influencing changes in the amount of private debt. But in doing so, our large public debt should be protected, by suitable methods, against too much fluctuation in its value.

Two With Peters, Writer

(Special to The Financial Chronicle)

DENVER, COLO.—James C. Boyden and Arthur B. Copeland have become associated with Peters, Writer & Christensen, Inc., U. S. National Bank Building. Mr. Copeland was previously with Otis & Co.

With Whiting, Weeks & Stubbs

(Special to The Financial Chronicle)

HARTFORD, CONN.—Ralph A. Starkie has been added to the staff of Whiting, Weeks & Stubbs, Boston. In the past he was with Weeden & Co.

J. R. Kable Is With Trust Company of Georgia

ATLANTA, GA.—John R. Kable has become associated with the Trust Company of Georgia in their Investment Department. Mr. Kable was previously in the municipal department of Courts & Co.

The State of Trade and Industry

(Continued from page 5)

ernment should be certain that the need is there for the specific products requested. Steel leaders privately believe with firm conviction that the end use of the steel must be carefully checked and policed.

If European nations receive anything like the amount of steel they have demanded, any estimate as to when domestic steel production will come into balance with demand would only be a wild guess. Until European requests are carefully screened there is not a chance in the world of adequately predicting the steel supply picture in 1948.

Steel leaders this week fully realize that the Marshall Plan will probably mean compulsory allocation of a certain percentage of American steel output, the above trade authority states. Once this is done, individual producers lose complete control over a large portion of their product, especially if as expected a large part of the contemplated Marshall Plan shipments of steel will be in the ingot or semi-finished form.

The total tonnages of steel which will ultimately be shipped to Europe under the Marshall Plan will not be a large percentage of total output. But with the domestic steel picture tighter than at any time since the war the effects of such shipments will far outweigh the actual tonnage involved.

The Marshall Plan will be an added impetus to steel expansion plans. Contrary to the effect of official statements by steel leaders which appeared to indicate a nonexpansion attitude, actual expansion and additional studies are going forward. Because of the increase in the cost of basic steel mill equipment emphasis is more and more on exploiting oxygen as a basic factor for increasing steel capacity.

While the industry worries about steel exports and the possibility of a long-term tightness in steel, one of the country's most important industrial groups—oil and gas—reluctantly agrees that it may be years before urgently needed pipelines are completed.

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 96.1% of capacity for the week beginning Oct. 6, 1947, as compared with 94.4% one week ago, 84.3% one month ago and 90.4% one year ago. Current operations were at the highest level since the week beginning June 9, when they touched 96.9%, representing an increase of 1.7 points, or 1.8% from the preceding week.

The week's operating rate is equivalent to 1,681,700 tons of steel ingots and castings compared to 1,651,900 tons one week ago, 1,475,200 tons one month ago and 1,593,200 tons one year ago.

Electric Output 10.2% Higher Than a Year Ago

The amount of electrical energy distributed by the electric light and power industry for the week ended Oct. 4, 1947 was 4,934,851,000 kwh., according to the Edison Electric Institute. This compares with 4,956,415,000 kwh. in the preceding week, and was 10.2% in excess of the 4,478,092,000 kwh. produced in the corresponding week of last year.

Railroad Freight Loadings Maintain Uptrend for Week and Year

Loadings of revenue freight for the week ended Sept. 27, 1947, totaled 937,954 cars, the Association of American Railroads announced. This was an increase of 6,882 cars, or 0.7% above the preceding week. This represented an increase of 21,439 cars, or 2.3% above the corresponding week in 1946 and an increase of 105,445 cars, or 12.7% above the same week in 1945.

Freight carloadings in the fourth quarter of 1947 are expected to be 6.2% above those in the same period in 1946, according to estimates recently compiled by the 13 Shippers' Advisory Boards. On the basis of those estimates, loadings of the 32 principal commodities will be 8,077,063 cars in the fourth quarter of 1947, compared with 7,606,832 actual carloadings for the same commodities in the corresponding period of the preceding year.

All of the 13 Shippers' Advisory Boards estimate an increase in carloadings for the fourth quarter of 1947 compared with the same period in 1946, except the Mid-West and the Trans-Missouri-Kansas regions, both of which estimate small reductions.

Automotive Output Lower for Latest Week

Production of 451,490 cars and trucks in September, a postwar monthly high, indicates that the 1947 goal of 5 million units for U. S. and Canadian plants will be reached, according to Ward's Automotive Reports.

Manufacturers plan to build more than 1,335,000 units in the final quarter, and, combined with the 3,679,688 turned out in the first nine months of the year, this would make the 1947 total more than 5,014,000, including approximately 3,685,000 passenger cars and 1,329,000 trucks. The truck total, it is understood, would be a new record.

Production in the United States and Canada during the past week totaled 103,443 units, compared with a revised figure of 106,734 units in the previous week and 91,925 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 76,820 units.

Last week's output comprised 97,450 vehicles made in this country and 5,993 in Canada. The U. S. total included 69,240 cars and 28,210 trucks, while the Dominion figure showed 3,890 cars and 2,103 trucks.

Business Failures Continue to Rise

In the week ending Oct. 2, commercial and industrial failures rose to 81, the highest number

(Continued on page 52)

The State of Trade and Industry

(Continued from page 51)

recorded for any week since early July, reports Dun & Bradstreet, Inc. While concerns failing were up only slightly from 77 in the preceding week, they were almost three times as numerous as in the corresponding week of 1946 when 28 businesses failed. Despite this sharp rise from last year's level, failures remained far below the prewar total of 279 which was reported for the comparable week of 1939.

Three-fourths of the week's failures involved liabilities of $5,000 or more. Numbering 64, concerns failing in this size group fell off slightly from 65 in the preceding week but exceeded last year's total of 22 by a wide margin. All of the increase during the week occurred in small failures with losses under $5,000 where 17 businesses went out with loss to creditors in the week just ended against 12 a week ago and 6 in the corresponding week of last year.

Retail trade had the largest number of concerns failing during the week. Totaling 30, failures in this group rose from 27 in the preceding week and were 10 times as numerous as in the comparable week in 1946 when only 3 retailers failed. Manufacturing with 26 failures also increased slightly from last week when 24 manufacturers failed; this was a rise from the 1946 total of 12. Only one other industry or trade group, wholesaling, had as many as 12 concerns failing this week. Construction and commercial service failures continued at a low level, totaling 5 and 8 respectively.

Four regions had about an equal number of businesses failing this week: the New England States with 14, Middle Atlantic with 17, East North Central with 16, and the Pacific with 16. Over twice as many failures occurred in each of these regions as in any other geographic division.

Wholesale Food Price Index Trend Slightly Upward in Latest Week

Food price trends were mixed this week with advances in individual commodities slightly more numerous than declines. This resulted in a small rise in the Dun & Bradstreet wholesale food price index to $6.93 as of Sept. 30, from $6.91 a week ago, when the index dropped sharply from the Sept. 16 record high level of $7.12. The current figure compares with $5.28 for the corresponding 1946 date, an increase of 31.3%.

Commodities that moved higher during the week were flour, wheat, corn, rye, oats, barley, lard, cheese, cottonseed-oil, cocoa, steers, and hogs. Lower quotations were recorded for hams, bellies, butter, coffee, potatoes, rice, raisins, currants, prunes, and lambs.

The Dun & Bradstreet Wholesale Food Price Index represents the sum total of the price per pound of 31 foods in general use.

Daily Wholesale Commodity Price Index Continues Upward Trend

After moving uncertainly in a narrow range for several days, the general price level resumed its upward trend, aided by sharp advances in grain and food markets. The Dun & Bradstreet daily wholesale commodity price index rose to 282.23 on Sept. 30, from 278.66 a week earlier, and 229.64 on the corresponding date a year ago.

Volume of trading in grains increased considerably last week. Irregular fluctuations featured early trading, but prices went sharply higher at the close, erasing much of the losses suffered during the preceding week.

Announcement of a sliding scale of margin requirements by leading commodity exchanges failed to check the advance. Aggressive buying of cash wheat for government account was a leading factor in the rise. Other influences included reports that the government export program would be increased sharply to 570,000,000 bushels, continued unfavorable weather in the Southwest winter wheat area and reports of killing frosts in the more northerly sections of the corn belt. A recent report issued by the Department of Agriculture indicated that about 70% of the corn crop was safe from damage as of Sept. 19. Following substantial bookings last week, domestic buying of flour was sharply curtailed due to spiraling wheat and flour prices. Livestock markets generally were firm with choice heavyweight steers setting a new high mark of $35.90 per hundredweight. Coffee remained steady but cocoa prices soared to new high ground, reflecting extreme tightness of supplies.

Cotton markets were fairly active during the week. Prices were easier and final quotations showed a moderate decline for the week despite a late rally influenced by strength in outside markets and the expectation of a higher parity price for the staple. The decline in early dealings reflected mainly heavy hedge selling against increased movement of the new crop. The mid-September parity price of 29.39 cents was announced after the close of trading on September 30. This was a new high record and represented a rise of 25 points over the Aug. 15 figure. The advance, however, was considerably less than the trade had anticipated.

Picking and ginning of cotton made good progress in most areas but labor scarcity was reported in many sections. In cotton textile markets prices were firm to higher. Inquiries for print cloths and sheetings were numerous but offerings were scarce due to the well sold-up condition of most mills.

Fine domestic wools remained in good demand during the past week. With very little fine staple wool available in the Boston market, most of the activity was reported from the wool growing sections of the West.

Prices on fine wools in the Australian auction sales were strong, but very little buying was reported for the accounts of United States importers. Imports of apparel wools into this country remained small, totaling 868,700 clean pounds in the week ended Sept. 19, as compared with 795,900 in the previous week.

Retail and Wholesale Trade Holds at High Level for Week and Year

Moderate increases in consumer purchasing occurred last week, with retail volume well above the level of the corresponding week a year ago. Resistance to high prices remained largely verbal, although discrimination in scattered areas resulted in slight declines in the prices of some goods. Articles of good quality in the medium price range continued to be sought. Credit and instalment buying increased but collections were generally slow.

Food volume rose moderately and substitutes for high-priced meats and butter remained popular. In some locales the increased demand raised prices of cheaper cuts of meat. Frozen foods and canned goods sold very well with the demand for sugar substantial. The buying of dairy products was steady and at a high level, with fresh fruits and vegetables plentiful and reasonably priced.

Fall apparel continued to attract favorable attention. The demand for women's suits, dresses and coats increased. Lingerie, hats and shoes also sold well. Wool sweaters and heavy weight underwear and sleepwear were purchased in substantial quantities. Men's Fall and Winter suits and topcoats were well received, with demand centering on medium-priced items. Children's back-to-school clothing and shoes were steadily purchased.

The demand for fishing and hunting equipment increased and automobile supplies and accessories were purchased in large volume. Good quality floor coverings and other household furnishings were eagerly sought. The scarcity of nationally advertised major appliances persisted, with demand for hardware, building supplies and paints considerable. Interest in notions, stationery and books improved.

Retail volume for the country in the week ended last Wednesday was estimated to be from 7 to 11% above a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 6 to 10, East and Middle West 8 to 12, Northwest 10 to 14, Southwest 9 to 13, South 5 to 9, and Pacific Coast 7 to 11.

Wholesale volume was well above that of both the preceding week and the corresponding week of 1946. Some resistance to high prices continued to be evident but buying generally was not restricted. The volume of reorders for some merchandise increased considerably, with buyers eager for quick delivery.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Sept. 27, 1947, increased by 24% from the like period of last year. This compared with an increase of 7% (revised figure) in the preceding week. For the four weeks ended Sept. 27, 1947, sales increased by 7% and for the year to date increased by 8%.

Sharp gains were established in retail trade here in New York last week as a result of the cool weather. Activity in the wholesale markets was marked by strong demand for coats and suits also reflecting the drop in temperatures. Furs were active, though dress reorders were slow.

Orders for mechanical equipment and durable goods continued strong with special increases in volume in office equipment lines.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Sept. 27, 1947, increased 35% above the same period last year. In using year-ago comparisons for this week allowance should be made for the fact that stores in Pittsburgh were open only one day last year owing to a power shortage. This compared with an increase of 21% (revised figure) in the preceding week. For the four weeks ended Sept. 27, 1947, sales increased 12% and for the year to date rose by 8%.

West. Gold Mines Stock Offered at $8.50 a Shr.

Western Gold Mines Inc., which is engaged in the business of developing, financing and operating mining properties in which it has acquired a controlling interest, is being financed through an offering of stock by Frank L. Porter, New York.

Western owns 93% of the outstanding stock of Brown Bear Gold Mines, Inc., located in California. In September 1947 this company, it was stated, made an important gold discovery—an ore shoot approximately 300 feet in length, some 300 feet below the surface.

Assays are said to reveal an average value of about 2 oz. gold per ton over an average width of about 1⅔ feet. The management estimates that it will require about 60 days to prepare this mine for regular operation at the rate of 25 tons per day. The property is now equipped with a 75-ton flotation mill.

Western also owns a 100% interest in the Silver Reef and Central Reef Mines, located in Utah. It is estimated by the company that there are 55,000 tons of probable ore reserves immediately available as a result of previous developmental work, 20,000 tons averaging 16.7 oz. silver and 0.5% copper, and 35,000 tons averaging 8 oz. silver and 1.5% copper to the ton. There are also said to be 50,000 tons of profitable dump ore on the property. These immediately available reserves of 105,000 tons are sufficient to operate a 100-ton mill for a period of 3½ years.

Western owns 225,000 shares, or 47% of the outstanding stock of Golden Crown Mining Co. of Arizona. Golden Crown owns ten mines and modern milling equipment. Profitable production for the six months period ending June 30, 1947 amounted to 867,000 pounds of zinc, 127,900 pounds of copper, 23,374 oz. of silver and 132 oz. of gold.

Western owns 200,000 shares, or about 90% of the outstanding stock of Rito Seco Mining and Milling Co. of Colorado. During 1946 and early 1947, 110 holes were drilled in 20% of the area which is believed to be mineralized. As a result of such drilling it has been estimated that there are over 630,000 tons of probable gold ore, or sufficient to operate the proposed mill for over three years. The drilling assays are said to have revealed an average value of $4.01 per ton.

To realize the capital needed to build a new mill, company is offering to the public 33,400 shares of common stock (10 cents par) at $8.50 a share. Of the $233,800 to be realized from the financing $130,000 will be used to construct the mill and $103,800 will be used for working capital and other corporate purposes. The issue is being marketed through Frank L. Porter.

What's Happened to the Wolf?

(Continued from page 2)

down" process or a rapid correction of present maladjustments.

This is the issue before the market today; if a favorable answer is forthcoming, another attempt to narrow the theoretical lag between stock prices and the various yardsticks of value can be witnessed. Hence, it is pertinent to consider the present position and outlook for the various determinants of the economy's state of health.

(1) Inventories—Sore Spot or Stimulant?

Within the past year, there have been recurrent fears that: (1) Industry's inventory accumulation program—although an important stimulant to the economy—inevitably and eventually spelled a repetition of the 1920 collapse; or (2) With war depleted pipe lines on their way to being filled, the time was near at hand when industrial activity would have to depend solely on domestic and foreign consumption. Thus far, these interrelated fears about an unhealthy but not necessarily fatal situation have proven premature. They have over-estimated the significance of localized sore spots which did result in production curtailments—and underestimated the weight of offsetting constructive considerations.

But what of the outlook from here out? Is the steadily slowing rate of manufacturers' inventory gains reported in recent months a deflationary sign—or elimination of the boom and bust threat that the situation might get completely out of hand? On longer view, the fact that manufacturers have recognized the dangers inherent in the present abnormal situation is a healthy development which will minimize any necessary corrections. On shorter view, however, the significant consideration is that the over-all business prop of inventory accumulation is being lost; the economy soon will have to stand on its own feet, i.e., consumption will be king.

Supporting evidence can be found in the fact that the steel and coal price rise did not "touch off" another buying spree; apparently, the urge and necessity to accumulate inventory today is not as pressing as it was a year ago. In turn, this condition reflects not only the high output level in various stages of manufacture, but the fact that a number of industrial raw materials have approached supply-demand balance, if not overabundance. Secondly, since last July manufacturers' shipments have been running ahead of new orders with resultant reduction in order backlogs. While this could mean nothing more than a return to backlog normalcy—i.e., a correction of order duplications, absurdly long delivery dates, etc.—it obviously lessens the pressure and incentive to maintain heavy inventories.

(2) Business Spending—Tightening Purse Strings!

From a broad point of view, industry's capital expenditures perform the necessary and desirable functions of: (a) Expanding the nation's productive capacity and improving our manufacturing efficiency; (b) Productively absorbing a portion of corporate and individual savings. The adjectives "necessary" and "desirable" also apply from a practical market point of view—for industry's capital outlays play an important part in determining the overall level of business activity. As a case in point, during the depression 30's there was a period when a 10% change in the value of the nation's goods and services was associated with a 25% change in plant and equipment expenditures.

More recently, a doubling of private expenditures for new plant and equipment has helped offset the business slack which might otherwise have been witnessed when government spending contracted after V-J Day. Of late, however, while certain industries such as the public utility probably will continue to spend an unprecedentedly large amount of money, there have been indications that a contraction in the over-all total probably is in prospect for 1948. For one thing, whereas in 1945 and 1946 quarterly estimates of plant expenditures were generally revised upward when the final figures became available, this year the actual expenditure is proving to be less than the original estimate. Secondly, the latest quarterly figures indicate a tendency to level off on a high plateau whereas in the past two years each quarter showed a steady increase in the annual rate of spending.

Naturally, there are offsetting constructive considerations which must be weighed; higher labor and other manufacturing costs intensify the need for modern cost-cutting facilities, etc. But with corporate management today more concerned about the general outlook than it was six months ago, caution may prevail with respect to the 1948 budgets. Bearing in mind that the present rate of expenditures reflects plans made a long time ago, another prop to the economy appears to be weakening.

(3) Exports—Fading Boom

If proof be needed that we are living in an interrelated world—that the United States cannot be an island of prosperity in a sea of depression—it can be found in the facts that: (a) While our exports to Europe from 1937 to 1940 were more than twice as large as our imports, European countries financed their trade deficit with us primarily by buying and selling from each other; (b) although last year we sold Latin America more goods than we purchased, these countries below the border in turn had an export surplus some five times as large with the rest of the world. In a like vein of thought, if proof be needed that an export boom has been one of the main stimulants to our economy this year, it can be found in the newspaper headlines of the past three weeks.

In light of the foregoing, it is pertinent to note the steadily accumulating evidence which suggests that the recent $15.1 billion annual export rate will not be maintained. (1) Following an almost uninterrupted month-to-month rise since last October, exports declined in June and July; significantly, most of the drop was in commodities which the world desperately needs; (2) With imports only offsetting 38% of our exports this year as compared with 71% from 1937 to 1941, many countries are attempting to curb our exports to them via prohibitive tariffs, tightening exchange controls or import bans on certain consumer goods; (3) The devastation and havoc wrought by World War II—and the Iron Curtain in Europe—have disrupted the normal relationships so necessary for world trade prosperity; (4) The British dollar crisis which has become front page news highlights and intensifies the situation inasmuch as the Sterling Bloc accounted for about 45% of our prewar exports.

After doubling between 1914 and 1920, exports were almost halved in 1921—and the slow rise thereafter during the prosperous 20's still left our foreign trade well below the post-World War I peak. Will history repeat itself in substance if not degree? Unquestionably, there are a number of factors in the present situation which cannot be under-estimated. For one thing, while foreign buying power has been reduced by price rises and there probably is a maldistribution of resources, the fact remains that gold and dollar balances are still well above prewar levels. Secondly, if only because of our political as well as economic self-interest, it seems that Congress will look with favor on the Marshall Plan and interim means of assistance will be called into play.

On balance, the one generalization which can be made is that another important prop to business activity is losing its potency; a contraction in exports appears inevitable.

(4) The Building Enigma

Although in effect a "horse and buggy" industry—one which is hampered by archaic labor policies, antiquated local laws and costly distribution methods—the building and allied trades nevertheless play an important part in the nation's economic well-being. For example, the construction field is not only the largest single outlet for new captal investment, but it is perhaps the country's major employer—directly and indirectly supporting about one-tenth of our total working force. Particularly pertinent to the present situation is the fact that the building industry "rescued" the economy in the 1920's, and more than offset the end of the post-World War I export boom.

Thus far this year, the security buyer has been treated to two notable shifts in the news and sentiment regarding the building industry's prospects. Reminiscent of 1920 when high cost halted the then budding boom, there were widespread indications this past Spring that the buying public and professional builders had rebelled against high prices. Old home prices sagged, a smaller number of new homes were started than in the forepart of 1946, and there were less than seasonal increases in construction actually put in place. Recently, however, under the stimulus of the loopholes in the new rent law and negative acceptance of the going price level, home sales and construction activity have increased.

The probability that building activity will reach a new dollar high this year means relatively little; the large number of projects started but not completed in 1946 almost made this a foregone conclusion. More important, is the question of the permanence of the up-swing noted above. In this connection, there are at least three factors that point to a hiatus in 1948: (1) Contract awards, which are a barometer of subsequent activity, have been below the 1946 level in recent months; (2) Contrary to earlier expectations, a non-residential building boom has not followed the removal of Federal controls; (3) It is doubtful that a mass market for homes exists at these prices.

The prospective decline in building activity next year may be small, however, inasmuch as the 1921 and 1938 experience suggests that residential building activity can be largely independent of national income fluctuations. Further, total construction activity undoubtedly will be bolstered by Federal and State highway and public works programs now being held in abeyance. But before building activity can become a positive stimulant to the over-all economy, there must be a decline in costs—in which connection it may be noted that: (a) The lesson of the 1920's is that only a moderate decline is required to stimulate activity; (b) Costs can decline without the necessity of a major recession.

Recession Not Academic

By way of emphasis, with the Federal Reserve Board industrial production index having declined to 178 in July from the March postwar high of 190, the question of a business recession no longer is academic. True, allowance must be made for the fact that the Summer dip was accentuated by the new factor of mass vacations and a return of the prewar factor of seasonal changes. Moreover, there is nothing especially alarming in the fact that the index averaged about 185 in the second quarter as compared with 189 in the first quarter. As was discussed in preceding paragraphs, however, the factors which make business activity—the basic props to our economy—are weakening, and the over-all trend has therefore changed. The initial postwar production high has been recorded.

Yet, *caution with respect to the business outlook does not necessarily spell an "all-out" pessimistic market policy.* For one thing, the existence of a deflationary gap does not automatically mean that a major depression is inevitable. Nor does it mean that we will witness a rapid correction of present maladjustments—reminiscent of 1920-21—rather than a "shaking-down" process. Secondly, unless general deterioration immediately occurs, investor psychology will be buoyed by continued prosperity in such industries as the steel, automotive, machinery and oil. In other words, the prospect of a moderate decline in the over-all business indices need not result in investment liquidation. Thirdly, the conservative rate at which current earning power is being capitalized permits price buoyancy in the face of a moderate downward business trend—for price is the acid determinant of purchase or sale. The theoretically best investment can be a poor speculation if the price is too high—whereas the most marginal company can be a good "investment" if the price recognizes all risks.

This last observation requires emphasis—for the background today is similar in some respects to last Spring, when an important advance came without warning and without apparent reason. All that really happened then was a slight improvement in the premium this community of economic hypochondriacs attaches to the value of stock ownership. Given any change in psychology—whether it be via the realization that stocks are the only cheap commodity or via the fearful hope of a world WPA—history can repeat itself. Only a two point increase in the price-times-earnings ratio of the Dow-Jones industrial would spell a return to the 1946 bull market high.

Market Conclusions

Practical market application of the foregoing suggests a number of generalizations: (1) There is a definite ceiling to the stock price level around—and probably below—the 1946 high; (2) The statistical cheapness of stocks may remain a feature of our times; (3) This condition in turn will soften the severity of any eventual price adjustments; (4) The prospect still remains one of "Baby" bull and bear markets within a broad trading range rather than extended swings; (5) While in past years the profits were mainly to the patient, the profits of 1947 will be only for the agile; (6) The 1947 stock market highs have not yet been recorded; (7) Speculatively, the fourth quarter may be the most interesting of the year.

Joins Merrill Lynch Staff

(Special to The Financial Chronicle)

LOS ANGELES, CALIF. — George G. Vodra has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

With Lawson, Levy And Williams

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF. — Richard S. Lesser is with Lawson, Levy & Williams, 1 Montgomery Street.

American Bankers Association Holds 73rd Annual Convention

(Continued from first page)

turning to the banking business as an assistant examiner, later becoming the senior examiner, in the Michigan State Banking Department. Subsequently he joined the Michigan Securities Commission as a special examiner and later became Secretary of the Commission.

In August of 1932, Mr. Dodge joined the First National Bank in Detroit and served as Vice-President and assistant to the chairman of the board of that institution in 1932-1933. He was Vice-President of the National Bank of Detroit in 1933, and has been President of The Detroit Bank since December, 1933.

Mr. Dodge has been active in the affairs of organized banking for a number of years. He was President of the Michigan Bankers Association from June, 1944, to June, 1945, and Vice-President the previous year. Before that he served on many committees of the state bankers association from the middle nineteen-thirties. For several years he was Chairman of the Legislative Committee of the Michigan Bankers Association and is now a member of its executive Council.

In 1946, Mr. Dodge's war services were recognized by the Government. On March 11, 1946, he was awarded the Distinguished Service Certificate of the United States Treasury for services rendered on behalf of the War Finance Program. On Sept. 18, 1946, Secretary of War Robert P. Patterson presented the Medal for Merit to Mr. Dodge on behalf of President Truman. The Medal for Merit is the highest civilian war award, ranking with the military Distinguished Service Medal, and is authorized only by the President of the United States for "exceptionally meritorious conduct in the performance of outstanding services in the war."

Mr. Dodge is also a leader in civic and business affairs in Detroit. He is a director of the Standard Accident Insurance Company there, a director of the Economic Club of Detroit, a director of Detroit Chapter of the American Red Cross and of Detroit Chapter of the Y. M. C. A. He is also a member of the Board of Trustees of Harper Hospital in Detroit. In addition he is a member of the Detroit Committee of the Council of Foreign Relations, a director of the Community Chest of Metropolitan Detroit, a director of Michigan Post of the Army Ordnance Association, and a trustee of the American Cancer Foundation.

Mr. Dodge is married and has one son. He makes his home at Grosse Pointe, Michigan.

Evans Woollen, Jr., Elected Vice-President

The Association elected Evans Woollen, Jr., President of the Fletcher Trust Company, Indianapolis, Ind., as Vice-President to succeed Mr. Dodge. Mr. Woollen was educated at Hotchkiss School and Yale University, receiving his A. B. degree from Yale in the class of 1920. During World War I, he served as Second Lieutenant in the 73rd Field Artillery. He started his business career in 1920 as a bank clerk, being identified with Fletcher Trust Company since that time. In 1935, he was elected President and a director of that bank. He was Vice-President and director of the Fletcher Joint Stock Land Bank from 1935 to 1943. Since 1942 he has been Vice-President of the Indianapolis Clearing House Association. He is a director of the State Life Insurance Company of Indianapolis.

In 1930, Mr. Woollen was appointed to the Indianapolis Board of Public Health and Charities. He was elected President in 1931 and served until 1933. From 1933 to 1935 he was Indianapolis City Controller. From 1938 to 1942 he was a member of the Indianapolis Board of School Commissioners, serving as President in 1941. He is a director and Past President of the Indianapolis Community Fund. He is a trustee of the National Health and Welfare Retirement Fund, having been elected to the board in 1944.

In 1943, Mr. Woollen was elected to membership on the Executive Committee of the Trust Division of the American Bankers Association and became Chairman of the Committee in 1944. He was elected Vice-President of the Trust Division in 1945, and served as President of the Division during the Association year just closed. He has been a member of the American Bankers Association Subcommittee on Federal Deposit Insurance Study since 1943.

Frank P. Powers Elected Treasurer

The Executive Council on Oct. 1 elected Frank P. Powers, President, Kanabec State Bank, Mora, Minnesota, as Treasurer of the American Bankers Association to serve a one-year term. Mr. Powers succeeds S. Albert Phillips, the Vice-President, First National Bank, Louisville, Kentucky.

Mr. Powers is a native of Stillwater, Minnesota. Early in his infancy, his family moved to Mora, Minnesota, where Mr. Powers attended the public schools. After the death of his father, he carried on the family farm until he entered the United States Army in the summer of 1918.

Upon his discharge from the Army in 1919, he accepted the position as cashier of the Quamba State Bank, Quamba, Minnesota, a town seven miles from Mora. In 1922 he was elected President of the bank. In 1932 the bank was moved to Mora and the name was changed to the Kanabec State Bank. Mr. Powers has been its President ever since.

Mr. Powers has taken a prominent part in the activities of the American Bankers Association; he was elected its Vice-President for Minnesota in 1935, and served as a member of the Organization Committee in 1936 and 1937. In 1939 he was elected a member of the Executive Committee of the State Bank Division, becoming Vice-President of the Division in 1941, and serving as President in 1942-1943. He was a member of the A. B. A. Executive Council during 1941-1944 and served as a member of the Nominating Committee from Minnesota several times He was a member of various committees and at present is a member of the Committee on Service for War Veterans, Consumer Credit Committee, and the Legislation Committee of the Executive Committee of the State Bank Division. He is a graduate of The Graduate School of Banking, conducted by the American Bankers Association, class of 1947.

Retiring President Addresses Convention

At the first General Session of the Convention on Sept. 30, the retiring president, C. W. Bailey, who is President of First National Bank of Clarksville, Tenn., called attention to the responsibility of bankers throughout the country in sharing in efforts toward world economic rehabilitation and readjustment. "As bankers we share with other Americans in the responsibility for providing material help and leadership in the task of world rehabilitation." Mr. Bailey stated, "While our banks do not produce food or manufactured products, our services are essential to the creation and carrying on of all productive enterprises. In bank checks, we have an efficient system for making payments and exchanging values. By extending credit, the accumulated wealth of our country, represented by deposits of more than $139 billion, becomes useful to individuals, to business firms, and to our government. Our commercial and savings accounts and our trust services are important in helping to keep the people of our country in a sound financial position. The basis for world recovery is a sound, productive America.

C. W. Bailey

"In our business of banking, we have applied the American custom of cooperating by our participation in activities of the American Bankers Association, the State bankers associations, and local banking groups. The American Bankers Association is by strict definition much more than a trade association. Its membership is made up of more than 96% of the banks by number, representing more than 99% of the banking resources of our country. Thousands of bankers representing institutions of all sizes located in every community serve as active members of its divisions, commissions, committees, sections, councils, and other working groups, each of which is devoted to some phase of banking or economic life."

Referring to banking progress, Mr. Bailey added, "It was one year ago that I stood before the convention of the American Bankers Association and said that bankers were challenged to provide better banking at every level. A year ago many responsible analysts and writers on economic subjects were fearful that we would have a business recession. Today, this fear has not been realized. Instead, our national employment has advanced to the highest level in our history, and per capita income in the United States is larger than ever before. All this has been achieved in the face of a greatly disturbed world outlook. However, while we have made much progress in our adjustment from war to peace, there remain to be solved many pressing domestic and world-wide problems.

"To enable us to help in solving these problems, your American Bankers Association has a broad over-all program into which is fitted the various specialized activities in which we as individual bankers participate according to our interests. We have our four divisions serving the four classifications of the banking business, including: the National Bank Division, the State Bank Division, the Savings Division and the Trust Division. We have our commissions which are devoted to improving bank management and operations, including the Bank Management and Country Bank Operations Commissions. Because country banking is of particular interest to me, I want to call attention to the work of the latter commission, which is devoted to improving the operations and services of smaller banks. More than 7,000 banks have taken part in its cost analysis studies during the past three years. It is now in the process of publishing a manual on 'Simplified Cost Analysis for Smaller Banks.' This is but one of its accomplishments."

R. M. Alton

Gordon D. Palmer

Elwood M. Brooks

L. A. Tobie

Harry C. Hausman

New Division Presidents

New presidents of the Association's various divisions include the following: R. M. Alton, Trust Division; Gordon D. Palmer, National Bank Division; Elwood M. Brooks, State Bank Division; L. A. Tobie, Savings Division; Harry C. Hausman, State Association Section.

Mr. Alton is Vice-President of the U. S. National Bank, Portland, Ore.; Mr. Palmer is President of the First National Bank of Tuscaloosa, Ala.; Mr. Brooks is President of the Central Bank & Trust Co., Denver, Colo.; Mr. Tobie is President of the Meriden Savings Bank, Meriden, Conn., and Mr. Hausman is Secretary of the Illinois Bankers Association.

Convention Proceedings and Resolutions

In addition to separate sessions of the various divisions of the Association, as well as committee meetings of committees, commissions and councils, and a number of receptions and teas, the Convention held two general sessions, one on Tuesday morning, Sept. 30, and the other on Wednesday morning, Oct. 1. Speakers at the first general sessions were Mr. Bailey, the retiring President, and Mr. Aldrich. Chester C. Davis and Under-Secretary Wiggins addressed the second and closing general session.

Before the final session closed resolutions were adopted covering government debt and spending, government lending, bank lending policies, housing and home financing, and agricultural and foreign policies. Regarding reduction of the government debt and European aid, it was held that "This country should be able to give reasonable aid to other countries to effect a substantial reduction of the public debt, and at the same time to make some further readjustment of the wartime tax burden at those points where it creates the greatest inequities and places the greatest handicap on the incentive of the people to work, and save, and create better living conditions."

In the matter of government lending agencies, the Convention approved a statement that "Loans and loan guarantees by governmental and semi-governmental agencies are in reality subsidies favoring certain groups of borrowers. They impose a further burden on the taxpayers at a time when the government's budget must be drastically reduced and they encourage unsound and inflationary lending.

"The country's banking system and other private credit agencies have the resources, the knowhow and the will to supply business, large and small, the credit it requires and should have."

And it was further stated: "At a time like the present, the banks of the country have a special responsibility in view of the inflationary trend. Their sound lending to the extent that it encourages production is anti-inflationary. At the same time, there is need for caution regarding loans that might be used for excessive and speculative inventory accumulation, for over-spending by individuals, or for over-expansion of business. Such loans stimulate inflation and involve abnormal risks for both banks and borrowers."

In a resolution covering remedies for current "inflation," it was recommended that the national budget be "better than balanced, the national debt be retired, production of all sorts be increased and people spend less and save more."

As a final resolution the Convention endorsed the program to help strengthen the international economy, but added that this nation "can help needy nations to help themselves, but it is not justified in lending other countries sums in such form or manner that they will be wasted or ineffective."

What to Do About Germany

(Continued from page 9)

interpreting this problem for the American public.

Since my return from Europe I have had the opportunity to address several business groups on this subject. In my talks I have stressed the importance of reviving Western Germany to relieve the plight of Western Europe. And I have suggested a plan for the industrial recover of this area.

My talks were based on my observations obtained during my trip to Europe last Summer where at the request of General Lucius D. Clay, I prepared a detailed 250-page report on what to do to get Germany on its industrial feet and eventually off the back of the American taxpayer. This report was submitted to General Clay on July 19. The release of the complete report has been authorized and as soon as sufficient copies can be obtained from the printer they will be given to the press. The report will also be published in book form by Farrar, Straus and Company on Oct. 27.

In my report to General Clay I stressed the fact that the key to the recovery of Western Europe is Western Germany. And the key to Germany's recovery is food and coal. As matters now stand, Western Germany is trapped in a vicious cycle.

The production of Ruhr coal is dependent on food, because the miners cannot work on a starvation diet. Food must be obtained from abroad because Western Germany cannot feed herself. Western Germany, therefore, must manufacture products for export in exchange for food. But her industry is stalled because of the lack of coal for power and other uses. And she cannot produce coal in sufficient quantities because of the lack of food. And so it goes.

Somewhere a start must be made to break this vicious cycle.

Application of Morgenthau Plan

Had it not been for the fallacious policy of Henry Morgenthau who wanted to make an agricultural nation out of an industrial nation, Germany would not be bogged down in such difficulties. Unforunately, Mr. Morgenthau persuaded President Roosevelt to accept this policy which, among other things, resulted in partitioning Germany into four zones. Russia and Poland gained control of Germany's breadbasket in the East.

While Russia is still waiting for a complete economic breakdown in the West to further her opportunities for conquest it is highly doubtful that she will agree to unification of Germany. Few people in Europe with whom I have talked have any such hope. My own belief is that there is little chance of Russia agreeing to unification at the November Council of Foreign Ministers in London.

Unification of Zones

Under the circumstances we should proceed immediately to bring about an effective unification of the British, American and French zones. Currently this appears to be the only basis for the economic rehabilitation of Western Europe.

In the three Western Zones of Germany there are 48,000,000 people. Deprived of Eastern Germany's breadbasket, these zones can provide only about half of their food requirements. The other half must be obtained by manufacturing and exporting goods in exchange for food.

Last Summer the German people were living on a diet of 1,200 calories a day. That is less than ½ the diet of the people of Britain and one-third the diet of the people of the United States. It is a starvation diet. No one can do heavy work and produce on such a diet.

This fact was clearly brought out the other day in a report from Germany. Because of food shortages Ruhr coal output has again slumped. On Sept. 4 a record of 244,080 tons was reached. Then food rations for the miners fell off. Output dropped to 238,800 tons. Because of an expected continued food shortage, coal output is expected to drop further.

In my "Report on Germany," I recommended that the diet of the German people should be increased to 2,600 calories over a five-year period and guaranteed under the Marshall Plan on a declining basis—100% the first year, declining at 20% intervals each year for the following four years. To make up the difference in this declining guarantee, the Germans would have to rebuild their productive capacity and exports accordingly. For a five-year period this declining guarantee for food would cost about $2 billion.

Under this plan meat and special energy foods would be provided, starting with the underground Ruhr miners. They would be given special coupons entitling them to a 75% increase in rations for a 50% increase in coal production. At present Ruhr production of coal amounts to roughly 240,000 tons a day. Proper nourishment for the miners would increase this to 360,000 tons a day.

The bulk of this food, of course, would have to come from the United States. This would be a heavy burden on the American taxpayer. Because of the world food shortage and the demands on our country for shipments of food to other areas of Western Europe in addition to Germany, our people would have to be less wasteful with food and would have to shift their diets somewhat to make these food exports possible. And all the while a proper balance would have to be maintained to prevent food prices from rising higher.

At the end of five years Germany should be required to repay us for our assistance. And repayment should be a first charge on Germany's capacity to pay. Repayment to us should even precede reparations.

The expenditures to assist Germany should be looked upon as an investment to get her into vigorous production, to fortify the shaky position of Europe and to help world recovery. Because it is an investment we should see that we provide the proper quality and quantity of food. For if we merely stuff the Ruhr miners and other Germans with poor food, they will not be able to work and we will have little chance of getting any return on our investment.

Restoration of Equipment

Food, of course, is not the only factor retarding Ruhr coal production. There are other factors such as poor and damaged equipment, inadequate housing, squalid working conditions, a mark that is almost worthless, an unwise allocation of Ruhr coal and the shortage of transportation.

Because of the acute shortage of transportation it would not be possible to haul all of the increased amounts of coal from the Ruhr mines, even if the miners were fed well enough to increase output. Railway equipment is being used to export from Germany 10,000,000 tons of coal to other European countries by an unnaturally long rail haul. To aggravate the transportation shortage, each country obtaining coal from Germany in cars that have been repaired by the military governments, keeps the good cars and sends back cars that are in bad repair.

When I went to Germany to study the problem of German recovery, I expected that the answer would be found in Germany. But as my studies developed it became amazingly clear that the crux of the recovery problem of Germany and Western Europe lay in the digging and exporting of coal by Great Britain.

Britain's Coal

Today Britain is not shipping coal to Western Europe. Before the war she did so. Her coal exports were the basis of her power. Her failure to export coal is one of the big factors contributing to her dollar shortage. And she is attempting to overcome this shortage by austerity, Nationalism and Socialism.

Meanwhile German plants are stalled because they cannot obtain coal. If a moratorium were declared for from one year to 15 months on the 10,000,000 tons of coal now being shipped out of the Ruhr, the restoration of Germany and Western Europe would be assured. But this moratorium is only possible if Great Britain once again supplies coal to the countries of Western Europe.

The leaders of all factions in Great Britain recognize that coal is the key to recovery. But they are reluctant to face the issue because the coal industry and the miners have presented such a critical problem for so many years. The vital importance of coal to a prosperous British economy is not being explained to the miners. The Labor Government insists upon putting reform ahead of sound recovery.

But austerity cannot take the place of production. More and more austerity only tends to push Great Britain further down in a depression cycle. For two years the Labor Government has been avoiding the main issue. Yet it has used the proceeds of our loan to buy food supplies. These supplies could have been bought, in part at least, with coal, had the miners been induced to dig coal for export.

No direct incentives have been

(Continued on page 56)

Canadian Securities

By WILLIAM J. McKAY

In view of the recognized stark realities of the international situation the failure of democratic statesmanship to exploit the latent strength of the free countries of the world is indeed remarkable. Piecemeal uncoordinated efforts along previously orthodox lines merely serve to throw into greater relief the inadequacy of the present economic machinery.

Before the war-ravaged countries of western Europe can prove their ability to help themselves it will be too late for North American aid to achieve its purpose. In place of loans, gifts and grandiose global plans of dubious merit based on the old conceptions, the democratic world is crying out for bold imaginative guidance. The Marshall Plan is indefnite in scope and entirely vague as to its application. The European customs union favored by some of the Marshall Plan countries in its suggested form is too limited to be effective even if it were possible to overcome the strong British opposition.

However, if such a scheme were extended to cover the entire democratic trading system the free peoples of the world would be given the first glimmer of hope for a return to economic sanity. In view of existing divergent interests, it would be difficult for either this country or Britain to sponsor such a revolutionary approach to this solution of the world's economic ills. There is, however, one country which is uniquely fitted to be the first to advocate a plan of this kind.

Canada already is giving serious consideration to the idea of economic union with her great southern neighbor and no country has a greater interest in a freer functioning of foreign trade. Both countries, moreover, are ideally situated to pioneer this great experiment, and thus offer the world the example of a 4,000 mile border not only unfortified but also free of unassailable tariff ramparts. It would, of course, be impractical to attempt to achieve immediate complete tariff freedom, but there are many glaring obstacles to U. S.-Canadian trade that could be removed forthwith. Canada would then be in a stronger position to advocate a similar plan to be put into effect between this country and the British Commonwealth as a whole with ultimate extension to include also western Europe.

In addition to Canada's favorable position for this purpose vis-a-vis the United States, no country is better equipped to interpret the American viewpoint to Britain and the rest of the democratic world. Furthermore, in world affairs in general, Canadian views are now received with increasing respect and attention and the objectives to be achieved are of equal importance to both Washington and Ottawa.

The next step along the path of world economic rehabilitation following the institution of a free-world customs union would be the establishment of a common world-currency. In this respect, Canada is also well qualified to take the initiative as the U. S. and Canadian dollars already have their parity in common. Thus Canada has the unique opportunity to offer the world a practical approach to the solution of the world's current ills and the removal of their economic causes would automatically lead to greater political stability and augmented hopes for world peace.

During the week the external section of the bond market developed a steadier tone and the internals also were inclined to strengthen following the firmer tendency of the free Canadian dollar.

Stocks, likewise, were on the upgrade, led by the liquor and paper issues, but the mining stocks with the exception of the senior golds, were less buoyant. In general, however, the market is inclined to await the return to Ottawa of Finance Minister Abbott before making important commitments.

Securities Salesman's Corner

By JOHN DUTTON

SHRINKING PROFITS IN SECURITIES BUSINESS STEP TOWARD COMMUNISM

(Continued from page 3)

margins of dealers even below today's small mark-ups and place them in direct competition with a few very large firms whose volume of business is so great that they can afford to work on the basis of straight stock exchange commission.

The Securities Exchange Acts which grant this excessive and unlimited power to the SEC, and the Maloney Act which does the same for the NASD, work right into the hands of the Marxists and Communists whether you know it or not. Those people who do not believe in our way of life and our free enterprise system want to see the securities industry in this country destroyed completely. They would destroy Wall Street first. They know that if the savings of the people do not go back into more and better tools and capital investment that the state will have to take over. That is what happens when bureaucrats have power to REGULATE MARK-UPS IN ANY BUSINESS.

The state has already taken over the securities business in this country. If you are a security dealer you may think you own your business. You do IN NAME ONLY. You pay the bills, take the risk and do the work but when it comes to the amount of profit you are allowed to make for your efforts THE NASD AND THE SEC TELL YOU HOW MUCH YOU CAN MAKE. The losses you can keep for yourself. As long as this condition exists in the securities business the production of risk capital in this country will remain at low levels, new men will not come into the business, and the MARXISTS WHO LIKE IT THIS WAY WILL CONTINUE TO WIN THE BATTLE OF AMERICA.

The next session of Congress should see two bills introduced: (1) An amendment to the Maloney Act repealing that section which denies the right of members of the NASD to trade with non-members except at the same price as with the public. Then those who are now in this association and wish to remain in it can do so and those who do not can resign. (2) A complete revision of the Securities Exchange Acts of 1933 and 1934 wherein all ambiguous and discretionary powers of the Commission are removed from the statutes. That which cannot be put into definitive law and meanwhile square with the Constitution of the United States should be abolished. It's about time we stopped trying to run the securities business in the midst of a guessing game.

NSTA Notes

TWIN CITY BOND TRADERS ASSOCIATION

The Twin City Bond Traders Association held its annual meeting

Robert S. McNaghten Bernard Decheine Preston B. Shute Kermit B. Sorum

at the South View Country Club in St. Paul on Friday, Sept. 26. New officers elected were as follows:

President—Robert S. McNaghten, Williams-McNaghten Co., Minneapolis.

Vice-President—Bernard L. Decheine, J. M. Dain & Co., Minneapolis.

Secretary—Preston B. Shute, Jamieson & Co., Minneapolis.

Treasurer—George A. MacDonald, First National Bank, Minneapolis.

National Committeeman — Kermit B. Sorum, Allison-Williams Co., Minneapolis.

What to Do About Germany

(Continued from page 55)

offered to the miners to go back to the six-day week and to produce extra coal during the week. If the miners did this they could increase coal production from 30 to 50 million tons a year. Assuming 30 million tons of coal exported at say $16 a ton, Britain would obtain $500,000,000. This would help materially to close the gap now existing between British exports and imports.

The direct return would be only a small part of the benefit to Great Britain for exporting coal. Other sections of the country would be encouraged to produce more in the hope of incentives. And if additional coal were available, British industries would be able to produce more goods for export.

There is no doubt in my mind that direct incentives to the miners will work. Britain has the coal and the barges to haul it. The miners have money but the things they want to buy are not available. I have suggested that the stores in the mining regions be stocked with needed commodities. Coupons, enabling the miners to buy these commodities could be given to them for increased production. They will then produce more coal. Their wives and children will see to that.

If Germany's industrial logjam is to be broken the British must assist by exporting 10,000,000 tons of coal to Western Europe so that this amount of Ruhr coal would be available to Germany.

This is the most important phase of any policy that may be adopted to revive Germany and Western Europe.

To be sure there are other vitally important aspects which we must consider. For example, Germany must be prevented from developing another war machine. Her munitions and aviation industries have been destroyed. She must never be permitted to have an army. In its place we should set up a coordinated army of occupation consisting of British, American and French forces and patterned after SHAEF which was so successful during the war.

We should ask General Eisenhower to reinstate this organization and to develop a civilian economic organization, also patterned after SHAEF. This latter organization would deal with the economic control of Germany and would make the Germans responsible for its political and economic administration.

A similar economic organization should be developed for Western Europe to assure us that that any assistance we give under the Marshall Plan will not be dissipated in boon-doggling activities or result in another Operation Rathole.

Recommendations

As we provide this food and this new organization for Germany we must rekindle new hope in the Germans. We must let them know that we will make it possible for them to rebuild their country and once more join the family of nations. To this end I suggest the following seven-point program.

(1) End the reparations of capital goods so that German industrialists will be able to forge ahead without fear that their plants will be dismantled and shipped to other countries.

(2) End the denazification program for all Germans with the exception of 80,000 top Nazis. At present the productive brains of Germany are in enforced idleness because they were nominal members of the Nazi party and had little choice when Hitler was in power but to do his bidding.

(3) Invite the Germans to participate in the Marshall Plan conferences.

(4) Clear the way for German exports.

(5) Establish a central government for Western Europe.

(6) Abandon the Morgenthau idea of a Federal Reserve System and establish a Central bank patterned after the banks of Europe.

(7) Provide new currency as soon as a Central bank is established, the budget is balanced and goods are available so that the currency will have value.

The reorganization of the German economy must be part of the reorganization of Western Europe under the Marshal Plan. It will cost billions to bring about Western Europe's recovery. We cannot and should not deceive ourselves on that score. And most of that money will have to come from the United States. But our assistance should not be in the form of another American dole. Rather, the loans should be an incentive to increase production, to help Western Europe to help herself.

If these loans are intelligently made, they can be repaid, provided we are willing to accept the bulk of the payment in physical goods.

Loans may be made through the International Bank for Reconstruction and Development and through private investment bankers. These would be repaid through the normal channels of foreign trade. Our Export-Import Bank could also make loans to be repaid later in goods for use in any possible relief program that we might face in the United States.

The bulk of the loans, of course, would have to be direct from our government. They could be repaid in two ways. Borrowing countries could obtain dollars through sales to us of physical goods and services. Where this is not possible borrowing countries could deposit their currency in a fund to be used by American investors for the purchase of investments in these countries. American investors could exchange dollars for the currency of the borrowing country. The dollars thus obtained would be paid by the borrowing country to the U. S. Government.

In any question dealing with the repayment of foreign loans by means of physical goods, the problem of the tariff arises. Reduction of the tariff would go a long way toward the repayment of these loans.

As a suggestion, Congress might consider a new plan to permit a generalized quota of imports duty free up to 10% of the physical quantities of the production of any American industry now having a protective or prohibitive tariff. Over a period of years, such a moderate importation would not be destructive of either American industry or American labor. But, over a long period of years, this quota of duty-free imports would permit the repayment of these loans.

Summing up, any new policy for Germany must deal with the military, political and economic organization of the three Western Zones of Germany, with the psychological aspect of giving new hope to Germany, with the use of food and other incentives to increase the production of coal in both Great Britain and Germany to get industry going, and with provision for a practical means of repayment for our assistance.

We can prevent Europe's collapse and can do it in a business-like way. The cost of such prevention would be immeasurably less than the cost of a depression that conceivably could wreck our economy.

It is up to the leaders of our government and the committees of Congress to act with the utmost promptness in developing a plan for Western Europe's recovery for submission to a special session of Congress this Fall.

Let us not delude ourselves. There is no time for delay.

From Washington Ahead of the News

(Continued from page 6)

would have had recognition from the board but no way to process their complaints.

Denham would have been on sound ground had he taken this stand. He was being beseiged by telegrams and letters to do just this. And this was his mood. Counsel prevailed upon him not to take this stand and bring about the picture of a ridiculous situation in the NLRB which would probably bring about the downfall of the whole works.

This is not what would have happened, apparently, because the AFL, meeting in San Francisco, was moving to remove Mr. Lewis as their obstacle to the NLRB machinery. All in the world it had to do was to change its constitution to eliminate the provision that the members of its executive council are Vice-Presidents. This it seemed, the convention was about to do.

The NLRB, in the meantime, was languishing for want of business. The typical Bureaucrats composing it were getting frightened with the thought they might be out of jobs. This was not true in the case of Denham who was persuaded by friends that the whole thing would be clarified when Congress meets and therefore he should not let himself be made such a case of controversy as to make impossible his reappointment. He is now serving under an interim appointment.

Anent all the rhetoric that has been written and spoken about this particular provision of the Taft-Hartley Act, there is not the slightest doubt as to what Congress intended. It wanted to run the Communists out of the CIO. Sitting around and discussing with the labor and legal theorists, I am told that Denham's interpretation wouldn't get this particular fellow or that particular fellow in the CIO.

It seems to me that either his interpretation or that one now adopted by the board will get him, get every one of them.

The only thing is that once again Lewis is able to strut and claim another victory against the U. S. Government. This is the only thing involved in the matter of the Board's flip-flop and Denham's acquiescence. Frankly, I am inclined to think Denham acted decently in the circumstances.

But what the AFL and the CIO seemingly don't know is that management can challenge the board's interpretation any time it sees fit and therefore hold up a representation case or one of a complaint of unfair labor practice.

It so happens though that organized labor, or the leaders are making a strenuous fight to hold their power on the ground that the Taft-Hartley Act is a slave-labor act. They can say now they have made a dent in it, or that John L., the Great has.

For management, there is this comfort: When the labor leaders are engaged with an issue of this kind, they are not so likely to be demanding higher wages for their constituents.

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. 12	96.1	94.4	84.3	90.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Oct. 12	1,681,700	1,651,900	1,475,200	1,593,200
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Sept. 27	5,196,000	5,199,900	5,156,850	4,777,500
Crude runs to stills—daily average (bbls.)	Sept. 27	5,290,000	5,280,000	5,209,000	4,817,000
Gasoline output (bbls.)	Sept. 27	16,501,000	16,388,000	16,753,000	14,824,000
Kerosine output (bbls.)	Sept. 27	2,022,000	1,993,000	1,910,000	1,726,000
Gas oil and distillate fuel oil output (bbls.)	Sept. 27	6,136,000	6,275,000	5,919,000	5,727,000
Residual fuel oil output (bbls.)	Sept. 27	8,580,000	8,772,000	8,962,000	7,974,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Sept. 27	82,472,000	81,987,000	84,105,000	86,813,000
Kerosine (bbls.) at	Sept. 27	22,829,000	22,254,000	20,723,000	21,203,000
Gas oil and distillate fuel oil (bbls.) at	Sept. 27	60,406,000	59,283,000	54,808,000	60,825,000
Residual fuel oil (bbls.) at	Sept. 27	56,777,000	56,934,000	55,242,000	58,858,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Sept. 27	937,954	931,072	925,732	916,515
Revenue freight rec'd from connections (number of cars)	Sept. 27	729,165	712,453	701,227	716,316
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Oct. 2	$166,812,000	$135,183,000	$122,766,000	$133,719,000
Private construction	Oct. 2	130,241,000	83,105,000	90,272,000	49,988,000
Public construction	Oct. 2	36,571,000	52,078,000	32,494,000	83,731,000
State and municipal	Oct. 2	24,563,000	43,802,000	28,884,000	75,217,000
Federal	Oct. 2	12,008,000	8,276,000	3,610,000	8,514,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Sept. 27	12,300,000	12,240,000	12,030,000	12,864,000
Pennsylvania anthracite (tons)	Sept. 27	1,278,000	*1,256,000	1,200,000	1,260,000
Beehive coke (tons)	Sept. 27	134,400	*134,100	129,500	123,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Sept. 27	317	301	277	257
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Oct. 4	4,934,851	4,956,415	4,720,659	4,478,092
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 2	81	77	60	28
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Sept. 30	3.19141c	3.19141c	3.19141c	2.73011c
Pig iron (per gross ton)	Sept. 30	$36.93	$36.93	$37.08	$28.13
Scrap steel (per gross ton)	Sept. 30	$37.75	$37.75	$37.83	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Oct. 1	21.225c	21.225c	†21.225c	14.150c
Export refinery at	Oct. 1	21.425c	21.425c	†21.425c	16.900c
Straits tin (New York) at	Oct. 1	80.000c	80.000c	†80.000c	52.000c
Lead (New York) at	Oct. 1	15.000c	15.000c	†15.000c	8.250c
Lead (St. Louis) at	Oct. 1	14.800c	14.800c	†14.800c	8.100c
Zinc (East St. Louis) at	Oct. 1	10.500c	10.500c	†10.500c	8.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 7	122.24	122.11	122.49	121.02
Average corporate	Oct. 7	114.66	114.85	117.00	116.80
Aaa	Oct. 7	119.41	119.61	121.67	121.25
Aa	Oct. 7	117.60	117.80	120.02	119.00
A	Oct. 7	114.85	114.85	116.80	116.61
Baa	Oct. 7	107.27	107.62	109.79	110.34
Railroad Group	Oct. 7	109.60	109.97	112.37	112.37
Public Utilities Group	Oct. 7	116.62	116.41	118.60	117.80
Industrials Group	Oct. 7	118.20	118.20	120.22	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Oct. 7	1.49	1.50	1.51	1.65
Average corporate	Oct. 7	2.92	2.91	2.80	2.82
Aaa	Oct. 7	2.68	2.67	2.57	2.59
Aa	Oct. 7	2.77	2.76	2.65	2.70
A	Oct. 7	2.91	2.91	2.81	2.82
Baa	Oct. 7	3.32	3.30	3.18	3.15
Railroad Group	Oct. 7	3.19	3.17	3.04	3.04
Public Utilities Group	Oct. 7	2.85	2.83	2.64	2.65
Industrials Group	Oct. 7	2.74	2.74	2.64	2.65
MOODY'S COMMODITY INDEX	Oct. 7	439.7	438.2	426.2	339.7
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Oct. 4	232.9	231.4	226.1	187.4
Fats and oils	Oct. 4	245.0	234.1	187.6	193.1
Farm products	Oct. 4	265.5	258.6	261.0	217.5
Cotton	Oct. 4	290.5	294.6	303.2	368.4
Grains	Oct. 4	295.4	274.5	277.9	216.8
Livestock	Oct. 4	262.3	256.5	256.1	194.2
Fuels	Oct. 4	190.6	190.6	191.6	154.2
Miscellaneous commodities	Oct. 4	169.3	167.8	164.2	143.5
Textiles	Oct. 4	214.2	214.5	210.9	210.8
Metals	Oct. 4	159.1	159.1	159.1	124.5
Building materials	Oct. 4	226.6	226.5	231.3	178.6
Chemicals and drugs	Oct. 4	151.5	149.6	149.7	128.2
Fertilizer materials	Oct. 4	135.6	134.0	130.8	121.9
Fertilizers	Oct. 4	135.7	135.7	135.5	125.1
Farm machinery	Oct. 4	127.1	127.1	127.1	116.5
All groups combined	Oct. 4	213.3	211.0	210.2	173.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Sept. 27	180,644	152,814	167,268	160,969
Production (tons)	Sept. 27	183,554	181,483	176,588	170,970
Percentage of activity	Sept. 27	102	101	99	101
Unfilled orders (tons) at	Sept. 27	437,550	440,769	425,412	569,409
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 3	144.5	143.3	140.1	139.4
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Sept. 27	156.2	158.1	154.0	124.4
Farm products	Sept. 27	184.7	189.8	181.7	156.6
Foods	Sept. 27	177.6	182.3	172.1	133.0
Hides and leather products	Sept. 27	186.2	185.5	183.3	140.9
Textile products	Sept. 27	140.8	140.7	140.1	125.4
Fuel and lighting materials	Sept. 27	115.0	115.0	114.2	95.1
Metal and metal products	Sept. 27	150.4	150.3	149.8	114.2
Building materials	Sept. 27	182.0	180.9	179.3	134.0
Chemicals and allied products	Sept. 27	123.6	122.2	117.6	98.2
Housefurnishings goods	Sept. 27	131.9	131.9	131.9	115.0
Miscellaneous commodities	Sept. 27	114.9	115.1	115.9	101.8
Special groups—					
Raw materials	Sept. 27	171.1	173.6	167.9	143.6
Semi-manufactured articles	Sept. 27	151.3	150.9	149.9	116.7
Manufactured products	Sept. 27	150.9	152.7	148.9	117.5
All commodities other than farm products	Sept. 27	150.0	151.1	147.9	117.4
All commodities other than farm products and foods	Sept. 27	138.2	138.0	137.3	112.4

*Revised figure. †Sept. 1 being a holiday—quotations are given for previous day.

	Latest Month	Previous Month	Year Ago
BANKERS DOLLAR ACCEPTANCES OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Aug. 30:			
Imports	$132,792,000	$114,898,000	$152,260,000
Exports	46,762,000	45,056,000	21,642,000
Domestic shipments	8,407,000	9,439,000	12,053,000
Domestic warehouse credits	11,350,000	11,286,000	13,666,000
Dollar exchange	1,100,000	1,000	22,000
Based on good stored and shipped between foreign countries	5,896,000	6,664,000	7,205,000
Total	$206,307,000	$187,344,000	$206,848,000
BUILDING CONSTRUCTION IN URBAN AREAS OF THE U. S.—U. S. DEPT. OF LABOR—Month of June:			
All building construction	$475,000,000	$427,000,000	$411,000,000
New residential	261,000,000	228,000,000	243,000,000
New non-residential	134,000,000	127,000,000	106,000,000
Additions, alterations, etc.	80,000,000	72,000,000	62,000,000
Non-Federal—all building construction	460,000,000	418,000,000	347,000,000
New residential	254,000,000	228,000,000	189,000,000
New non-residential	130,000,000	120,000,000	104,000,000
Additions, alterations, etc.	76,000,000	70,000,000	54,000,000
Federal—all building construction	15,000,000	9,000,000	64,000,000
New residential	7,000,000	------	54,000,000
New non-residential	4,000,000	7,000,000	2,000,000
Additions, alterations, etc.	4,000,000	2,000,000	8,000,000
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD—Month of August:			
Total U. S. Construction	$494,805,000	$413,494,000	$373,056,000
Private Construction	301,785,000	222,772,000	229,622,000
Public Construction	193,020,000	190,722,000	143,434,000
State and Municipal	152,979,000	146,324,000	118,066,000
Federal	40,041,000	44,398,000	25,368,000
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK—As of Aug. 29	$244,000,000	*$244,000,000	$142,000,000
CONSUMERS PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES—1935-39=100—As of July 15:			
All items	158.4	157.1	141.2
All foods	193.1	190.5	165.7
Cereals and bakery products	155.0	154.6	126.2
Meats	220.2	216.9	173.7
Dairy products	178.8	171.5	179.1
Eggs	203.0	183.0	161.0
Fruits and vegetables	202.0	205.0	188.4
Beverages	180.8	181.3	126.0
Fats and oils	182.0	188.3	137.9
Sugar and sweets	179.7	179.7	138.5
Clothing	184.7	185.7	158.7
Rent	110.0	109.2	----
Fuel, electricity and ice	119.5	117.7	113.3
Gas and electricity	91.7	91.7	92.1
Other fuels and ice	146.6	143.0	133.8
Housefurnishings	184.3	182.6	157.9
Miscellaneous	139.5	139.1	128.2
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of August	263.7	281.2	262.7
COTTON GINNINGS (DEPT. OF COMMERCE)—Prior to Sept. 16:			
Running bales	1,552,858	647,391	1,225,327
COTTON SPINDLING (DEPT. OF COMMERCE)—			
Spinning spindles in place Aug. 31	23,807,000	23,832,156	23,884,702
Spinning spindles active on Aug. 31	21,197,000	21,415,434	22,018,548
Active spindle hours, August	9,034,000,000	8,530,817,633	9,448,813,582
Average spindle hours per spindle in place August	379	358	396
EMPLOYMENT AND PAYROLLS—U. S. DEPT. OF LABOR—Month of July:			
Estimated number of production workers in manufacturing industries—			
All manufacturing	12,267,000	12,404,000	11,767,000
Durable goods	6,309,000	6,488,000	5,984,000
Nondurable goods	5,967,000	5,916,000	5,783,000
Employment indexes—			
All manufacturing	149.9	151.4	143.6
Durable goods	174.7	179.7	165.7
Nondurable goods	130.3	129.1	126.2
Payroll indexes—			
All manufacturing	313.9	319.6	267.1
Durable goods	350.6	365.9	296.3
Nondurable goods	277.9	274.2	238.5
Estimated number of employees in manufacturing industries—			
All manufacturing	15,170,000	15,327,000	14,526,000
Durable goods	7,655,000	7,863,000	7,307,000
Nondurable goods	7,515,000	7,464,000	7,219,000
FACTORY EARNINGS AND HOURS WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of August:			
Earnings—			
All manufacturing	$49.29	*$49.03	------
Durable goods	52.49	*52.23	------
Nondurable goods	45.98	*45.65	------
Hours—			
All manufacturing	39.8	*39.8	------
Durable goods	39.9	40.0	------
Nondurable goods	39.7	*39.6	------
Hourly Earnings—			
All manufacturing	$1.238	*1.232	------
Durable goods	1.314	*1.306	------
Nondurable goods	1.158	*1.152	------
MONEY IN CIRCULATION—TREASURY DEPT.—As of July 31	$28,148,676,876	$28,297,227,423	$28,253,878,909
NEW BUSINESS INCORPORATIONS—DUN & BRADSTREET, INC.—Month of August	8,055	9,041	10,400
PRICES RECEIVED BY FARMERS—INDEX NUMBER—U. S. DEPT. OF AGRICULTURE — August 1909-July 1914 = 100—As of Sept. 15:			
Unadjusted—			
All farm products	286	276	243
Crops	254	255	236
Food grain	278	246	207
Feed grain and hay	297	270	221
Feed grain	346	313	248
Tobacco	352	383	396
Cotton	252	267	285
Fruit	181	177	210
Truck crops	179	211	154
Oil-bearing crops	311	308	236
Livestock and products	315	295	250
Meat animals	367	349	249
Dairy products	282	258	271
Poultry and eggs	246	224	221
Seasonally adjusted:			
Fruit	180	171	205
Truck crops	253	275	235
Dairy products	278	265	267
Poultry and eggs	236	224	213

*Revised figure.

Iron Hand Over Securities Business Oppresses Our Economy

(Continued from page 2)

has seemed right and proper to stress the popular doctrine of "to each according to his needs," yet, fundamentally, this has been a "share the poverty" program disguised as a "share the wealth" measure.

Two Fallacies

I want to call attention to two popular fallacies. One of them now is current in Russia and the other one is abroad in America.

The Russian fallacy assumes that our present prosperity in America is sowing the seeds of a depression in which Capitalism will perish from the earth.

The American fallacy is that mankind, in spite of all its human errors, inevitably must continue to progress. One fallacy is as bad as the other.

Civilization does not have to continue its march forward. The world can retrogress just as easily as it can progress. As a matter of fact, it did retrogress for hundreds of years after the fall of Rome: and its recent persistent progress dates only from the discovery of the steam engine and the beginning of the capitalistic system.

Let's treat with the Russian fallacy first. I say it is Russian, but it is held in some form or other in most of the other countries of Europe.

The Soviet rulers tell their people that capitalism contains in itself the seeds of its own destruction; and that for this reason, if for no other, such a highly developed system as we have in America must commit suicide. They teach that it only will be necessary for Communism to wait, and the North American giant, like a ripe apple, will fall with all its wealth into the laps of those who rule in Moscow.

Now, let us consider the other fallacy, which is far more dangerous. Humanity does not automatically go forever from one good thing to something better. Europe, in our time, has found this out. The condition of the common man has ceased to improve from year to year and generation to generation in England, in France, in Germany, in Italy, in Czechoslovakia, in Hungary, in Poland, in Bulgaria, in Roumania, and in Greece. Things do not have to keep on getting better in America. We can be caught in the backwash of the world's folly.

These are unorthodox times and, in some respects, we must accept unorthodox methods in dealing with our vast economy. Centralized and absolute planning is dangerous. It is dangerous because few, if any, of us understand exactly how the economy works. We see part of the picture, but not all of it. Moreover, even the most conscientious planners are influenced as to objectives by a selfish outlook and a limited experience.

Capitalism Not Planned

In the political and economic area, the planners in a capitalistic society immediately come in contact with a set of automatic checks and balances, the perfect working of which is necessary to correct the combined mistakes of society and to keep the whole system operating for the benefit of humanity. Whenever we try to avoid a check, we lose a balance; and when we lose one balance we set other things out of balance. Soon the system works less effectively because someone has meddled with its operation.

It cannot be too often or too emphatically stressed that the system of enterprise known as capitalism was not planned. It evolved spontaneously, without human planning, out of the experience of society. It is not operated by turning spigots on and off or raising and lowering levers. The would-be social mechanics, who tamper with the complicated inter-relationships of hundreds of millions of men and women, lack the intelligence of the system itself. A loose screw here, a broken cog there, and an artificial gear somewhere else can make the whole structure squeak and groan.

In late years, the economic planners and the reformers have tampered more and more with this complex machine. On the European continent and in England the machine actually has been injured to such an extent that it almost ceases to operate. Here, at home, the dilutions of capitalism have been more minor in nature.

But capitalism can be destroyed, progressively, by so diluting it as to make it ineffective. Socialism has watered down the standard of living in Britain and Communism merely has guaranteed perpetual poverty and hopeless slavery for the many millions of Russians who deserve a much better fate.

Dangers of Unwise Planning

I have no fear that America ever will kill the goose that lays the golden eggs, by voluntarily abandoning capitalism, but I do fear that unwise planning will make "improvements" on this automatic system of checks and balances destroying its effectiveness.

The out-and-out Communist is not dangerous in our political system. Our people will not listen to a nostrum which keeps a great nation like Russia, a thousand years behind the rest of the world, and fails to fill the stomachs of its followers. The well-meaning economic planner, however, can be a menace.

These are dramatic times. We seem to have a new crisis every morning and every evening.

Sometimes we forget the reason. The world is sailing through the backwash of the biggest war the world has ever experienced.

War disorganizes the world's normal trade relationships, it disturbs currencies, it destroys property, it creates shortages.

War has its human consequences—it impairs morals and tires personal and public morale. People are confused and they are as confused when the war is over as when it is in progress.

With the economy disturbed and the human factor physically and emotionally fatigued, time honored institutions begin to be questioned. We need not fear for the future of our institutions for we as a people recognize the weak links and act to correct those errors in time. The weak link that I am disturbed about is the shortage of private venture capital at a time when the demands for such capital have never been greater in the history of the country.

Venture Capital Needed

Industry, to grow, must have capital and, I repeat, there is a great need and demand for it now. I fear, however, that too many people in high places fail to realize that there is an alarming shortage of venture or equity capital today. I'd like to discuss for just a moment, a few of the causes of this shortage.

For too many years, all to frequently, our economy has depended entirely too much upon the government, upon its capital. In the early '30s when bankers could not make loans and the market for securities had almost disappeared we adopted a program of planned economy and the government not only went into the banking business but recapitalized the banks through the purchase of preferred stocks. Just about the time we began to recover from that situation we were thrown into war and it became necessary to supply, not only our own war machine, but that of our allies as well. The industrial expansion was on such a gigantic scale that the government again furnished the necessary capital. Following the war, industry began to use up its reserves and surplus earnings for reconversion and when that source showed signs of exhaustion and industry began to look to the normal source of capital, the securities markets, it found that these markets apparently were suffering a depression at a time when most all other lines of business flourished. This is evidenced by the fact that new common stocks are becoming increasingly difficult to sell. The bond market, the market for preferred stocks, has become sticky, increasing the depressing effect on the market for junior securities.

Some market analysts and economists say the lack of interest on the part of the investing public in securities is caused by the uncertainty of the foreign picture, but I fear it goes much deeper than that.

For the past 15 years, we have done such a good job of socializing the income of this country that we are gradually drying up the normal sources of equity capital. The pressing demand for taxes has blinded our perspective and we may kill the proverbial goose.

The demand for capital is necessary because our economy is crying for production. To expand, industry has had to go into debt, instead of equity financing, and this is an unsound policy.

Eccles' Inconsistency

In an address on Sept. 25, last, before the National Association of Supervisors of State Banks, Marriner Eccles, Chairman of the Board of the Federal Reserve System, declared:

"Supervisors should take a critical attitude toward any expansion of loans unless they contribute directly to increased production and movement of goods."

Mr. Eccles mentioned, specifically, curbs on consumer credit, real estate loans, loans to carry excessive inventories, and any loans for speculative purposes. Since the middle of the year, according to the same address, loans and investments of commercial banks have been expanding at a rate equivalent to $10 billion a year. Now, if Mr. Eccles is really disturbed about the big increase in commercial loans, it is difficult to understand why he persists in holding such an iron hand over the securities business.

How can he justify a 75% margin requirement when stock market credit has declined to a level lower, in relation to stock prices, than at any time for which data are available? Or when the volume of stock trading, in relation to national income, is only a small fraction of what it was in the period from 1920 to 1925 when no one considered the volume of business on the New York Stock Exchange excessive?

And how can he justify prohibiting of the substitution of stocks in so-called frozen accounts because they are not up to his 75% margin requirements? By doing so, he places the American investor in the same category as the foreigner, whose assets were frozen during the war. The foreigner, however, has had better treatment because, in most instances, he has been granted the right of substitution.

All these unnecessary restrictions, at a time when the amount of credit used for carrying securities is insignificant when compared to the total value of securities outstanding. I am forced to say that, in my opinion, he has gone far beyond the intent of Congress when it gave the Federal Reserve Board power to regulate the amount of credit that can be used for carrying listed securities.

Mr. Eccles, however, does recognize the need for capital. In the talk to which I referred, made by Mr. Eccles, he urged that commercial banks be required to enlarge their capital if they persist in increasing risk assets either by retention of earnings, or, if earnings are not large enough, by sale of additional stock. Mr. Eccles appears to overlook the fact that the banks, by and large, have been following very conservative dividend policies. Moreover, because of the low level of stock prices generally, the stocks of many of the leading banks are selling below book value, precluding the raising of capital through the sale of additional stock. The capital needs of the banking industry and the difficulty it is undergoing in raising additional capital on any terms are clear indications of the present status of our new issues market. The Federal Reserve Board, I am constrained to say, lacks understanding of our capital markets. Stock prices do not have iron curtains isolating one from the other. Values are inter-connected and, already, the weakness of industrial and other stocks of high quality, following announcement of the attempt to raise additional capital, has had its effects throughout the entire economy.

Sound Patterns to Follow

In conclusion, I know of no form of debt other than public debt—whether it be within or without the banking system—that does not call for equity. The higher commodity prices and the greater the risk, the larger the proportionate amount of equity to debt. This is the only sound and logical course to follow; and I believe it is the present-day pattern, for bank officials and other lending agencies are demanding from the borrower stiffer terms and higher interest rates on loans. The call is for an abundance of venture capital; otherwise, large scale new financing and bank accommodations will not be forthcoming.

My recommendations in dealing with the present-day situation call for imagination and bold decision in the fields of credit control and taxation. We cannot put a discrimination against listed securities on our regulated stock exchanges without driving speculation—inherent in our system—into other forms of venture. Margin requirements should have been lowered long ago to 50%. This would have tended to check rein loose and uninformed speculation in other markets.

The tax structure must be revised in the interest of venture capital.

I might add that a realistic approach to the problem of further financial aid to foreign countries cannot ignore the question of tax relief for the American taxpayer, in the interest of producing a flow of private risk capital to deal with the global problem. The tax program for 1948 shapes up in two directions: Democratic and Republican; it should be so completely divorced from petty political considerations as is our foreign policy. From the point of view of world conditions, the most tragic thing that could happen today, short of war, would be a slump in business in this country, resulting in a sharp increase in unemployment, accompanied by social unrest.

Incentive and initiative, products of the profit system, are the spurs to continued recovery. Our tax policy should revolve around venture capital and the factors of incentive and initiative in all ranks of our society.

Dollar Problem and World Trade

(Continued from page 7)

the case of Bohemian glass, which is unobtainable because millions of Germans have been resettled. Either new factories have to be built in Germany or new workers trained in Czechoslovakia. Here then is another aspect of the dollar shortage.

Dollars are also short because other currencies are inflated more than the dollar. This has many curious results. The inflation of internal purchasing power increases the demand for American goods, which in many cases are cheaper than competitive goods despite the price rise here. Inflation also has the effect of driving dollars out of the country where the inflation is running. Gresham's law, which says that bad money drives good money out of circulation, is illustrated on an international scale. In France, for example, gold and dollars have disappeared into hoarding. The inducement to evade exchange controls is immense, and investment of new dollars is repelled.

Furthermore, inflation discourages production. It leads to resort to more planning, controls and regulation, which stifles enterprise. People have money, but can't buy much more than their rations with it, and they lack incentive.

In the world generally, therefore, inflation is a far greater factor in dollar shortage than most people realize. What is necessary is fiscal reform, elimination of deficits, revaluation of currencies where unavoidable, and restoration of confidence in currencies and the habit of saving. Mistrust in currencies has brought black markets, speculation and a flight into goods. It has been responsible for the slow progress in expanding production. Will the rice farmer in Burma or the wheat farmer in France exert himself if his rupees or francs tend to lose their purchasing power? Will a miner in the Ruhr work hard if he cannot buy anything for the marks he earns?

What implication does the shortage of dollars hold for world trade in basic commodities? Once gold and dollar reserves are reduced to the minimum, and if loans are discontinued and exhausted, foreign countries will be able to buy from us no more than they can sell to us. To sell us more, the prices of their overvalued goods and services must tend to come down. The implication is that a bearish influence will be exerted on prices in dollar areas.

Again, if we assume that the dollar shortage will become more acute, the support that our enormous export surplus is giving to our domestic situation will be weakened. Let me remind you again that this surplus of exports over imports ran for a time in the early summer at the rate of $13 billion annually. This means that our producers were being paid for $13 billion of goods and services which were moved out of our country, which were not available for use by the people who produced them. This is inflation. It is quite true that the amount of inflation may be, and to some extent has been reduced because the Federal Government has taken away from people more than it has spent; that is, it has taxed us to pay for its gifts abroad. But on balance the export surplus has been inflationary. By the same token, contraction of the export surplus will be deflationary.

So much for the economic and commercial implications of assumed dollar shortage, considered by itself. At this point we should broaden the discussion. In economic analysis we have a term which we use in tracing the effects of economic forces, when the time comes to qualify our analysis. We say the outcome should be thus and so, **other things being equal.** Actually, other things seldom are equal, and the other things in this case are tremendously important.

One "other thing" is the Marshall plan and the possibility of further temporary aid to Europe before the Marshall plan is implemented. The second "other thing" is the nature of the domestic situation, apart from the export outlook.

Pessimistic interpretations based on a prospective decline of exports may be overdone. I have already mentioned the $18 billion of gold and dollar balances still held by foreign countries and the $4 billion of unused credits. Over and above that are the $6 billion potentially available in the International Bank and International Monetary Fund, although it should be recognized that the uses of these funds are limited and specified by their charters. Foreign countries have not only $1.4 billion in short-term assets, but $8.2 billion in long-term securities and assets, much of which, however, it would be impracticable to liquidate. New gold produced will largely come our way. Finally, we should certainly assume at the present time that something will come of the efforts to devise a program, consistent with Secretary Marshall's proposals, which will result in further grants or credits from this country. Hence a gradual and moderate, rather than an early and violent, contraction of our exports seems most probable.

The second point is that the business of this country is in position to withstand a decline in exports perhaps better than at any other time in its history. Shortages are still pressing and domestic demand can take up at least part of any slack that may develop. In automobiles and steel, for example, it is plain that almost everything that is now being sold abroad could be sold at home and that a drop in exports of those products would not contract our employment and purchasing power.

In the domestic situation the supporting influences in the way of accumulated orders and demands continue strong. It is hardly conceivable that we shall have much slackening through the next nine months to a year in automobiles, steel, railway and utility equipment, or farm implements, or in residential construction. Even the soft goods are giving more support to business for the coming Fall and Winter than many people considered likely. We can regard farm income as being in essence underwritten and guaranteed by export demand at least until the next crops are available.

This double probability — that the export decline will not be too violent when measured in relation to our total national product, and that some of the slack may be taken up — should substantially modify the pessimistic conclusions that the emphasis on dollar shortage tends to generate.

Coffee and the Shortage of Dollars

Since coffee is an internationally traded commodity, the outlook for coffee is bound to be influenced by worldwide shortage of dollars. It is also likely to be influenced by the failure and abandonment of Great Britain's attempt to make the pound sterling once more freely convertible into all currencies, so far as the proceeds of current transactions were concerned. Other things being equal, these two developments tend to have the following effects:

(1) Coffee producers who need dollars must feel a greater reluctance to sell their product in the inconvertible currency countries, and a greater desire to sell it here.

(2) Consuming countries will be husbanding their dwindling gold and U. S. dollar reserves for the purchase of the most essential commodities. Just how essential they may regard a further expansion of their coffee purchases, if at the expense of their supply of dollars, is not for me to estimate. But certainly one would be foolish not to maintain a healthy doubt.

American buyers who can offer dollars therefore must tend to gain in bargaining strength against the coffee producer. The European buyers who can offer dollars will be fewer. And the buyer who offers inconvertible currencies will be in a weaker position, at least until recovery has progressed further and the inconvertible currencies will buy more goods at more favorable prices in their own countries. Sales of coffee to Europe for either "soft" currencies or dollars (with the exception of Sweden and Switzerland) would tend to be curtailed, or more probably, the anticipated increase in shipments would not materialize. In other words, the overall international trade in coffee would either contract or the anticipated postwar expansion—on which much of the bullish sentiment in coffee trade has been based—would be retarded. In either case the long-range effect should be a weakening of prices.

This, however, is an analysis of long-run economic effects. It is not a prophecy of immediate weakening. Coffee producers have been selling for inconvertible currencies, confident of collecting later. This confidence must have been weakened by the developments in sterling, but if it is a matter of moving a crop, the decision may well be to accept blocked currencies. Or the coffee producing countries may engage in bilateral deals as before the war. But bilateral trading, no matter how expedient it may appear at the time, almost always results in the disruption of normal trade channels and a reduction of overall trade.

For the mild coffee producing countries the shortage of dollars and the setback in the extension of currency convertibility means largely the continuation of the trade pattern developed during the war. The loss of European markets during the war made the mild coffee producing countries almost entirely dependent upon the United States market, and the reopening of Europe has brought as yet relatively little new business to them. If Europe cannot afford to drink a normal amount of coffee, she can even less afford to drink the more expensive mild coffees.

Colombia sold about 20% of its crop to Europe before the war. Mexico and El Salvador each sold about 40%. Last year the three countries sold, respectively, 3%, 5% and 4% of their crops to Europe. Hence as far as the mild coffee producing countries are concerned, the outlook is changed relatively little, except that there may be more competition in the U. S. market from Brazil coffee. Mild coffee remains a commodity **almost exclusively grown and marketed within the dollar area.**

What is the dollar area? The term has two definitions. In this country we include in the dollar area the Central American and the Caribbean countries which either use dollars, as, for example, the Dominican Republic, or peg their currencies to the dollar, as does Mexico. To the British the dollar area usually means the "dollar account area," the countries to which they have obligated themselves to make all payments in U. S. dollars. In the British sense of the term, the dollar area includes Latin America, but with the vital exception, for purposes of our discussion, of Brazil, and also of Argentina and Uruguay. Under the current arrangements, the British will continue to make payments to all the "dollar account" countries in U. S. dollars, but will of course carefully discriminate as to what these dollars will be paid for. However, there is nothing to hold the Colombians, for example, from accepting Belgian or French francs for their coffees if they are willing to hold them long enough until suitable goods become available for export from those countries.

The dollar area countries have a dollar shortage problem of their own. Some of them, such as Mexico, are badly pressed for dollars. Costa Rica and Nicaragua have practically exhausted their wartime accumulations. But the situation is not at all bad in Guatemala, El Salvador, Venezuela, and the Dominican Republic. The gold and dollar reserves in all those countries are still near the wartime peak. Colombia, the largest mild coffee producer, has lost nearly one-third of her reserves. But at the end of July she still had some $130 million in gold and dollars left. She may be able to recoup some of the loss. None of the major mild coffee producing countries (except Costa Rica and Nicaragua) is, therefore, under pressure to sacrifice coffee.

The shortage of dollars is much more pertinent for the Brazilians. Brazil coffee growers have entertained great hopes from the reopening of the European market. Before the war nearly 40% of their coffee exports went to Europe, but during the war years only 8%. Since the war there has been a rapid revival. In 1946 nearly 20% of Brazil's coffee crop went to Europe,—nearly four million bags as against the average of 600,000 bags shipped during the war years. It has been hoped that the expanding demand for coffee on the Continent might absorb an extra two to three million bags from the current crop.

Brazil is in great need of dollars to finance her plans for industrial expansion, to extend transportation facilities, and to buy farm equipment. Her total gold and foreign exchange reserves declined from the peak of about $750 million, reached in July 1946, to about $650 million in July 1947. In the latter amount are included blocked sterling balances of about £60 million ($240 million). Brazil is also seriously affected by the suspension of the convertibility of currently earned pound sterling into dollars. Being one of the countries in which the so-called transferable account system was set up, she was able from June 2 until Aug. 20 to change into dollars her surpluses of currently earned pounds sterling. But on Aug. 20 this privilege was suspended. However, Brazil can still use currently earned pounds sterling for payments to other countries with transferable accounts. She can, for example, transfer it freely to Sweden, Argentina, Canada, Italy, India and South Africa, and the rest of the sterling area. In other words, there is still some degree of transferability retained.

Brazil will produce this year, I am told, nearly 17 million bags. There is of course no prospect of marketing this quantity for dollars. Some of you may have opinions, but I have none, as to how much she may sell against inconvertible currencies. The alternative is the accumulation of stocks, or a contribution of coffee to help Western Europe.

The strength that the coffee market is displaying at present seems based not only on American demand, but partly on the assumption that enough dollars will be advanced to Europe to enable it to purchase not less coffee, but more. According to a report from Paris, the four-year coffee requirements of the 16 participating nations of Western Europe were placed at nearly 35 million bags, or about 8,700,000 bags a year. To reach this figure, after allowance for coffee produced in colonial areas, exports of coffee from Latin America to Europe would have to increase by about 40% above the figure which they are expected to reach this year.

The question we must ask ourselves is whether, under the Marshall Plan program, the United States will supply dollars to enable coffee producers to sell to Europe for dollars 40% more Latin American coffee than they are now consuming. I shall not attempt to answer this question, inasmuch as I am not Dr. Gallup and have conducted no poll of either Congressional or public opinion. I do recommend that the coffee trade maintain a healthy skepticism until it is seen how events develop.

I have carried a good many threads through this discussion of a very complex subject and my conclusion will be in the nature of a summary. The dollar shortage — if unrelieved and other things being equal—must tend to have a depressing effect on world trade and upon the great staple commodities entering world trade. The truth of this becomes evident if we consider that the dollar shortage is one of the evidences of the dismaying slowness of world recovery and particularly the slow expansion of European production and purchasing power. For basically that is what the dollar shortage is. It means that certain countries are not producing and selling enough to the only country which can supply the things they need and want to buy.

Brazilian coffee is one of the commodities affected by this situation because Brazilian coffee needs a European market. We should take this basic fact into all of our reckoning. On the other hand, we have the potentialities of Secretary Marshall's approach and we must watch events and see what the outcome may be. I'll leave with you one definitely optimistic opinion, namely, the belief that coffee consumption in this country will continue large through this crop year and probably beyond. I base this on the belief that the income and money purchasing power of the American people will continue large, supported by a high rate of both manufacturing and agricultural output at profitable prices.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Air Products, Inc., Allentown, Pa. (10/20)
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. (10/20)
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. **Bids**—Bids for the purchase of the bonds are expected to be opened at 11 a.m. (EST) Oct. 20 at 20 Pine Street, New York.

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. Offered for subscription to stockholders of record Sept. 29 on basis of one new share for each 10 shares held. Rights expire Oct. 28. 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.

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.

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.

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.

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.

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.

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.

Elec-Trick-Toys, Inc., Utica, N. Y.
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 (10/27-31)
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.

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.

• Federal Services Finance Corp., Washington
Sept. 24 (letter of notification) 2,870 shares of 6% cumulative preferred stock. **Price**—$104.50 a share. **Underwriter**—Mackall and Coe, Washington, D. C. For operating capital.

• Flagstaff Bonanza Mining Co., Park City, Utah
Sept. 30 (letter of notification) 600,000 shares (5¢ par) common. **Price**—5 cents a share. To be sold through Charles Moore, President of the company. For mine development.

Florida Rami Products, Inc. (10/14-17)
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.
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
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.

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.

Glens Falls (N. Y.) Insurance Co. (10/23)
Sept. 18 filed 150,000 shares ($5 par) capital stock. **Underwriter** — Morgan Stanley & Co., New York. **Offering**—Offered for subscription to stockholders of record Oct. 6 at $35.50 per share on the basis of three new shares for each 10 shares held. Rights expire 3 p.m. (EST) Oct. 22. Unsubscribed shares will be offered publicly through underwriters. **Proceeds**—To added to the company's general funds.

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.

• Howe Plan Fund, Inc., Rochester, N. Y.
Oct. 3 filed 500,000 shares ($1 par) capital stock. **Underwriter**—George D. B. Bonbright and Co., Rochester. Price based on market prices. **Proceeds** — For investment. **Business**—Investment business.

• Idaho Power Co., Boise, Idaho
Oct. 7 filed 35,000 shares ($100 par) 4% preferred and 100,000 shares ($20 par) common. **Underwriters**—Blyth & Co., Inc., and Lazard Freres & Co., both of New York. Price by amendment. **Proceeds**—To repay short term bank loans and to finance additions and improvements to its electric system. **Business**—Public utility.

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.

• Inland Airways, Inc., Walla Walla, Wash.
Sept. 30 (letter of notification) 500 shares of $100 par 5% cumulative preferred. **Price**—$100 a share. To be

NEW ISSUE CALENDAR

October 10, 1947
Mutual Finance Co.________________Pref. and Common

October 14, 1947
Florida Rami Products, Inc._______Class A Common
New York Chicago & St. Louis
3 p.m. (EST)__________________Equip. Trust Ctfs.
Texas Power & Light Co. (noon)____________Bonds

October 15, 1947
Erie RR. (noon—EST)__________Equip. Trust Ctfs.
Marco Industries, Inc._____________________Common
Marlow Corp._____________________________Common
South Jersey Gas Co. (11:30 a.m.)__________Bonds

October 20, 1947
Air Products, Inc.__________________________Common
Alabama Power Co. (noon—EST)_____________Bonds
Metropolitan Edison Co. (noon)______________Bonds
Robertshaw-Fulton Controls Co.___Pref. & Common

October 21, 1947
Pacific Tel. & Tel. Co.__________________Debentures

October 22, 1947
Akron Canton &
Youngstown______________Cond'l Sales Agreem't

October 23, 1947
Glens Falls Insurance Co.____________Capital Stock

October 27, 1947
Empire Projector Corp._____________________Common

October 28, 1947
Jacksonville Terminal Co. (noon—EST)____Bonds

November 3, 1947
Public Service Co. of Indiana, Inc.___________Bonds

November 7, 1947
Massachusetts Bonding & Ins. Co._____________Stock

sold through officers of the company. For development of business as air transportation company.

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. The SEC in its decision declared the price offered for the stock "would not effectuate a reorganization plan which would be fair and equitable to the persons effected thereby." The SEC's action also held up 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.

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.

● **Latin American Airways, Inc., New York**
Sept. 29 (letter of notification) 21,250 shares ($1 par) common on behalf of a stockholder, N. Basso Jr., of New York. **Price**—$2.50 a share. No underwriting.

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.

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.

● **Marco Industries, Inc., Depew, N. Y. (10/15)**
Oct. 6 (letter of notification) 15,000 shares of common stock (par $5). **Price**—$10 per share. No underwriting. Increase working capital.

● **Marlow Corp., Newark, N. J. (10/15)**
Oct. 6 (letter of notification) 10,000 shares of common stock (par $20). **Price**—$20 per share. No underwriting. Buy machinery, plants, equipment and other corporate purposes.

Massachusetts Bonding and Insurance Co., Boston (11/7)
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Geyer & Co., New York. **Offering**—Offered for subscription to stockholders of record Oct. 7 at $26 per share on the basis of one new share for each four held. Rights expire Nov. 6 and unsubscribed shares will be sold publicly. Price by amendment. **Proceeds**—For expansion of business.

● **Matey Co., Inc., New York**
Oct. 2 (letter of notification) 1,000 shares each of $100 par 5% cumulative preferred and $1 par common. **Price**—$101 per unit, consisting of one share of each. No underwriting. For operation of business.

● **Merritt Chemical Co., Inc., Greensboro, N. C.**
Oct. 1 (letter of notification) 60,830 shares ($1 par) common of which 19,537 shares will be offered to stockholders at $2.50 a share and 41,293 shares will be offered publicly at $3 a share. **Underwriter**—Main Line Investment Co., Merion, Pa. For expansion of business.

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**—Bids for the purchase of its bonds will be received up to noon Oct. 20 at Room 2601, 61 Broadway, New York.

● **Minnesota Min. & Manufacturing Co., St. Paul**
Oct. 6 filed $10,000,000 20-year sinking fund debentures and 100,000 shares (no par) cumulative preferred. **Underwriter**—Goldman, Sachs & Co., New York. **Price**—By amendment. **Proceeds**—For general corporate purposes including construction of new facilities. **Business**—Manufacturers of scotch tape and other adhesives.

● **Moonlight Mining Co., Inc., Newport, Wash.**
Oct. 2 (letter of notification) 150,000 shares of common. **Price**—10 cents a share. To be sold through officers of the company. For equipment and supplies.

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.

Mutual Finance Co., Tampa, Fla. (10/10)
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.

● **Nashville (Tenn.) Corp.**
Oct. 7 filed 820,834 shares ($1 par) common. **Underwriter**—Avco Manufacturing Corp., parent of Consolidated Vultee Aircraft Corp., which, in turn, is parent of the registrant, has agreed to purchase shares not subscribed for otherwise. **Offering**—The shares will be offered to Consolidated's common stockholders on the basis of two shares of Nashville common in return for one share of Consolidated common and $18 cash. The exchange of common is part of a program whereby Consolidated will transfer the assets of its Nashville division to the registrant. **Proceeds** — For working capital. **Business** — Manufacture of buses, stoves and frozen food storage cabinets.

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 Park Ave., Collingswood, N. J. For advertising products of corporation, consisting principally of cosmetic preparations.

● **New Stages, Inc., New York**
Oct. 1 (letter of notification) 1,500 shares ($10 par) capital stock. **Price**—$10 a share. No underwriting. To renovate small theatre and to produce plays.

● **Old Republic Credit Life Insurance Co., Chicago**
Oct. 3 (letter of notification) 8,850 shares ($1 par) capital being sold by three stockholders. **Price** — $5.10 a share. **Underwriter**—Paul H. Davis & Co., Chicago.

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 Telephone & Telegraph Co. (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. **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.
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.

● **Pittsburgh (Pa.) Terminal Warehouses, Inc.**
Oct. 1 (letter of notiifcation) 10,000 shares ($5 par) common. Offered to stockholders of record Sept. 30 at $7 a share on the basis of one share for each five held. Rights expire Oct. 20. Pioneer Land Co., Pittsburgh, one of the large stockholders, has agreed to purchase any unsubscribed shares for investment. For property improvements.

Prosperity Co., Inc., Syracuse, N. Y.
Sept. 17 (letter of notification) 3,000 shares 5% ($100 par) preferred. **Price**—$100 a share. Offered for subscription to class A and preferred stockholders in ratio of one new share for each 13 shares held. Rights expire Oct. 13. 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.

● **Publix Shirt Corp., New York**
Oct. 3 filed 140,000 shares ($1 par) common. **Underwriter**—Reynolds & Co., New York. Price by amendment. **Proceeds** — The shares are being sold by three stockholders who will receive proceeds. **Business**—Shirt manufacturer.

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.

● **Rice-O'Neill Shoe Co., St. Louis, Mo.**
Sept. 29 (letter of notification) 10,200 shares (no par) common. **Price**—$15 a share. No underwriting. Proceeds to be added to stated capital.

● **Robinson Airlines Corp., Ithaca, N. Y.**
Oct. 1 (letter of notification) 35,000 shares of capital stock (par $1). **Price**—$3 per share. **Underwriting**—None. Working capital.

Robertshaw-Fulton Controls Co. (10/20)
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.

● **Rural Directories, Inc., Bowling Green, Ohio**
Oct. 2 (letter of notification) 500 shares ($100 par) cumulative preferred and 1,150 shares (no par) common. **Price**—$100 a preferred share and $1 a common share. No underwriting. For additional working capital.

Salant & Salant, Inc., New York
March 28 filed 240,000 shares ($2 par) capital stock. Underwriter—Eastman, Dillon & Co., New York. Price by amendment. Proceeds—Shares are being sold by 13 stockholders who will receive proceeds.

Seaboard 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.

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.

● **Securities Acceptance Corp., Omaha, Neb.**
Sept. 29 (letter of notification) 10,000 shares of 5% cumulative preferred stock. **Price**—$26.25 a share. **Underwriters**—Cruttenden & Co., Chicago, and The First Trust Co. of Lincoln, Neb. For additional working capital.

● **Schranz & Bieber Co., Inc., New York**
Oct. 1 (letter of notification) 2,950 shares of first preferred stock. **Price**—$100 a share. To be sold through officers. For working capital.

● **Skyway Advertising Inc., Washington, D. C.**
Oct. 6 (letter of notification) 1,000 shares ($10 par) common. **Price**—$10 a share. No underwriting. To purchase equipment and for operating expenses.

South Jersey Gas Co., Newark, N. J. (10/15)
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. **Bids**—Company will receive bids for purchase of bonds up to 11:30 a.m. Oct. 15 at office of Drexel & Co., Philadelphia.

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 under-

(Continued on page 62)

(Continued from page 61)

writers 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.

Spartan 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 Oil Co. of Ohio**

Oct. 2 filed 584,320 shares ($10 par) common. **Underwriter**—F. S. Moseley & Co. **Offering**—Shares initially will be offered for subscription to common stockholders. Unsubscribed shares will be offered publicly through underwriters. Price by amendment. **Proceeds**—For working capital to meet expanding operations. **Business**—Petroleum business.

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**—Bids for the purchase of the bonds will be received up to noon Oct. 14 at Room 2033, 2 Rector Street, New York.

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.

• **Veterans Mortgage Loan & Construction Co., Chattanooga, Tenn.**

Sept. 30 (letter of notification) rights for 25,000 shares of common stock. **Price**—$11 a share; Dana L. Milligan, Jr., and Edwin C. Milligan, both of Chattanooga, will act as securities salesmen. For operation of business.

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.

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.

Prospective Offerings

• **Akron Canton & Youngstown RR. (10/22)**

Company will receive bids for the purchase of $600,000 conditional sales agreement, for the financing of new equipment. Bids will be received by H. B. Stewart, Jr., President, 12 East Exchange Street, Akron, Ohio, up to noon (EST) Oct. 22.

• **Central Maine Power Co.**

Oct. 7 company applied to the SEC for permission to issue and sell $4,000,000 first and general mortgage bonds and enough common stock (par $10) to raise $3,000,000. Company is engaged in a $11,420,000 construction program. Probable bidders include The First Boston Corp.

• **Central Power & Light Co.**

Oct. 5 reported company plans issuance of about $6,000,000 bonds and $3,500,000 preferred stock, the proceeds to be used for expansion. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.

• **Consolidated Edison Co. of New York, Inc.**

Oct. 2 company filed a petition with the N. Y. P. S. Commission for authority to issue $30,000,000 first and refunding mortgage bonds, proceeds from which will be used to retire the company's outstanding 3½% bonds due in 1958. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.

• **Erie RR. (10/15)**

The company has issued invitations for bids for the purchase of $6 850,000 of 1-to-10-year equipment trust certificates. Bids will be received up to noon (EST) Oct. 15 at company's office, Room 1307 Midland Building, Cleveland, Ohio.

• **General American Transportation Corp.**

Nov. 3 stockholders will vote on authorizing 250,000 shares of preferred stock (no par) of which 150,000 would be issued as series A. The dividend rate on the new stock would be not less than $3.75 and not more than $4.25 and the underwriting commission would range from $2 to $2.50 a share. The proceeds would be used to repay loans of $5,700,000 for working capital, and to finance plant expansion. Underwriting discussions are being held with Kuhn, Loeb & Co.

• **Georgia Power Co.**

Oct. 6 company applied to the SEC for permission to issue $10,000,000 mortgage bonds, to bear interest not to exceed 3½% with a maturity date of not less than 30 years. The issue is to be sold competitively. Probable bidders include: Halsey, Stuart & Co.; Morgan Stanley & Co., Blyth & Co., Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Lehman Brothers, Harriman Ripley & Co., Goldman, Sachs & Co., Lazard Freres & Co. and Equitable Securities Corp. (Jointly); Shields & Co.; Drexel & Co.

• **Indianapolis Power & Light Co.**

Oct. 3 a new issue of common stock planned by the company must be sold at competitive bidding, the Indiana Public Service Commission has ruled. The Commission held, however, that an issue of preferred stock may be sold by negotiation provided the price is approved by the Commission. The company proposes to sell 214,451 shares of common and 50,000 shares of preferred to raise nearly $10,000,000 to finance construction of a new generating plant near Indianapolis.

• **Jacksonville Terminal Co. (10/28)**

Company will receive bids up to noon (EST) Oct. 28 for the purchase of $4,000,000 first mortgage bonds, series A. Bids will be received by John B. Hyde, Vice-President, Room 916, 71 Broadway, New York City. 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.

• **Northeast Airlines, Inc.**

Oct. 20 stockholders will vote on authorizing an issue of 65,000 shares (no par) preferred stock. If approved, the proceeds of the new issue may be applied in part to the payment of about $900,000 of notes held by the Atlas Corp. Atlas also owns 100,000 shares of stock in Northeast Airlines. Probable underwriter, Lee Higginson Corp.

• **Southern California Edison Co.**

Oct. 7 it was reported company has under consideration plans for raising $25,000,000 in new money through sale of a preferred stock issue. Expectations at present are that the offering will be ready for the market by early December. It probably will come along via the competitive bidding route. Probable bidders include The First Boston Corp.

• **Springfield Fire & Marine Insurance Co.**

Oct. 6 stockholders voted to reduce the par value of the capital stock from $25 to $10 a share, and to increase the number of shares to 500,000 from 200,000. Stockholders also authorized the directors to call in and cancel the outstanding certificates and to issue in exchange 2½ shares of the new $10 par stock for each share of the old $25 par value stock. Stockholders further voted to increase the authorized capital stock to $7,000,000 by issuance of 200,000 new shares of $10 par. The issue will be underwritten by The First Boston Corp. and Kidder, Peabody & Co.

• **Waukesha Motor Co.**

Oct. 21 stockholders will vote on increasing authorized stock from 400,000 to 600,000 shares (par $5). Additional shares would be offered for subscription to stockholders on basis of one new share for each two shares held. Proceeds for working capital, etc.

• **West Texas Utilities Co.**

Oct. 5 reported company plans issuance of $5,000,000 new preferred. Probable bidders: The First Boston Corp; Harriman Ripley & Co.

Says Steel Companies Are Increasing Capacities

Walter S. Tower, President of American Iron and Steel Institute, points to record-breaking expansion and improvements totaling more than a billion dollars, with outlook for 2,500,000 tons new ingot capacity by 1948.

Steel companies are completing this year large-scale postwar programs of expansion and improvements involving record-breaking peacetime expenditures totaling more than $1,000,000,000, according to a statement issued recently by Walter S. Tower, President of the American Iron and Steel Institute. Plans for the further increase of facilities now completed will require additional expenditures of several hundred million dollars.

Walter S. Tower

Listed for completion in 1947 and 1948 are the addition of 2,500,000 tons of new ingot-making capacitiy.

In addition, nearly 3,000,000 tons of new coke oven facilities; 3,000,000 tons of new blast furnace capacity, and 3,000,000 tons of new sheet and strip capacity are also under construction. Substantial increases in capacity for finished products in addition to sheet and strip are also being made.

According to Mr. Tower, "the steel companies' expansion and improvement programs have been in various stages of development for months, some projects having been started as long as two years ago.

"This important program of expansion, together with record-breaking peacetime steel production this year, is the best answer to statements that steel companies are holding back both production and expansion.

"The current tightness in the market for steel has resulted from various abnormal conditions, including the loss of 18,000,000 tons of steel ingots from strikes since the end of the war—more than 10% of actual output during the period. If this lost tonnage had been available, it is a safe assertion that there would be few complaints about steel shortages today.

"Current expansion and improvement of steel facilities demonstrate the faith of steel companies in a continued high peacetime demand.

"During the first eight months of 1947 the production of steel ingots was 56,000,000 tons. This was at the annual rate of 85,000,000 tons, the highest for any peacetime year in history and 60% above the output of 53,000,000 tons in 1939, the last peacetime year.

"The production of flat rolled products used by makers of automobiles, refrigerators and similar products, was up 79% this year compared with 1939.

"The large production of steel in 1947 has been a major factor in making possible the virtual full employment of the nation's total labor force.

"Throughout all its peacetime history the modern steel industry of the United States has maintained a productive capacity well ahead of demand. Operation of the industry in the more than 20 years elapsing between the two World Wars averaged 61% of capacity.

"Existing capacity of 91,241,000 tons of ingots compares with 62,314,000 tons in 1920, two years after the close of World War I. This is an increase of 46% compared with an increase of 35% in the country's population.

"In the past the industry has been accused of over-expansion, but never before in peacetime has it been accused of under-expansion. As late as 1940 prominent labor leaders, government economists, members of the Temporary National Economic Committee, and others were complaining that the steel industry was contributing dangerously to technological unemployment through excessive modernization of equipment. Testimony to this effect was presented before the T. N. E. C. in April, 1940.

"Responsible steel company executives themselves have been more concerned, perhaps, than any other group with the problem of postwar steel supply and demand. They have been lending every effort to bring about a better balance.

"Meanwhile, analysis of all the facts clearly shows that where there are steel shortages, they are largely due to abnormal conditions. Some of the most important of these are:

"1. Since the end of the war there have been two concurrent kinds of demand for steel—one to supply the unprecedented demand for goods caused by the sharp curtailment of civilian production during the war, and the other to fill up war-depleted inventories. Obviously the second kind of demand has been unusual and will taper off when normal inventories are restored.

"2. In the 24 months since the fall of Japan, the steel industry has lost 18,000,000 tons of steel ingots through strikes in steel and coal.

"3. Strikes and delays in industries supplying machinery for the steel industry have hampered improvements and expansion plans in the industry. For example, 3,000,000 additional tons of sheet and strip capacity over July, 1941, was planned to be in operation on July 1, 1947. But only 1,000,000 tons of that increase was completed on schedule, through inability to get necesssary equipment.

"Steel company shipments of steel for export this year have amounted to about 7% of total shipments. This is no greater percentage than in prewar years. A substantial amount of the steel exported has been in accordance with government directives. Although heavy demand for American steel to reconstruct Western Europe may be necessary for the immediate future, the dependence on the United States for steel will lessen as European Steel production rises.

"At the present time, production of ingots is running at the annual rate of about 6,000,000 tons below the industry's productive capacity. There are a number of reasons for this. One outstanding reason for this is the critically short supply and poor quality of scrap. Other reasons are strikes in the coal fields, the unsatisfactory quality of coal and fuel oil and other factors. Full-scale operation of existing capacity and of the planned increases in capacity will require uninterrupted production and a steady flow of the raw materials essential in steelmaking. The expansion program includes construction of additional facilities for handling and processing raw materials."

Observations

(Continued from page 5)

succession. The business cycle guess will go wrong with every imponderable in the current economic situation that is unanticipated. The rythmic cycle, on the other hand, has rigidly related the timing of events as varied as economic changes, sporting event results, farm price swings, and even panics to astronomical phenomena like the sun-spot cycle and the changing positions of the planet Venus.

Current Cycle theorists claim that there are existing trends in the economy that can be measured and demonstrated beyond doubt, that there is distinct rhythm or periodicity in the cycles that accompany these trends, and that this information can be used to predict the future.

Their basic fallacy seems to this writer to be that this technique in its concept ignores causes and stresses only the objective performance. Thus, even the unpredicted interjection of a war supposedly does not upset a previous forecast based on rhythmic expectations.

Thus cycle theory and techniques, even more than Dow, embrace the error of assuming the future continuation of past patterns.

"Ratio" Technique

In the desire to escape from the confusions resulting from the attempted interpretation of economic factors, "ratio" schemes in various forms for forecasting have also become increasingly popular. This kind of so-called "differential analysis" technique makes deductions from the comparative behavior of different groups of issues (as according to industry) or of a single security in relation to the balance of the market. Operating in the first category, for example with great popular appeal is a brilliant technician who bases complex trigonometric calculations and accompanying erudite interpretations on the premise that an index embodying the relative volume of high-priced and of low-priced stocks reflects public confidence in the market as a whole, and hence indicates its future.

The other category of these "ratio-ists" who interpret the relationship of the movement of a single issue or of a group to the behavior of the general market as a whole, has many practitioners. One of these explains his method as follows: "We construct our ratio line by constructing the points which represent the closing prices of a stock or group, divided by the closing price of a good average, on a daily or weekly basis. . . . If we use semi-logarithmic chart paper, we need compute the Ratio figure for only one stock. Then we measure the distance of the price close from the Ratio Figure and plot that distance from the closings of the other stocks to get the Ratio Figures by mechanical means. Semi-logarithmic charts are preferable, in addition, because they enable us to guage comparative swings in different stocks [sic] very simply.

"A penetration of a Ratio Line reversal point or penetration of a Ratio Trend Line (of several weeks' or months' duration) forecasts a move in the new direction."

Disguised Hindsight Again

Both of these ratio methods, in a perhaps well-disguised manner, embody our afore-mentioned fallacy, employed in the Dow and Cycle theories, of trying to read the future through projection of past performance.

This is very clearly seen in the product of another popular service based on the ratio theme. This organization explains its efforts as "a study of the relative market action of the securities of the various groups and the development of patterns which have value, to indicate the future attractiveness of the individual groups in relation to the market as a whole."

The following sample excerpted from that service's specific analysis and recommendation, despite the esoteric fol-de-rol, clearly shows again the illogical attempt to translate *per se* the past into the future. It reflects on a specific industry thus:

"This group of stocks suffered a serious loss of position in the middle '30s, but since late in 1938, it has been in a broad Uptrend which has reestablished a large part of its loss. From the charts, it may be seen that a much narrower Channel than the one shown might be drawn to bound the action of the group over the past three years. As the bottom line of such a Channel would coincide closely with the longer Channel shown it would have no additional value to interpret the action of the group and is not drawn on the chart. *Although the Ratio Line and the Control Line are in a position which could quickly indicate a reversal of the better-than-average market action which has been given for some time by the group, no such indications are yet evident. The outlook for the group is interpreted as favorable.*"

And again, more succinctly about another industry, thus:

"This group, which has carried an uncertain designation since December 1944, *has this month produced a new low ratio, requiring that the Warning Signal previously in effect be replaced by a Downtrend Signal.* Poorer-than-average market performance is now indicated and the outlook for the group is interpreted as *unfavorable*."

The most apt comment demolishing the basis of both the Dow theorists and the Ratio practitioners is also the most simple—namely, that it would be just as reasonable to conclude that a trend in one direction should and will be reversed, as is their supposition that it will be continued. And this contrary supposition is just as valid on the economic as it is on the technical approach.

For a single stock or a group of stocks behaving worse than the market might well result in the stock becoming a good value on criteria of actual investment worth and thus provide the intelligent speculative-investors with a buying opportunity; and hence would cause a reversal rather than a continuance of the trend.

If it be conceded that at some point "badly-acting" securities may become undervalued, only by assuming that the market community will *always* react like a pack of morons toward that security can it be concluded, as these systems do, that the demonstrated disparity will continue indefnitely—or even continue at all.

Under a system which replaces logical by "technical" reasons, absolutely worthless securities (even the outstanding German Bonds with no chance of yield) could and would be bought at any price —*no matter how high*—provided only that they show a favorable Market Ratio or other technical behavior.

Market followers who thus assume *continuance* of a trend on technical grounds, are committing merely in another form the same kind of gamblers' error as the aforementioned "maturity of the chances," which assumes the immediate *reversal* of the previous trend.

Formula-Timing

Perhaps because of the investor's desire to "escape" once more from his previous "escape" to technical methods, the device of formula-timing is being increasingly used by institutional and individual investors as well as by downright speculators—sometimes for part, sometimes for all, of their capital. Because of space limitations we shall not go into a discussion of formula-timing, other than to show how even these practitioners, although actually pointing out that forecasting is involved in Dow theory and professedly eschewing it, themselves actually engage in the latter's same basic error, which we have been describing.

For while formula-timing does not rely on forecasting as its principal tool, it does use past behavior as its major premise.

A formula-timing plan essentially is a rigid and advance determination of the proportions of one's fund to be allocated between volatile (stocks) and defensive (bonds) securities. One category of these plans is confined to "equalizing," that is, maintaining unchanged during *all* market levels a pre-stipulated proportion between the volatile and defensive securities. The other more usual variation, however, comprises "sliding scale" operations; that is a formula is established for automatically fixing varying proportions of the volatiles and defensives to be held at different market levels.

The equalizing method consists almost wholly of an airtight *hedge*, and requires no fundamental forecast of either the long-term future of the market or of its intermediate trading range. The investor at the outset, and only once, decides exactly what proportion between common stocks and fixed-income suits his needs for capital preservation, income and appreciation; besides meeting his reasoned opinion as to the constitution of the best hedge. But the "sliding scale" technique (including even its sometimes restricted form as employed by Yale University), does require a fundamental forecast. For a market level in terms of a market index, either on historical grounds or on some other basis of judgment, must be selected as the median of the varying proportions; and likewise the market's future upper and lower limits must be estimated.

And this historically-pointed fundamental forecast is speculative, if not dangerous. For a formula plan devised 30 or 40 years ago would probably have subsequently gotten the individual completely out of stocks when the previous historical price ranges became broken through. A look at the historical precedent existing at the start of important bull markets ever since 1897 bears this out. At the time of the start of the bull market in 1914 we would have seen that between 1897 and 1914 every previous bear market but one had reached a low of 53; yet the low of the succeeding 1917 bear market was 63. Again in 1924, *before* the great bull market of the 1920's, the common stock position would have been reduced to a minimum, as the 121 price level of that time was historically high. But subsequently during the next six years the low was 115—a decline of only 4%—and the market went on up to 381—a rise of over 200%. True it may be that "the higher they go, the harder they fall." But *how* "high"?

A friend of mine mentioned to a salesman of Formula-Timing plans the objection that in a "permanent new era" one would be *permanently* out of the market. The salesman's answer was that it would take ten years for a subscriber to *realize* it was "permanent"; so having a client for the intervening 10 years, this was all right with him.

* * * *

Analysis of the effects of these technical market methods on the individual practitioner and on the community, as well as general conclusions about forecasting, will follow in next week's columns.

Meanwhile it is hoped that the above has served to high-light at least the usually-unrealized presence of forecasting elements in technical approaches, and the common embodiment therein of the vital error of mistaking mere hindsight for valid foresight.

Food Imports Rise Along With Exports

Commerce Department reports an increase of $198 millions in U. S. food imports for first half of 1947, whereas food exports increased $30 millions over corresponding period of last year.

Exports of foodstuffs from the United States during the first half of 1947 totaled $1,241,000,000, an increase of $30 millions over the corresponding period last year, the Office of International Trade, Department of Commerce, said.

United States imports of foodstuffs during the first half of 1947, totaled $831,000,000 compared with $633,000,000 in the first half of 1946, an increase of $198,000,000 or 31.2%.

Foodstuffs recording the greatest export increase during the first half of 1947 compared with the same period in 1946, were grains and preparations, rising from $412 millions to $674 million; fruits and preparations, from $74 millions to $95 millions; fodders and feeds, from $3 millions to $17 millions; and nuts and preparations, from $7 millions to $20 millions.

Wheat flour exports for the first half of 1947 totaled 47,085,000 hundred-pound sacks, amounting to $283 millions, and representing a quantity increase of 84% as compared to 25,572,000 hundred-pound sacks, amounting to $98,000,000, shipped during the first six months of 1946.

Individual commodities outstanding in exports were corn, peanuts, and grain sorghums, with quantity increases of 596%, 383%, and 18,150%, respectively.

Other exported agricultural products showing major increases in the first half of 1947, were cornstarch and cornflour, up 377% in quantity and 358% in value; crude soybean oil, up 311% in quantity and 713% in value; burley leaf tobacco, up 12% in quantity and 54% in value; and inedible tallow, up 351% in quantity and 767% in value.

Decreases were recorded in exports of canned meats, which dropped 94% in quantity and 92% in value; evaporated milk, down 65% in quantity and 59% in value; wheat, down 39% in quantity and 27% in value; dehydrated soups, down 97% in quantity and 93% in value; and dried eggs, down 31% in quantity and 25% in value.

Major increases in imports of foodstuffs during the 1947 period compared with 1946 were recorded for cane sugar, unground black pepper, bananas, and prepared coconut meat. Cane sugar imports rose 52% in quantity and 105% in value; unground black pepper rose 3,212% in quantity and 6,400% in value; bananas, up 20% in quantity and 30% in value; and prepared coconut meat rose 400% in quantity and value.

Import decreases were recorded for cattle, down 91% in quantity and 79% in value; wheat down 95% in quantity and value; olives in brine, down 33% in quantity and 35% in value; and brandy, down 75% in quantity and value.

Among imported non-food agricultural products showing the greatest increases in the 1947 period over 1946 were copra, up 226% in quantity and 900% in value; linseed oil, up 226% in quantity and 947% in value; and tung oil, up 1,185% in quantity and 1,248% in value.

Imports of coffee and cocoa beans show decreases in quantity but increases in value, coffee, down 18% in quantity and up 30% in value; cocoa beans, down 7% in quantity and up 150% in value.

Decreases in imported non-food agricultural products were recorded for flaxseed, down 93% in quantity and 79% in value; cod-liver oil, down 40% in quantity and 25% in value; and hops, down 5% and 15%, respectively.

Washington . . . And You

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

When a prisoner of a few years standing finally is denied parole, his thinking gets shaken up a bit. He has to reconcile himself to a longer term of unpleasantness. Something of the same kind of a shake-up is now going on in the minds of top Administration officials. It started after the European committee came forth with its version of the Marshall "plan."

To understand the basic motivation of several things now going on, it is necessary to understand how the thought processes of the Administration have been pushed around by the Marshall "plan."

* * *

For some time—ever since the "Talking down" price campaign began — the Truman Administration has been worried about the rising cost of living. It has been trying to figure out how to stop it, or at least keep from being burned politically by it. For some time now the government's economic sooth-sayers have stopped setting the date for a "corrective recession."

* * *

Yet up until a couple of weeks ago, the Administration was not quite prepared to see NO end in sight for the "spiral." Now the Marshall "plan" has changed all that. They have come to see what they think is the price of European aid. That price is the indefinite continuation of the spiral of prices-wages-cost of living.

* * *

And what is worse, there is danger that this rise in the cost of living may carry over into next year's political campaign. In terms of politics, that is practically until eternity. The prospect has the top politicians terrified. The joke on them is that the Republicans are almost as jittery. Both sides are afraid the old HC of L will hit them between the political eyes.

* * *

Yet the Administration feels imprisoned by the necessity of extending foreign aid on a big scale. They see no parole in sight. This means some more inflation, or at least no predictable abatement of prices, overall. It probably will mean $10 billion of additional bank credit in the next 12 months. And very little can be done about it.

* * *

So from now on the Administration will fight a shoot-and-retreat action against inflation. It will plead with banks to make "sound" loans for the production of goods, and as few loans as possible no matter how sound, to increase the competition for buying goods. Everybody will be asked to fight the good fight against inflation. The more everybody helps the better. So this talk against easing up when it becomes possible on consumer credit. And also this talk—bitter talk—against grain speculation. This is typical of more to come. It is the rearguard engagement against an enemy we cannot stop.

* * *

It is premature at present to form a judgment on what Congress will do with the Marshall "plan." But there are rumblings. Some of the people here who seldom get their ears off the ground, say that the "plan" is being received with increasing skepticism. The skepticism is not just political opposition. There are growing doubts, and they are sincere.

* * *

Congressmen are asking whether the Marshall "plan" is really limited to rehabilitation or is designed to work toward the Socialist Utopia. They are asking whether it will really protect Europe against Communism. They are wondering what assurance we Americans will get that it will promote our military and economic security. And they are asking many other questions.

* * *

Of course there is always the possibility that the Russians will put over the Marshall "plan" for Mr. Truman and the European committee. They can help by more of their same, present tactics. With typical Russian stupidity they can commit some overt act.

* * *

But unless the Russians do the job for the Marshall "plan," it is a safe bet right now that it won't be put across in Congress in any overall form, until well into 1948. First will come "stopgap" aid. And while it is too soon to predict it, there is a growing feeling that instead of a 4-year Marshall "plan," Congress may approve a series of year-to-year "stop gaps."

* * *

You will hear about controls and rumors of controls. For the present, at least, you don't need to worry about them. When the feed-Europe business came up for mature consideration in the President's cabinet, three alternatives were considered. One was the reinstitution of controls. The other was buying the food and following the market up in price. The third was the voluntary "waste less" campaign.

* * *

While seeking to contain one hostile force abroad, the Administration did not want to encourage the advance of another—inflation—at home. So buying the grain no matter what the consequences to price, was out of the question. And to reimpose controls, it is necessary to restore rationing. This is just a physical impossibility short of several months. So this had to be abandoned. Consequently the heat is on the voluntary campaign. "It just must be made to work."

* * *

This does not rule out price-rationing controls at some indefinite future date — if the European situation gets worse, and if prospects for next year's grain deteriorate. But now, at present, it is the boogyman to get you to "waste less."

* * *

Eyes North! In just a few days Canada's top officialdom will wrestle with its toughest problem since the war. That is how to bring about a solution of its exchange deficiency. The Dominion has got to write off one of its historic assets. Sterling converted into dollars, U. S., balanced the Dominion's international payments pretty well until England went onto the economic skids.

* * *

A prospective U. S. dollar deficit for the year of more than three-quarter billions, cannot be tossed off lightly. Inevitable is a drastic cut in purchases from the U. S. Branch plants may be better "integrated" with their U. S. parents. Large sums will be needed from the U. S. for this purpose. Also to be sought may be loans for development of Canadian resources, a loan to protect the Canadian dollar while this program is under way.

* * *

All these steps will have a broad affect upon many U. S. industries. They will provide a new channel for investment funds. What the Dominion is said to be shooting at is a long-range program that will work. Presumably the outlines of the plan will be put down on paper between now and November 15, when the Canadian Prime Minister leaves for England to watch Princess Elizabeth get married.

* * *

It's being kept under wraps, but the blue-print for industrial mobilization is just about ready to go. The former Army-Navy Munitions Board has drafted a plan for the next war. It is said to include a prospective Office of War Production, Office of Economic Stabilization, and Office of War Manpower.

* * *

What industry and business would like to know, however, is the changes which the A-N Munitions Board recommended for the latest set-ups of the WPB, OES, and WMC of the late war. The changes are what count. But you won't know what these changes are, authoritatively, for months. Despite the fact that the Board has been working on the new plan for mobilizing the machinery for the next war for nearly two years, the plan can't be announced. Everybody is afraid it would be "disturbing" in the present international situation.

* * *

Figure that one out for yourself.

* * *

There will be a little more steam behind the industrial stockpiling of scarce materials, from now on. Until now the A-N Munitions Board has crawled. This has been for two reasons. It did not want to compete for scarce materials against the reconverting American industry. And the Board was not reconciled to high prices. Now it is recognized that high prices aren't likely to disappear for a while. And industry can stand a little competition from stockpiling. Large volume of purchases are not in store. The Board "will put a few packages on the shelf." It has just gone off dead center.

* * *

Under the new Department of National Defense, the A-N Munitions Board becomes, simply, the "Munitions Board."

* * *

There was something significant in how the move to cut use of grains by distillers came about. The Distilled Spirits Institute, aware of the divisions within the industry which diminished its total capacity to help UNRRA, is said to have considered informally and dropped the idea of voluntary cooperation with the Luckman committee. Then with Mr. Luckman at his side, Secretary Anderson called up the industry's spokesmen. "Get somebody down here to discuss curtailment of grain use the day after tomorrow," he requested. And so it was launched—before the industry could catch its breath.

What the significance of this action may be, is in the indication of the "waste less" committee's aggressiveness. Despite the effort to induce citizens to eat less, the main results must be obtained by inducing farmers to feed less—or substitute cheaper feeds for grain.

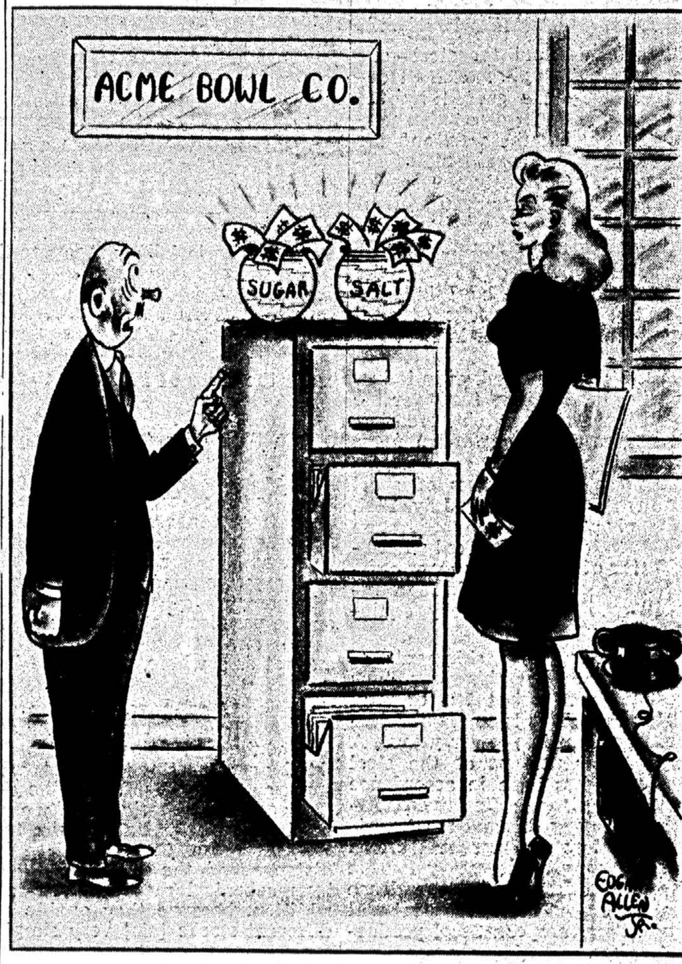
* * *

If flour millers get a hand with their plea to send as much of the wheat as possible to Europe in the form of flour, then: Millers can produce 104 million cwt. over domestic needs. This would be equal to shipments of 245 million bushels of wheat. It would leave home 1,056,000 tons of mill feed as by-product. This could be fed to livestock. This is the equivalent of feeding — at home—37 million bushels of corn or 40 million bushels of wheat. Or does the government feel that indirectly in the guise of feeding humans it should also help feed European animals?

* * *

The Congressional tax experts are studying quietly the problem of permitting husbands and wives in all states to file separate income tax returns, without mixing up the question of estate taxes. They hope to come up with an answer that will not boomerang. And of course, nation-wide separate returns probably will be included in the quickie $4 billion tax cut the Republicans are planning.

BUSINESS BUZZ



"I know you're new here, Miss Kelly, but that's not where we keep our petty cash!"